Financing for Development in the Least Developed Countries

Needs, challenges and the Doha Programme of Action

GPF Global Policy Forum

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by Bodo Ellmers

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Introduction

The 46 Least Developed Countries (LDCs) are countries that are supposed to receive special attention when the Agenda 2030's promise to "leave no one behind" is fulfilled. Despite the postponement of the UN Conference on the Least Developed Countries in Doha due to the COVID-19 pandemic, the international community adopted a new Programme of Action for the LDCs in March 2022, the fifth of its kind.[1]

The fact that only six countries have ever managed to graduate from the LDC category shows that the previous programmes lacked the necessary scale or were not implemented to the necessary extent. The United Nations (UN) Decade of Action for accelerating Sustainable Development Goal (SDG) implementation should first and foremost be a decade of action to support the LDCs. The Doha Programme of Action will run until 2031, parallel to the remaining years of the 2030 Agenda. Its scale and scope are a key factor when it comes to determining whether the SDGs will be achieved in the LDCs.

A Least Developed Country or LDC is a UN-defined country category referring to countries that are poor – measured in income per capita – but that also have weak health and education systems and face severe economic and environmental vulnerabilities. Many LDCs have been particularly hard hit by the two major crises of our times, the COVID-19 pandemic and the climate crisis.

The COVID-19 crisis has been a severe shock for LDCs and their populations. Rudimentary health systems have been unable to cope with the demand of incoming patients. Weak social protection systems cannot provide sufficient support to workers and their families during lockdowns and layoffs. Low purchase power and the restrictive use of patents on medicines place LDCs at the very back of the queue when it comes to access to vaccines and other essential goods to fight the pandemic.

The economic fallout of the crisis has hit different LDCs at different times in different ways. Commodity exporters have been impacted due to the collapse of commodity prices in 2020; tourism-dependent LDCs were hit by the travel restrictions; textile exporters (like Bangladesh) faced challenges due to the collapse in supply chains when shops in their export markets closed and consumers stopped spending money in times of economic uncertainty.

1 See https://www.un.org/ohrlls/content/ldcs-programmes-action%E2%80%8B

LDCs do not have the buffers in place to cope with such shocks. The governments and central banks of economically more developed countries reacted to the COVID-19 crisis with unprecedented countercyclical measures, which created the necessary fiscal space to respond to the crisis and protect economies and populations. However, LDCs do not have this space. According to the UN, stimulus spending related to COVID-19 per capita in developed countries during the first year of the crisis was 580 times higher than in LDCs.[2] Creating sufficient fiscal space for adequate COVID-response in LDCs depends on international support measures.

LDCs are also particularly vulnerable to extreme weather conditions. Many LDC economies are agriculture-based and large shares of their populations live in unprotected areas. Global warming starts from a high point in many LDCs, which are geographically concentrated near the equator. LDCs have historically contributed least to climate change. Even today, their share of global carbon emissions is only 1 percent. Thus, they have little need to mitigate, while they have a high need to adapt and few resources to do so. Pledges by rich countries to provide sufficient climate finance have never been met to the extent promised.

In light of these two crises, LDC representatives of both governments and CSOs highlighted – during the preparatory committee sessions for the Fifth UN Conference on the Least Developed Countries (LDC5) – that the extraordinary situation required extraordinary measures. The speaker of the LDC group, Malawi, warned the parties that business as usual was not an option. The new Programme of Action, which was negotiated during the LDC5 preparatory process, needed to do more than just repeat previous UN agreements as "there is no agreed language in the history of the UN that tackled such an unprecedented situation".[3]

The stakes for the new Programme of Action (PoA) were high. It needed to help LDCs to recover forward. It had to enable LDCs to catch up with SDG implementation, while at the same time helping them to cope with and recover from the COVID-19 shock and conduct the necessary transitions that the climate crisis implies.

This report, produced by the development finance branch of Global Policy Forum (GPF), has been written while the negotiations on the Doha Programme of Action were ongoing. GPF was heavily involved in the preparatory process for the LDC5 conference. We participated in civil society consultations, monitored the sessions of the Preparatory Committee and reported to the public, and supported other stakeholders' engagement through policy advice. This report was written to inform participants of

2 UN DESA (2021).

3 Quoted in: Third World Network (2021).

the LDC5 conference – which was originally scheduled to take place in January 2022 and is now scheduled for March 2023 – and other stakeholders that take an interest in LDCs' development.

The report focuses on financing for development, a policy area that is a central means of SDG implementation and a key instrument for economic recovery and sustainability transitions. It is also a policy area where the need for international support measures is particularly high, as LDCs have few domestic resources, and navigate in a world economy whose coordinates are set and changed by larger economic powers.

The first part of the report looks at the development financing needs of LDCs. We summarize existing estimates of SDG financing needs for the LDCs. At the time of writing, the ongoing COVID-19 crisis has been a major setback for LDCs' development progress, causing additional financing needs and impacting on different sources of finance for development. While it is too early to quantify the damage, we describe LDCs' expectations towards international support in the area of development finance. We also look at LDCs' position in the institutions of the international financial architecture that govern and regulate global finance. Last but not least, we share positions that different stakeholders expressed.

The second and main part of the report looks more specifically into the different financial sources that can be mobilized or channelled to support development objectives in LDCs. Following an analysis of the state of play in the different areas, we analyse and assess the major agreements made in the Doha Programme of Action, both in light of LDCs' financing needs and in light of the positions that different stakeholders took in the negotiations leading up to the Doha conference.

Box 1

What are the Least Developed Countries

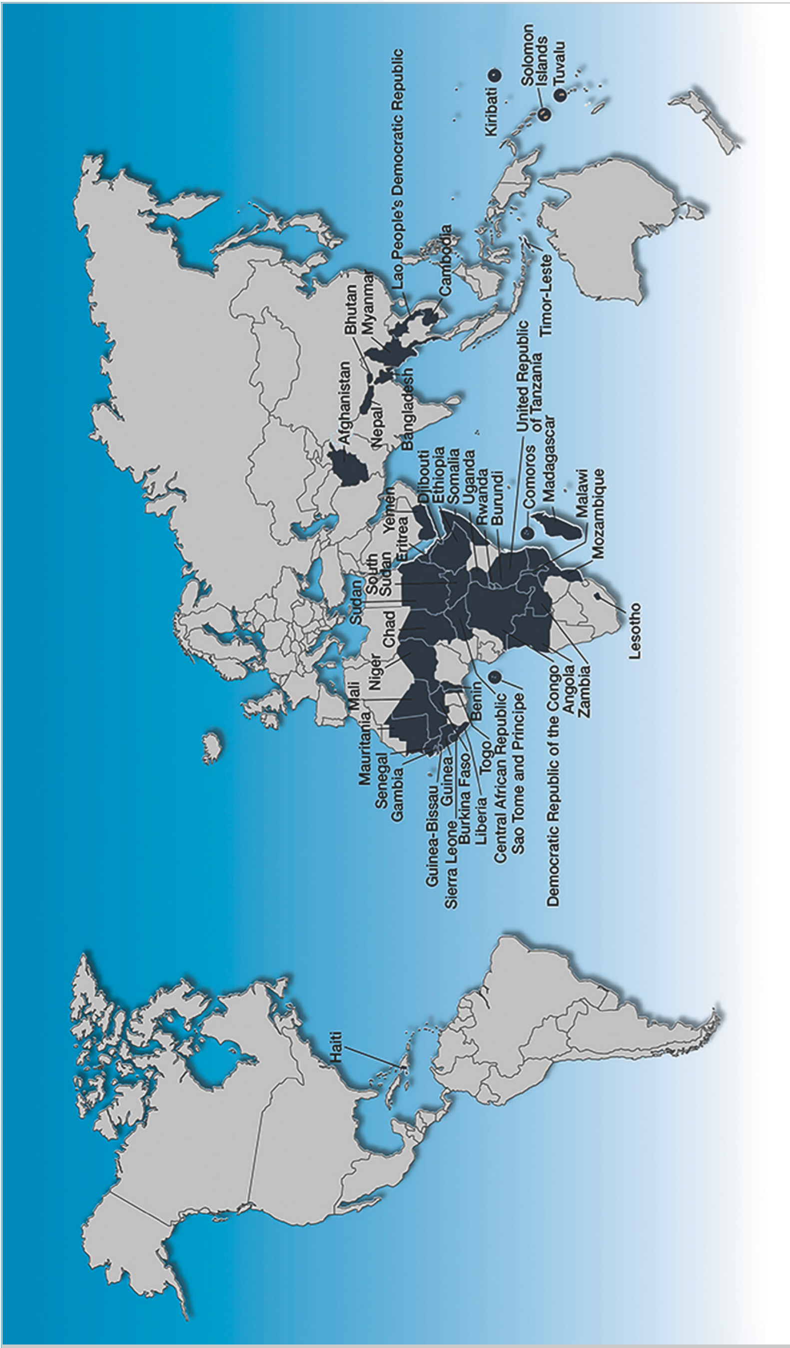
The Least Developed Countries (LDC) fall under a country category used by the United Nations. This was established by the UN General Assembly more than 50 years ago, in 1971.[4] The main reason was to find a way to decide which countries are eligible for targeted international support measures (ISM) related to trade, finance and, more recently, also to climate change. The trade preferences eventually became the most binding of these measures.[5] The ISMs are being reviewed every 10 years at the UN Conferences on the LDCs. The Programmes of Action that these conferences adopt contain the international agreements for the decade that follows.

4 Formally through UN General Assembly Resolution 2768 (XXVI).

5 Traeger (2021). For a mapping of ISMs see UN Committee for Development Policy (2021b), p. 29-60.

Figure 1

Map of the Least Developed Countries



Source: United Nations Conference on Trade and Development (UNCTAD)

Currently, 46 countries count as LDCs. The majority of which, 33 countries, are geographically located in Africa; nine LDCs are in Asia; three are island states in Oceania; and one is an island state in the Caribbean. Country status is periodically reviewed by the UN's Committee for Development Policy (CDP), which can recommend countries for graduation. Only six countries have ever graduated.

Three sets of indicators are used to determine the LDC status:

» An income criterion. Currently the threshold for inclusion is a per capita income of US$ 1,018 or below, and the threshold for graduation is US$ 1,222 or above.

» A human assets index (HAI), consisting of two sub-indices, for health and for education.

» A vulnerability index (EVI), also consisting of two sub-indices, for economic vulnerability and for environmental vulnerability.

Despite being a UN category, the LDC classification is not used by the UN's specialized agencies, the International Monetary Fund (IMF) and World Bank, which use only the per capita income as an indicator to categorize countries. Consequently, they classify their Member States in low-, medium- or high-income countries. For development finance, this distinction has severe implications as the classification by the World Bank and IMF determines access to concessional finance and other support measures, such as eligibility for debt relief. The LDC methodology, in contrast, suggests that vulnerabilities and low human development have to be taken into account when determining eligibility for ISMs.

In 2001, the UN set up the Office for the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Development States (UN-OHRLLS). The office's roles include to promote and monitor the implementation of the PoA. Together with the host countries, it also organizes the UN Conferences on the Least Developed Countries, which take place once in a decade, including the upcoming one in Doha.[6] LDC-specific research and technical assistance comes from the United Nations Conference on Trade and Development (UNCTAD) mainly, to a lesser extent from UN Regional Economic Commissions and other UN entities.[7]

A number of the internationally agreed Sustainable Development Goals (SDGs) are specifically designed for LDCs. For example, to achieve an annual economic growth rate of 7 percent (SDG 8.1.); or to double LDCs' share of global exports by 2020 (SDG 17.11). These are mostly among the '2020 SDGs'. The deadline for their achievement was 2020 while the deadline for the remaining SDGs is 2030.

This is no coincidence, as the 2030 Agenda simply reaffirmed some of the agreements made in the Istanbul Programme of Action – the previous PoA that expired in 2020 – by adding them to the SDG framework. It is not yet decided if some of the commitments from the Doha Programme of Action will replace these 2020 SDGs.

6 See https://www.un.org/ohrlls/

7 See https://unctad.org/topic/least-developed-countries

Part I: Least Developed Country (LDC) financing needs, challenges and the road to Doha

Sustainable Development Goals and financing needs in LDCs

Estimating the development financing needs of LDCs is methodologically challenging. In this report, we summarize the approach and findings by UNCTAD, published in their Least Developed Countries Report 2021.[8] UNCTAD is focusing on the financing needs for Sustainable Development Goals (SDGs), which helps to aggregate across the 46 LDCs, and also makes data comparable. As countries have the obvious right to determine their own development priorities, which may or may not be fully aligned with the internationally agreed SDGs, a country-level approach that determines financing costs on the basis of national development strategies could reach different conclusions.

Due to the complexity of the 2030 Agenda behind the SDGs, UNCTAD warns that a costing exercise is difficult to carry out. Many of the goals are not quantifiable. An additional problem for LDCs is that data gaps are often bigger and data quality is worse than in other countries with greater resources.

UNCTAD's exercise focuses on eight SDGs that are considered to be key drivers of the structural transformation which, if pursued with success, would enable countries to graduate from LDC status. These are SDGs related to growth, ending extreme poverty, manufacturing, health, education, social protection and biodiversity.

SDG costing exercises are useful to determine financing needs and to inform policy debates. However, they should be handled with care. Previous exercises by the UN or the Organisation for Economic Co-operation and Development (OECD) have been used and abused to argue that official finance is not available in sufficient quantities to fill SDG financing gaps, and private investors would need to fill the gap. This has triggered a number of worrying trends, including a commodification and financialization of social sectors in order to create 'bankable' projects that can be sold to private investors. Public finance, including official development assistance, is increasingly being diverted to private sector instruments that aim to leverage private investments through subsidies or guarantees.

8 Cf. Chapter 4 in UNCTAD (2021), p. 89–115.

This diversion creates an even more severe shortage of public finance for genuinely public policies and public goods.

It should therefore be stressed that not all types of finance are interchangeable, as UNCTAD also emphasizes. While the costs involved in tackling the first three SDGs (growth, poverty, manufacturing) in UNCTAD's assessment are primarily investment needs that could, to a large extent, be provided by an adequately regulated private sector, the figures for the social and environmental SDGs are expenditure needs that largely need to be public finance.

Table 1

SDG financing estimations for the LDCs

	Total investment needs (annual average 2021–2030)			Social and environmental SDG targets: total expenditure needs (annual average 2021–2030)								
	7 % annual growth SDG 8.1	End extreme poverty SDG 1.1	Double manufacture SDG 9.2	Health SDG 3.8		Education SDG 4.1		Social Protection SDG 1.3		Biodiversity SDG 15.1		Total
	US$ billion	US$ billion	US$ billion	US$ billion	% GDP	US$ billion	% GDP	US$ billion	% GDP	US$ billion	% GDP	US$ billion
Total	462.4	485.4	1051.4	88.6		126.5		193.7		5.06		413.5
Financing gap				46.4	7.3	95.0	14.2	184.2	21.1	4.50	0.6	330.1
median					5.2		10.2		3.1		0.5	

Source: UNCTAD (2021), p. 95

For the four social and environmental goals, UNCTAD calculates that the expenditure needs to amount to US$ 413.5 billion annually. Of this amount, only US$ 83.4 billion, or one fifth of the amount, is currently covered. Therefore, the financing gap amounts to US$ 330.1 billion, or four fifths of the amount. Particularly severe is the shortfall in the area of social protection, where the financing gap is US$ 184.2 billion of US$ 193.7 billion, or 95.4 percent of the amount needed to provide decent social protection coverage in LDCs. Social protection is also the area where the financing gap is highest in absolute terms (US$ 184.2 billion), and as a percentage of LDCs' Gross Domestic Product (GDP) – 21.1 percent.

In terms of the conservation, restoration and sustainable use of terrestrial ecosystems and biodiversity, the financing gap is also enormous, at 88.9 percent of the required amount. The outlook is only slightly better when it comes to the health and education sectors. These received substantial external support from development partners over the past two decades, as they were already priority sectors under the UN's Millennium Development Goals, the SDGs' predecessors. Still, the financing gap for universal access to health services (SDG 3.8) amounts to more than half of the required amount.

To achieve the interconnected economic goals related to growth, ending poverty and doubling the manufacturing share in GDP, substantial additional investment is needed. UNCTAD states that the growth rate required to end income poverty is 9 percent. In order to achieve the manufacturing target, "a whopping 20 percent average annual growth rate"[9] is needed. This is almost three times the growth target for LDCs explicitly stated in SDG 8.1, which was 7 percent. Reasons given include that, since adopting the SDGs, the 7 percent target has never been reached and, over the years, a substantial GDP shortfall has been accumulated. The COVID-19 crisis, which sent growth rates in LDCs in 2020 down to negative figures – the worst growth performance over 30 years – has created additional pressures.

Annual investment needs for growth until 2030 amount to US$ 462.4 billion. To end income poverty, an additional US$ 485.4 billion is needed. At more than one trillion US dollars annually (US$ 1,051.4 billion) the investment needs are highest when it comes to achieving the manufacturing target, which is central for structural transformation.[10] The relevance of this target for LDCs' overall development performance should not be underestimated. The few LDCs that have graduated, or are about to graduate from LDC status, have successfully transformed their economies away from primary sectors in agriculture and mining towards activities and sectors that add higher value and ultimately create better-paid jobs.[11]

Needless to say, these aggregated figures hide substantial differences between the 46 LDCs. Despite their common classification, the LDCs are a very heterogenous group. The growth rate required to achieve the income poverty goals is relatively low in most Asian LDCs and island states, which have made substantial progress towards that goal over the past 20 years. Some African countries would need to reach sky-high growth rates if the poverty target was to be reached by 2030, in the case of Madagascar and the Democratic Republic of Congo, this would need to be over 20 percent annually.[12]

9 UNCTAD (2021), p. 99.

10 Naturally the investment needs for doubling manufacturing are highest in those LDCs that already have a manufacturing sector of significant size, such as Bangladesh and Nepal, see graph in: ibid, p. 100.

11 Ibid, p. 99.

12 Ibid, p. 99–100.

Additional financing needs due to the COVID-19 crisis

The COVID-19 crisis has been a setback for LDCs, in many ways. Early on, UNCTAD estimated that almost all LDCs, 43 out of then 47 LDCs,[13] would suffer economic recession as a result of the pandemic. The Inter-agency Task Force on Financing for Development, a research group uniting experts from various UN agencies with those of the International Monetary Fund (IMF), World Bank and OECD, warned that "COVID-19 could lead to a lost decade for development – one most pronounced in the Least Developed Countries".[14]

The fiscal capacity of different countries was a key criteria to determine how deeply a country and its population would be affected by the crisis. LDCs had (and continue to have) little fiscal space to cope with the crisis. UN Secretary-General António Guterres warned early in the crisis that the different ability of various country groups to respond to the crisis would lead to a sharply diverging world. Development progress in LDCs is being undone. While richer countries recover on the back of fiscal stimulus and strong central bank support, poorer countries are likely to fall even further behind. At the April 2021 United Nations Economic and Social Council (ECOSOC) Financing for Development (FfD) Forum, Guterres called for a strong FfD response, backed by the international community.[15]

In December 2021, Guterres warned again that advanced economies mobilized 28 percent of their GDP for economic recovery, while LDCs could mobilize only 1.8 percent of a much smaller per capita GDP. The UN Secretary-General argued that such lopsided recovery efforts further increase inequality.[16] Closing the gap between advanced economies and the LDCs has required additional international support, in particular massive fiscal transfers.

The expectations of LDCs

On 28 April 2020, when the COVID-19 crisis had turned into a global pandemic, LDCs themselves outlined what the response should look like. Their statement on coronavirus, later submitted to the UN Secretary-General, contains elements of a comprehensive policy package, including international support measures needed to address the crisis.[17]

13 Vanuatu graduated from LDC status in 2020.

14 United Nations/Inter-agency Task Force on Financing for Development (2021); see also https://www.un.org/ohrlls/es/node/1896

15 https://news.un.org/en/story/2021/04/1089542

16 https://news.un.org/en/story/2021/12/1108092

17 UN General Assembly (2020a).

Looking at these elements is informative in order to identify LDC policy positions, as well as LDC needs, from their own perspective. It is the most recent major official document issued before the negotiations on the new Programme of Action really began. In doing so, it provides an excellent complement to UNCTAD's numerical costing exercise.

The LDCs' statement demands fulfilment of existing commitments, such as delivering sufficient official development assistance (ODA) to finally achieve the targets for ODA to LDCs that were agreed 20 years ago. However, it goes way beyond the discourse in other international policy forums by demanding full cancellation of all bilateral, multilateral and bilateral debts, and an increased allocation of special drawing rights specifically to the LDCs. The package would include the delivery of essential health supplies, including vaccines and the rights to produce them, but first and foremost a large number of measures related to development finance. LDCs reiterated their call for a global stimulus package in their 2020 Ministerial Declaration at the UN General Assembly (see Box 2).

Box 2

A global stimulus package for the LDCs – Quotes from the 2020 Ministerial Declaration

The 2020 LDC Ministerial Declaration at the UN General Assembly outlines LDC policy priorities, with a focus on international support measures to help with the recovery from the COVID-19 crisis. The short-term measures are summarized as follows:

> "We reiterate our call for a global stimulus package for the least developed countries to be funded and implemented with immediate effect to address the impacts of COVID-19 which includes, among others, emergency public health package including PPEs [Personal Protective Equipment], ventilators, tele-health and telemedicine facilities; support for social protection systems; education support for students in the form of digital equipment, as well as educational radio and television programmes; fulfilment of ODA commitments of 0.15-0.20 percent at the earliest with grants-based ODA; full debt cancellation of all multilateral, bilateral and commercial debts owed by LDCs and the debt standstill with immediate effect until the decision of the debt cancellation; richer countries could apportion some of their SDRs [special drawing rights] to multilateral institutions to pay for debt payment cancellation for LDCs; lifting trade barriers and scaling up aid for trade; and additional allocations, including increased special drawing right allocations for LDCs to the tune of US$ 50 billion."[18]

18 UN General Assembly (2020b), para 4.

Additional measures would be needed to put the recovery on a sustainable path:

> "Furthermore, in the medium- to long-term, the stimulus package includes ensuring an adequate, affordable and rapid supply of vaccines/immunization and antiviral drugs related to COVID-19; providing technology, technical know-how and free licence to manufacture antiviral drugs and vaccines; launching stimulus packages to stabilize the agricultural sector with seed distribution and fertilizer programmes and subsidies; taking into account structural constraints and longer-term investment requirements for the implementation of the SDGs in the debt sustainability framework for LDCs; launching a renewed and revitalized global trade framework to promote export earnings of LDCs; promoting the use of digital transfers of remittances and reduce remittance transaction fees; enhancing the quality, availability and affordability of the Internet and other online-related facilities, especially in rural areas; and providing countries graduating from the LDC category with continued and scaled up international assistance to support export sectors in order to avoid the reversal of development gains." [19]

In stark contrast to the expectations expressed by the LDCs' governments, however, little support has arrived so far:

- » Vaccines have been hoarded by richer countries. By early 2022, the vaccination rate in LDCs was still below 10 percent, while richer countries were even able to supply regular booster shots to their populations.
- » While some LDCs have productive capacity for vaccines, and could even export vaccines, the absence of a TRIPS patent waiver or affordable licences stopped them from doing so.[20]
- » Commodity-dependent LDCs in particular were left without PPE. Only a few LDCs with stronger manufacturing sectors could repurpose production lines and produce their own.[21]
- » A Global Fund for Social Protection is under discussion but has not materialized.
- » ODA targets for LDCs were missed. The impact of the crisis on individual donors' development budgets has been mixed, ranging from strong ODA cuts in the UK to additional spending in France and Germany, for example.[22]

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19 UN General Assembly (2020b), para 5.

20 Cf. comments by Hafizur Rahman, Director of World Trade Organization issues, Ministry of Commerce, Bangladesh at a webinar of FERDI (2021).

21 Bangladesh is one example, see the statement by Taffere Tesfachew, CDP member, former Director of the Division for Africa, Least Developed Countries and Special Programmes at UNCTAD, at FERDI (2021).

22 See https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf

- LDCs were able to request payment suspension on bilateral debts through the G20's Debt Service Suspension Initiative (DSSI), but no bilateral debts have actually been cancelled. Multilateral and private creditors refused to participate in the DSSI, which expired in late 2021.
- Three LDCs applied for debt restructuring under the G20's Common Framework for Debt Treatment beyond the DSSI. By early 2022 not a single case had been concluded, no single cent of their debt had been cancelled, and no further LDC found it worthwhile to apply. Meanwhile, five LDCs are already in debt distress, and 17 others are at high risk of debt distress.[23]
- 23 LDCs received debt service relief from the IMF through the Catastrophe Containment and Relief Trust by December 2021. However, the total amount of relief for all countries combined was worth less than US$ 1 billion and was paid for by donor contributions to the IMF, i.e. by ODA monies that were diverted from other purposes.[24]
- The IMF allocated Special Drawing Rights (SDRs) worth US$ 650 billion to its Member States in August 2021, but the 46 LDCs received only 2.6 percent of the total amount. The lion's share went to the world's largest economies, which were in least need of support.[25]
- G7 and G20 countries have politically committed to rechannelling a share of the SDRs they received but have set no target for LDCs. Rechannelling is likely to happen through debt-creating IMF facilities and would come with IMF-designed policy conditionality attached.

The challenge of fulfilling the 2030 Agenda financing gaps, coupled with the additional challenges to address the COVID-19 response financing gaps, have shaped the framework conditions under which the preparatory process for the LDC5 conference and the new Programme of Action for the LDCs took place.

LDCs' position in global governance and norm-setting

Establishing the LDC category was originally carried out with the intention of specifying a group of countries that are eligible for preferential rules and other international support. A key contradiction is that LDCs have very limited influence on global rule-setting, due to their weak position in global economic governance institutions where these rules are made, and eventually enforced or monitored.

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23 IMF Debt Sustainability Analysis (DSA) list from January 2022: https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf

24 IMF (2021).

25 According to calculations by UN ESCWA (2021), p. 2.

This problem was highlighted again and again in the LDC5 preparatory process by governmental and civil society contributors alike. In the words of Sophia Tesfamariam Yohannes, Permanent Representative of Eritrea to the UN: "Least Developed Countries are still marginalized from the decision-making processes including those pertaining to global trade and finance".[26]

A highly problematic issue is the negotiation of global tax rules, especially those connected with the distribution of taxing rights related to the commercial activities of transnational corporations. As part of the first civil society organization (CSO) consultations, the Global Policy Forum argued: "Global tax rules have been and are being negotiated, but the rules disadvantage LDCs, do not take their needs into account. Which is not surprising as they are being negotiated at the OECD, where LDCs have no stake."[27]

The spokesperson of the CSO Financing for Development Group, Dereje Alemayehu, recalled at the second CSO consultation: "Global norm setting on these critical issues of global finance continues to take place in forums that suffer from serious democratic deficits. In the process, LDCs are systematically excluded from decision-making and reduced to being 'rule takers' rather than 'rule makers'. The result is a global economic and financial system that is ineffective and unsuitable for LDC contexts."[28]

In relation to the COVID-19 crisis, it was also pointed out that severe gaps in the international financial architecture create a situation whereby some countries have more policy space as well as more fiscal space to respond than others. Asad Rehman from War on Want commented: "COVID exposed the structural inequalities and injustices ... between societies in the North and South. Rich countries responded by throwing away the neoliberal economic rule book that they imposed on others, directly intervening in their economies to safeguard their citizens and economies, whilst denying those very same tools and the financial means for countries in the global South to do the same."[29]

Indeed, a basic survey of participation in the international financial architecture exposes the absence and marginalization of LDCs in central institutions of global economic governance: While LDC representation in the UN General Assembly is good, due to the universal membership, the principle of state equality and the 'one state – one vote' decision-making procedure, it already looks worse when it comes to UN bodies to

26 Quoted in: Sabatini, Alexa (2021), p. 4.
27 Quoted in: Marmo, Elena and Alexa Sabatini (2021), p. 7.
28 Civil Society Financing for Development Group (2021).
29 Quoted in: Sabatini, Alexa (2021), p. 6.

which Member States get elected. In 2022, only six of 54 members of the Economic and Social Council are LDCs, just half the LDC share in the General Assembly. Not one single LDC is currently member of the UN's most powerful body, the Security Council.[30]

Table 2

LDC participation in international organizations: Numerical membership and voting shares

	Number of LDC members	LDC voting share
UN General Assembly	46 of 193	23.83 %
UN ECOSOC	6 of 54 in 2022	11.11 %
UN Security Council	0 of 15 in 2022	0
G20	0	0
G7	0	0
OECD	0	0
IMF	46 of 190	3.53%
World Bank (IBRD)	46 of 189	4.02%
Paris Club and Paris Forum	0	0
Basel Committee on Banking Supervision	0 of 28 (jurisdictions only)	0
Financial Stability Board	0 of 24 (states only)	0
Financial Action Task Force	0 of 37 (states only)	0

Source: Own calculations based on information retrieved on the institutions' own websites

The level of LDC participation diminishes rapidly when it comes to international institutions that apply the 'one dollar – one vote' governance approach, where the economic strength is the key factor that determines voting rights. The 46 LDCs together, despite constituting a quarter of the Member States, hold only 3.53 percent of voting rights at the IMF. At the World Bank, the share is similarly low at just 4.02 percent.

30 The Security Council can also play roles in economic and financial affairs. For example, following the intervention in Iraq in 2003, it passed a Resolution that made debt relief for Iraq possible. In the recent debt crisis, stakeholders recalled that, in the absence of a legal framework for sovereign debt restructurings, the Security Council could step in and enforce participation of reluctant creditor groups. See: United Nations (2020b), p. 87.

A whole group of global economic governance institutions operates without any voice or vote for LDCs. This includes the OECD,[31] which emerged as a key forum for making global tax rules. It also includes the Paris Club, where decisions on bilateral debt relief are being made and wider debt policies are being discussed. And last but not least, all major institutions that deal with financial regulation, from the Financial Stability Board, to the Basel Committee on Banking Supervision and the Financial Action Task Force.

The implication is that LDC needs and positions are being systematically side-lined in policy- and rule-making in core policy areas that affect the development prospects of LDCs, and the livelihoods of their populations. Efforts are underway to promote the transition from rule-taking to rule-making for LDCs. A notable example is the Harare Declaration of the first African Conference on Debt and Development, which calls for a reform of the debt architecture, effective measures against illicit financial flows, and new or stronger regional institutions including an African Monetary Fund.[32]

The marginalization of LDCs in global policy-making forums, in many cases their total exclusion from such forums, also shows why a dedicated process for LDCs, such as the one that leads to the Programme of Actions, is relevant and urgently needed. However, this is no substitute for appropriate LDC participation, voice and vote in institutions of the international financial architecture overall.

Policy positions for LDC5

Box 3

The road to the Doha Programme of Action

8 February 2021:	The organizational Session of the Preparatory Committee for LDC5 elects the Ambassadors of Bangladesh (Rahab Fatima) and Canada (Bob Rae) as co-chairs.
12 – 16 February 2021:	The African Regional review meeting takes place, adopts a Ministerial Declaration that outlines policy priorities for African LDCs and Haiti.[33]

31 The OECD responded to critique by setting up an 'Inclusive Forum on BEPS', which is open to countries that are not OECD Member States. This did not really solve the problem. While the Forum included many tax havens that are not sovereign states and thus gave them opportunities to influence global tax policies, it includes only 11 of the 46 LDCs among its 140 members.

32 AFRODAD (2021).

33 See https://www.un.org/ldc5/africa-review

20 May 2021:	First consultation of CSOs.
24–28 May 2021:	The first session of the Preparatory Committee for the LDC5 Conference considers inputs for the zero draft of the Doha Programme of Action.
18 June 2021:	Policy debate "Diversifying the Financing Toolbox to Enhance Investment in LDCs", co-convened by ECOSOC Chair and the President of the General Assembly.[34]
12 July 2021:	The zero draft of the Doha Programme of Action is published.
28 July 2021:	Second civil society consultation on the zero draft.
26–30 July 2021:	Second Session of the Preparatory Committee for the LDC5 Conference.[35]
15 September 2021:	First revised version of the draft Doha Programme of Action circulated.
5–7 October 2021:	LDC5 Future Forum researcher conference takes place in Helsinki.[36]
6 December 2021:	Second revised version of the draft Doha Programme of Action circulated.
21 December 2021:	Third Meeting of the Preparatory Committee approves the Draft Doha Programme of Action
23–27 January 2022:	Original date for Fifth UN Conference on the Least Developed Countries (cancelled due to COVID-19)
17 March 2022:	Adoption of the Doha Programme of Action.
5 to 9 March 2023:	New date for the Fifth UN Conference on the Least Developed Countries.

Policy positions of LDC governments

Expectations around the new Programme of Action (PoA) were high from the very beginning, due to the double challenge of catching up with SDG implementation. The Doha PoA is the LDC-focused version of the Decade of Action – while coping with and recovering from the COVID shock.

34 United Nations (2021b).

35 See https://www.un.org/ldc5/content/preparatory-committee-second-session

36 See https://www.wider.unu.edu/event/achieving-sustainable-development-least-developed-countries-ldc-future-forum

A key document that outlines LDC country priorities is the Ministerial Declaration adopted by the annual Ministerial Meeting of LDCs at the margins of the UN General Assembly, on 19 September 2020.[37] Key LDC positions on Financing for Development in the Declaration include:

» ODA quantity: A call for donor countries to meet the 0.20 percent ODA/GNI target by 2020, and to set a new target at 0.25 percent to be reached by 2030. At least 50 percent of net ODA should go to LDCs (para 28).

» ODA allocation: Ensure the right balance among sectors, with particular focus on productive sectors, and ensure quality through eliminating tied aid, using recipient country's systems, and ensuring predictability (para 29).

» Innovative financing: LDC ministers demanded that innovative sources, including blended financing instruments, should be "additional, substantial and predictable and disbursed in a manner that respects the priorities and special needs of the least developed countries and does not unduly burden them" (para 34). LDCs also requested capacity development and facilitation to access other sources such as green bonds, GDP-indexed bonds and financing instruments that blend domestic with foreign resources (para 66).

» Concessional financing: LDCs demanded better access to financing options for investment in infrastructure and development projects (para 53). The international financial institutions were also called upon to consider the LDC category in their procedures for resource allocation (para 73).[38]

» South-South-Cooperation: More and more predictable support by development partners from the global South (para 60).

» Debt cancellation: LDCs reiterated their calls to cancel all multilateral and bilateral debts, as well as all debt owed to private creditors. Debt standstill and swaps should be activated until the debt cancellation is realized (para 53).

» Debt sustainability: Reform the Debt Sustainability Framework by the IMF and World Bank so that it takes account of LDCs' structural requirements as well as investment requirements for the SDGs (para 53).

» UN Technology Bank: More financial contributions to ensure its effective functioning (para 54).

37 UN General Assembly (2020b).

38 The Bretton Woods Institutions use per capita income in US dollars as criteria to group countries in low-, middle- and high-income countries.

- UN System funding: UN agencies should allocate at least 75 percent of resources to LDC programmes (para 70).
- Global Economic Governance: Reforms of the international financial architecture to strengthen LDC participation in IMF and World Bank and other international standard-setting bodies such as the Basel Committee on Banking Supervision (para 74).

The elements listed in the Ministerial Declaration eventually shaped the zero draft of the Doha Programme of Action, which was drafted by the LDC group. Released on 12 July 2021, the zero draft was the basis for negotiations at the following sessions of the preparatory committee and informal meetings.

The view of the Committee for Development Policy

The statements by the UN's Committee for Development Policy (CDP) are a second source for policy positions. The CDP is composed of 24 members, academics who are appointed by the UN Secretary-General. Formally it is a subsidiary body of ECOSOC.[39] As the CDP is mandated to review the LDC category on a regular basis, and recommend countries for inclusion or graduation, it has a certain reputation and substantial expertise on what drives or hinders progress in LDCs.

The agenda for LDC5 featured, for example, in the CDP's research report on the impact of the COVID-19 pandemic on LDCs. The CDP stressed in particular the need to promote productive capacity:

> "The postponement of the fifth United Nations Conference on the Least Developed Countries to January 2022 provides an opportunity to steer international attention and support for LDCs towards addressing COVID-19 impacts, achieving the SDGs and supporting a global transition towards equitable and sustainable development. The Committee for Development Policy has already recommended that the LDCs and their development partners consider the theme 'Expanding productive capacity for sustainable development' as an organizing framework for the new programme of action for the decade."[40]

A second cluster of high relevance for the CDP was "smooth transition procedures for countries graduating from the LDC category". This is

39 The CDP's dedicated website is https://www.un.org/development/desa/dpad/our-work/committee-for-development-policy.html

40 UN Committee for Development Policy (2021), p. 29–30.

highly relevant as 16 of the 46 LDCs already met one or all graduation criteria, with graduation coming into effect during the term of the Doha Programme of Action. In the area of Financing for Development (FfD), this would imply developing innovative tools to support graduating LDCs, which reflect the changing development landscape where new actors such as South-South providers or philanthropy foundations gained relevance. It also implies facilitating access to financing mechanisms that are not LDC-specific.[41]

Individual CDP members also expressed their views. For example, at a webinar organized by the French think tank FERDI, Taffere Tesfachew – a former director of UNCTAD's LDC division – criticized the Istanbul PoA for being a shopping list. A highly problematic shortcoming was that it did not make clear who would implement the proposals and when. Tesfachew stressed that the CDP wanted the next PoA "to be a bit innovative, and bold as well, and come with a better approach than simply listing action lines that nobody implements".[42]

Civil society's expectations

A number of consultations for civil society organizations were held in the run-up to LDC5. In their interventions, CSOs set high stakes. In light of the magnitude of the challenges, LDC5 and the new Programme of Action must become game-changers for LDCs.[43]

Demba Moussa Dembele, the chair of LDC Watch, stated at the preparatory committee sessions in October 2021: "The pursuit of old and failed policies may only worsen the economic and social situation of LDCs in a way never seen before. Therefore, a radical change in approach to LDCs' problems is required, both in terms of economic policies and international cooperation. Bold and decisive actions are needed as well as firm commitments and effective implementation." He stressed that "what LDCs need most is policy ownership and fiscal space to enable them to mobilize more domestic resources. They need the policies to help curb capital flight and tax evasion through international cooperation…"

Yoke Ling Chee, Executive Director of Third World Network, also stressed that LDC5 is an opportunity not to be missed to set the right framework for sustainable development: "LDCs may have the right aspirations at the national level but if you don't have coherent policies at the international level, you won't achieve them."

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41 Ibid, p. 30.

42 See FERDI (2021) for the recording.

43 All quotes in this chapter, unless stated otherwise, are taken from: Marmo, Elena and Alexa Sabatini (2021): CSO Perspectives on the LDC5 Programme of Action, Global Policy Watch UN Monitor #24.

Using LDC5 to remove some of the anchors that hold LDCs' development back is a key priority for CSOs, as highlighted by Dereje Alemayehu from the Global Alliance for Tax Justice, who spoke for the CSO Financing for Development Group, a broad CSO coalition: "There is a tendency to push developing countries to focus on domestic issues even at international meetings supposed to address global issues which impact domestic processes. We thus would like to emphasise that the LDC5 outcome document should recognize that systemic transformation of LDC economies depends on addressing blockages emanating from the international economic and financial structure."[44]

Alemayehu highlighted reforms of the international financial architecture as a priority area from a CSO perspective. Important innovations for the benefit of LDCs include agreeing a comprehensive UN Tax Convention to address tax dodging and harmful tax competition as well as a multilateral debt workout mechanism to get LDCs out of the debt trap. He regarded the increased reliance on private finance as very critical: "We are concerned about the volatility and unreliability of financing strategies based on private investors. The current global financial architecture serves mainly to extract wealth; to exploit labour, to amplify gender and other intersectional inequalities. It generates periodic crises and destabilises the global economy exposing countries, in particular the LDCs, to havoc and destruction."[45]

Emilia Reyes from the feminist organization Equidad de Género highlighted that the crisis increased inequalities and created further injustice between countries and people: "Richer countries [are] centralizing their efforts in their own recovery and profiting, including even with unethical hoarding of vaccines and refusing a TRIPS waiver at the WTO". Moreover, "while the larger global corporations' last year profits rose to US$ 10.2 trillion, estimations of the value generated by unpaid domestic and care work performed by women amounts to US$ 10.8 trillion annually … the correlation in the extraction of value is quite clear." The statement formally submitted by the Women's Working Group on Financing for Development, a broad coalition of feminist groups, stresses that the Doha Programme of Action should have a specific section for Gender Equality.[46]

Gershom Kabaso, National Coordinator for Zambia Social Forum (ZAMSOF), was one of many CSO speakers who referred to the looming debt crisis in LDCs, and the consequences for public service provision:

44 Civil Society Financing for Development Group (2021).

45 Civil Society Financing for Development Group (2021).

46 Women's Working Group on Financing for Development (2021).

Governments have "reduced budget allocations towards education in order to focus on debt servicing", he criticized. The "imposition of school fees hit the poor at a time when cost of living is increasing and reduced incomes cause many to be left out. Now there is no free education for all."

Gabriela Bucher of Oxfam International called for a focus on investments in social protection, health and education: "those are the great equalizers that really are transformative and system transformative. And... we know that for LDCs on average, it will take 10 percent of GDP to invest in social protection to the level required to have a minimum social protection floor."

Priorities by UN management and mandate holders

A fourth set of stakeholders who expressed positions on the expected outcome for LDC5 were senior UN officials. The first meeting of the Preparatory Committee in June 2021 offered useful insights into their priorities. Usually, their statements are informed by the research carried out by UN agencies and promote policy recommendations that follow from it.

The UN Secretary-General António Guterres identified Financing for Development (FfD) as a priority area that the new Programme of Action needed to address: "The situation has worsened. Remittances have declined, while flows of foreign direct investment have decreased significantly and official development aid remains under pressure as donor countries themselves struggle with their own economic woes."[47]

Guterres encouraged the UN Member States to agree on a comprehensive new FfD action programme at LDC5: "We must strengthen domestic resource mobilization of least developed countries too and close international tax loopholes. We must reverse the decline in official development assistance and step up … triangular cooperation. And we must put in place the incentives to reverse the decline in foreign investment and ensure that long term private international capital flows promote sustainable risk-informed, resilient and inclusive economies."

On climate finance, the Secretary-General warned that extreme weather events impede development, therefore "we must ensure that the goal to mobilize US$ 100 billion in climate finance annually for developing countries is met or exceeded before this year's United Nations climate conference."

47 All quotes in this chapter taken from Sabatini, Alexa (2021).

Volkan Bozkir, the President of the UN General Assembly (PGA) during the LDC5 preparations, pointed out the challenges caused by the economic fallout of the COVID-19 crisis: "Almost half of the LDCs are now assessed at a high risk of debt distress or in debt distress. While we commend the Debt Service Suspension Initiative, a more aggressive and comprehensive debt relief measure is urgently needed for LDCs. Special Drawing Rights allocations of US$ 650 billion can ease pressure on the current account balances of LDCs and reduce some financing gaps."

Collen Kelapile, the Vice President of ECOSOC, joined the PGA calling for action on debt: "[LDCs] are struggling to service their debts and have to make a painful choice at the expense of much needed investment in health, education, and social protection in the context of an unrelenting pandemic." He added: "Debt cancellation is what is needed for the LDCs to avoid widespread defaults and to facilitate investment in recovery."

On promoting productive capacities, Bozkir backed the CDP positions: "The right policy and institutional frameworks must be put in place to facilitate an unprecedented investment push in the productive capacities of LDCs. The evidence has shown that LDCs with more productive capacities have been better equipped to withstand COVID-19."

Referring to recent OECD figures, the PGA stated that "the annual financing gap to achieve the SDGs by 2030 was US$ 2.5 trillion before the pandemic. It is now US$ 4.2 trillion, and ODA remains a key mechanism to support and support the LDCs." He concluded with the warning that "the risks to the achievement of the SDGs in LDCs from a lack of ambitious and transformative global development, finance and policy responses cannot be overstated."

Box 4

The six thematic areas of the LDC5 Process

The negotiations in the LDC5 preparatory process were structured in six thematic areas. These six areas should eventually become the six chapters of the Doha Programme of Action. The sixth area is the most relevant for FfD topics.

1. Investing in people in least developed countries: eradicating poverty and building capacity to leave no one behind.
2. Leveraging the power of science, technology and innovation to fight against multidimensional vulnerabilities and achieve the Sustainable Development Goals.
3. Supporting structural transformation as a driver of prosperity.
4. Enhancing international trade of least developed countries and regional integration.
5. Addressing climate change, environmental degradation, recovery from the COVID-19 pandemic and building resilience against future shocks for risk-informed sustainable development.
6. Mobilizing international solidarity, reinvigorated global partnerships and innovative tools and instruments: a march towards sustainable graduation.

Part II: Financing for Development in the Least Developed Countries and the Doha Programme of Action

Financing for Development (FfD) is an essential means of implementation for all different strands of development – from infrastructure to institutions, from decent work to manufacturing, and from health to education and other essential services. This is acknowledged in the 2030 Agenda on Sustainable Development, which integrated FfD-related objectives in SDG 17 primarily.

It is also acknowledged throughout the draft Doha Programme of Action, where the paragraphs that deal with actions in certain sectors, such as education or health, emphasize repeatedly that more and better financing is essential in order to make progress in each area. Beyond that, FfD features in the zero draft and thereafter in a separate section in the PoA, as part of Chapter VI that deals with international solidarity and global partnerships. FfD-related agreements stretch over 47 paragraphs of the zero draft outcome document, from paragraph 238 to 275.[48]

The structure in which the PoA covers different types of finance follows roughly that used in the UN's FfD process. The latest international agreement, the Addis Ababa Action Agenda, defined seven action areas stretching from different domestic and foreign, public and private flows, to cross-cutting systemic issues related to reforming the international financial and trade architecture.[49] Additional LDC-specific issues related to climate finance and graduation are covered in the Doha PoA from paragraphs 224 to 237, and 276 to 287 respectively.

The sequence in which the different FfD areas are addressed in our report follows that from the Doha Programme of Action.

48 United Nations (2021d).

49 United Nations (2015).

1. Climate finance and risk insurance instruments

Climate finance is gaining increasing relevance for LDCs as the climate crisis is becoming ever more severe. It is therefore no surprise that climate and climate-finance related measures are more prominent in the Doha PoA than in previous programmes. Climate finance should not be confused with development finance. Governments of LDCs, as well as independent experts and CSOs, stress that climate finance needs to be additional to development finance, if both development goals and climate targets are to be reached. Double-counting is tempting as governments struggle to meet both the targets for ODA and the climate finance targets, but this is also counterproductive, as unmet pledges in both areas have derailed both the global efforts to promote development and efforts to curb climate change.

Multilateral sources of climate finance

A look at the UN Secretary-General's annual progress reports on the Istanbul Programme of Action provides a good basis on which to assess the state of play on climate finance. It is not looking good.

The Global Environment Facility (GEF) trust has made a cumulative US$ 971 million available to LDCs from 2010 until January 2021. LDCs have received only 14.5 percent of the GEF trust's allocations.[50] Divided by 46 countries and 10 years, this is equivalent to an allocation of US$ 1.9 million per LDC per year, a rather token amount in light of the magnitude of the challenges. The small share of funding devoted to LDCs is remarkable because a common ask is that 75 percent of UN system funding should be devoted to LDCs, which are the UN Member States most dependent on international support measures.

There is less competition when it comes to the Least Developed Country Fund, which is exclusively for LDCs. But it is ill-resourced and, by mid-2020, had only disbursed US$ 1.8 billion for 380 projects in 50 current or recently graduated LDCs. The Secretary-General writes that "the demand for fund resources continues to exceed the funds available for new approvals". Such demand is certainly not satisfied by the Adaptation Fund that was established under the Kyoto Protocol and launched in 2007. It has disbursed only US$ 205 million to LDCs over the 13 years that followed.[51]

50 UN General Assembly / ECOSOC (2021), para 46.

51 Ibid, para 45.

The Green Climate Fund, the largest multilateral facility dedicated to climate, has disbursed a cumulated US$ 2.1 billion to LDCs over the decade leading up to January 2020. This is about 37 percent of the Fund's global spending, a slightly better percentage than from the GEF trust. However, this is still a long way away from the 75 percent target. The Secretary-General's report concludes that "the climate financing received by the least developed countries falls far short of the estimated requirements".[52]

Based on the intended nationally determined contributions that LDCs had submitted in the run-up to the Paris Climate Summit in 2015, they would need to receive US$ 93 billion annually in external support to fund mitigation and adaptation measures.[53]

Bilateral sources of climate finance

Bilateral climate-related funding for the LDCs more than doubled in the first half of the last decade (2010-2015), according to the OECD. However, it plateaued in the middle of the decade, at a level of little more than US$ 7 billion annually. As a share of sector-allocable bilateral aid, 22 percent targets climate-related objectives. This share is lower than for developing countries overall, where it accounts for 26 percent of the total.[54]

Back in 2009, richer countries pledged to provide US$ 100 billion annually in climate finance to developing countries by 2020. The Paris Climate Agreement in 2015 extended the target to 2025. This target has not been met. This is a failure that shaped the negotiations in the run-up to LDC5, but also other major international conferences in 2021 where climate was high on the agenda, including the G20 Summit in Rome, and the United Nations Framework Convention on Climate Change (UNFCCC) summit in Glasgow.

At the Rome Summit, however, the G20 countries just recalled and reaffirmed the US$ 100 billion pledge, welcomed new commitments by some of their members and "look[ed] forward to commitments from others".[55] In the same vein, the Glasgow summit simply urged developed countries to do more.[56] Neither did the longstanding developing countries ask to provide specific finance for climate-related loss and damage make any

52 Ibid, para 47.

53 UN General Assembly / ECOSOC (2020), para 49.

54 OECD (2020).

55 G20 (2021), para 25.

56 https://unfccc.int/sites/default/files/resource/cop26_auv_8a_LTF.pdf

significant progress in Glasgow.[57] Naturally, the meagre outcome of these forums was not such a great starting point for making any significant progress on climate finance as part of the LDC5 negotiation process.

Nevertheless, climate finance was a priority through the preparatory and negotiating process and featured frequently in stakeholder interventions. At a thematic panel of the first PrepCom session in May, Amanda Khozi Mukwashi of Christian Aid stressed: "It is critical that at the very least, rich countries deliver the 100 billion for climate finance that was promised. This should be through additional pledges. They must ensure this is evenly allocated to both mitigation and adaptation initiatives. Alongside this, it is also important that additional financing is needed through a separate mechanism to address the additional impacts of irreversible loss and damage, especially for the small island states."[58]

At the same session, Rezaul Karim Chowdhury, Executive Director of COAST Bangladesh, stated: "LDCs adaptation demand is per year 70-80 billion USD, but they are getting less than 18 percent from GCF". He added: "The arrangements in relation to Loss & Damage developed under UNFCCC and its Paris Agreements should be further enhanced and made operational. In particular clear and operational links to appropriate financial support mechanism."[59]

The importance to deliver on climate finance commitments was repeatedly stressed by LDC negotiators. Malawi, chairing the LDC group, emphasized at the first PrepCom meeting: "Climate change and associated natural disasters are taking a heavy toll on the lives and livelihoods of LDCs. If we cannot build our coping capacity, LDCs will continue to lose decades of gains by recurring shocks and crises."[60]

Climate finance in the draft Programme of Action

The zero draft of the PoA acknowledges the shortfalls in climate finance. It also acknowledges that existing sources are difficult to access for LDCs, due to cumbersome access conditions or lack of technical capacity to prepare projects in a way that matches the bureaucratic requirements of foreign donors and funds.

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57 A loss and damage mechanism would fund reconstruction after climate-related disasters, which is a third dimension of climate-related costs, on top of those for mitigation and adaptation. For the Glasgow outcome on loss and damage, see: https://unfccc.int/sites/default/files/resource/cma3_auv_7_WIM.pdf

58 Quoted in: Marmo, Elena and Alexa Sabatini (2021), p. 6.

59 Quoted in: Sabatini, Alexa (2021), p. 5.

60 Ibid.

It reaffirms the US$ 100 billion target and calls to scale up support for LDCs. Within this target, 50 percent of the amount should go to adaptation, and 50 percent to vulnerable countries including LDCs. The Green Climate Fund and other climate-specific multilateral facilities should receive substantially more funds, in order to provide additional resources to LDCs' national adaptation plans. The private sector is asked to respect environmental, social and governance standards and consider climate impacts when investing in LDCs.

Beyond adaptation financing, which has been an LDC priority throughout, increasing investment in prevention and risk reduction also features in the draft PoA, including through financing adequate infrastructure and public services. New risk insurance instruments should be developed and existing ones should be scaled up. Explicitly mentioned here are the Caribbean Catastrophe Risk Insurance Facility, the African Risk Capacity and the Pacific Catastrophe Risk Assessment and Financing Initiative.

Civil society watchdogs have criticized the trend to 'financialize' natural disasters through insurance facilities. The Caribbean facility is financed by donors' contributions and premiums from Caribbean countries. It has been scrutinized by the Jubilee Debt Campaign UK. They found that, for each dollar it paid out to affected countries, it generated nearly an extra dollar in profits for private reinsurance companies, making it a highly inefficient instrument.[61]

Climate finance in the final Programme of Action

During the negotiation process, the text was substantially watered down. The goal of US$ 100 billion is still mentioned, but the explicit 50 percent target for adaptation finance has been deleted and replaced by a vague aim "to achieve a balance" between adaptation and mitigation (para 250). The 50 percent target for allocations to vulnerable countries, including LDCs, has been fully deleted. A last-minute addition has been to add the target, "Increase financing for nature-based solutions or ecosystem based approach for climate mitigation and adaptation".

In light of the weak outcomes of the Glasgow Conference of Parties (COP), the language on climate finance has not been strengthened, apart from developing countries being called upon to "at least double their collective provision of climate finance for adaptation to developing country Parties from 2019 levels by 2025" (para 254). The country allocation target had been rewritten to apply to the Green Climate Fund only. The PoA reaffirms the GCF's existing targets to allocate 69 percent of adapta-

61 Jubilee Debt Campaign (2018), p. 11.

tion funding to vulnerable countries, including LDCs, and set a floor at 50 percent (para 255).

On the effectiveness side, the new Taskforce on Access to Climate Finance is referred to as one body that can help simplify access to climate finance. However, the explicit critique on cumbersome access conditions from the zero draft is no longer mentioned. In the final PoA, there is no longer mention of the explicit calls to scale up support by multilateral institutions or risk and resilience financing.

2. Tax revenue and other domestic resources

Domestic public resources, most of which come from tax revenues, are traditionally the most important source for financing public affairs, including public services, public infrastructure and the public institutions needed to make a country and its development processes function.

The absence of sufficient tax revenues is a key reason for the severe undersupply of public services. The gaps are just partly filled with external resources. The 2021 UN Secretary-General report on the implementation of the Istanbul Programme of Action highlights that the tax-to-GDP ratio in LDCs continues to be low. A situation that has only slightly improved over the past decade as the median tax-to-GDP ratio across LDCs has only increased by three percentage points, from 13.3 in 2011 to 16.2 in 2018.[62] This rise came primarily from the introduction of value added tax (VAT).[63]

A tax-based system built on consumption taxes like Value Added Tax (VAT) is highly regressive, as poorer people tend to spend a higher percentage of their income on consumption and thus contribute disproportionally to the budget. In order to achieve the poverty eradication and inequality targets, such tax systems might do more harm than good, which is why the trend towards VAT receives harsh criticism from many sides, but especially from economic justice groups.[64]

A substantial problem for LDCs is the financial drain caused by illicit financial flows (IFFs). According to the UN's High Level Panel on International Financial Accountability Transparency and Integrity (FACTI) – an expert panel set up by the Chair of ECOSOC and the President of the UN General Assembly in 2020 – US$ 7 trillion of assets are hidden

62 UN General Assembly / ECOSOC (2021), para 51.

63 UN General Assembly / ECOSOC (2020), para 53.

64 See https://www.brettonwoodsproject.org/2020/12/imfs-continued-vat-push-inconsistent-with-rhetoric-on-progressive-taxes/

in tax havens and thus avoid appropriate taxation. The annual losses of public revenue caused by profit-shifting from transnational corporations to low-tax jurisdictions amount to US$ 500–600 billion.[65] While IFFs are a global problem, the implications are particularly severe in LDCs, most of which are source, not destination countries of IFFs. The IFF problem has received increasing attention in recent years, also due to civil society efforts such as the African "Stop the Bleeding" campaign.[66]

The global system for corporate taxation has been under review for most of the previous decade. In 2013, the OECD released a first Action Plan on Base Erosion and Profit Shifting (BEPS). In 2021, a second agreement on BEPS was agreed under the OECD's Inclusive Framework, with a focus on digital firms. The second agreement also introduced a global minimal tax of 15 percent for corporate income taxes. A key problem related to the tax agreements under the OECD was that they tend to favour the home countries of multinational corporations when it comes to the allocation of taxing rights across country groups. As such corporations are rarely headquartered in LDCs, these regularly get side-lined.

Critics argue that this bias against LDCs is a natural consequence of negotiations at the OECD, where LDCs have no stake, as not one LDC is an OECD Member State. Such concerns have only been insufficiently addressed by the setting up of the Inclusive Framework at the OECD, which is formally open to LDC membership but could not remove all the structural disadvantages that LDCs are facing in OECD negotiations.[67]

Strengthening the UN architecture on tax is therefore a prerequisite to ensure that LDCs' needs are considered and reflected in global tax rules. The FACTI Panel suggested the creation of a UN Tax Convention. A hot topic at the Addis Ababa Summit on Financing for Development was developing countries' wish to strengthen the existing UN Tax Committee and upgrade it to an intergovernmental body. This position did not find unanimous consensus at the 2015 summit, but the G77 continues to back this position, including most recently in autumn 2021, in the negotiations leading to the UN General Assembly Resolution on illicit financial flows.[68]

65 United Nations (2020), p. 5.

66 See https://stopthebleedingafrica.org/

67 See https://www.eurodad.org/globaltaxbody

68 In late 2021, the language on establishing an intergovernmental UN tax body was contested in the negotiations that eventually led to the Resolution "Promotion of international cooperation to combat illicit financial flows and strengthen good practices on assets return to foster sustainable development" (A/C.2/76/L.28/Rev.1). CSOs expressed their support for a tax body in a letter to the UN Ambassadors in New York: https://csoforffd.files.wordpress.com/2021/11/letter-2c-iffs-resolution-signatures.pdf

While tax revenue is the main source of finance for domestic expenditure needs, domestic savings are naturally the main source for the domestic investment needed. Foreign investment flows tend to side-line LDCs and are a volatile resource. Foreign direct investment (FDI) had already been on a downward trend since 2015, and suffered a further substantial downward trend in 2020, when the COVID-19 crisis hit. On the other hand, the 2020 UN Secretary-General Report on the implementation of the Istanbul PoA notes that the median gross domestic savings in LDCs amounted to 13.5 percent in 2018, nearly two percentage points higher than in 2011. Higher investment was made possible by rising income, on the one hand, and by improvements in the domestic financial sector on the other, including through the introduction of Fintech applications in some LDCs.[69]

The Doha Programme of Action

The Doha Programme of Action reaffirms the 7 percent growth target for the LDCs, which had already featured in the Istanbul PoA in 2010, and also became part of the SDG framework in 2015. In light of the growth estimations made by UNCTAD ahead of LDC5, this means that, even if the growth target of the Doha PoA were met, SDGs relevant for structural transformation and ultimately for graduation from LDC status would be missed.

In order to mobilize more investment, the PoA mentions vague measures towards financial inclusion such as mobile banking and strengthening financial institutions so that they can provide more credit to micro-, small- and medium-sized enterprises (MSMEs).

On the tax side, the PoA sets a 15 percent target for the tax-to-GDP ratio, to be achieved in all countries. Other targets are to enhance international cooperation to return stolen assets, and inter-governmental cooperation to address illicit financial flows. Actions on domestic resources should result in LDCs' self-sufficiency.

What follows, however, is mainly related to capacity development in LDCs. Just one paragraph (272) refers to the need for improved international cooperation to increase tax revenue, and this one refers to the ongoing work on BEPS, which mainly takes place in the OECD. According to CSO watchdogs, it is designed in such a way that it will generate little additional revenue for LDCs.[70] Furthermore, the PoA refers to existing technical assistance initiatives such as Tax Inspectors without Borders and, added in the final version of the PoA, the Addis Tax Initiative.

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69 UN General Assembly / ECOSOC (2020), para 54

70 See https://www.eurodad.org/eurodad_oecd_tax_deal_is_unfair_and_fails_to_solve_the_problem

Progressive taxation is mentioned but without further specification on how this is to be promoted. In terms of tax transparency, the PoA does not go beyond mentioning the existing standards on information exchange.

In terms of IFFs, the related actions are also mainly related to capacity development. A sensitive last-minute amendment has been made to the PoA: the terms "derived from crime" have been added to "reducing illicit financial flows" (para 276). The lion's share of IFFs, however, originate from tax dodging strategies by multinational corporations or rich individuals that are considered legal under the global tax rules rich countries have created and LDCs are pressured to comply with.

To conclude, there is a severe discrepancy between the PoA's target to achieve a 15 percent tax-to-GDP target in all LDCs, and the absence of measures that would enable countries to get there. Moreover, even a 15 percent ratio would not enable LDCs to deliver public services that are anywhere near the average level of OECD countries, where the average tax-to-GDP ratio is 33.51 percent of a much larger median GDP and reaches levels beyond 40 percent in countries with good public services and social protection systems such as Denmark, France or Belgium.[71]

The PoA's targets and measures on domestic public resources would therefore not result in self-sufficiency. Supplementary public finance from abroad would be needed in large quantities to help achieve key development targets.

3. Official Development Assistance

Official Development Assistance (ODA) continues to be a key source of development finance for LDCs. This is due to the challenges among these countries of mobilizing or retaining domestic resources, paired with the inability to attract private finance on affordable financial terms. Gross ODA disbursements account for 40 percent of government spending and more than 5 percent of GDP in LDCs, according to the UN.[72] ODA has the advantage over domestic resources that it constitutes a financial transfer from richer to poorer countries. According to the OECD, it amounts to 42 percent of total external finance for LDCs, the share is only 12 percent for the remaining developing countries.[73]

71 Preliminary OECD data for 2020: https://www.oecd.org/tax/revenue-statistics-2522770x.htm

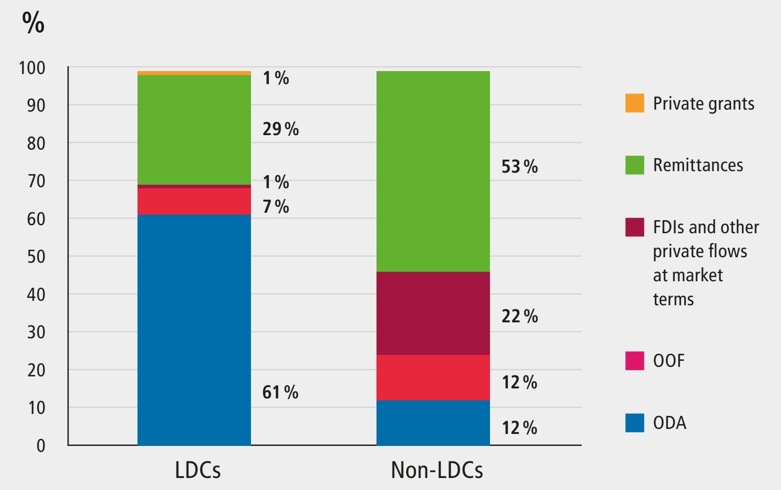
72 United Nations (2021a), p. 94.

73 OECD (2022), p. 2.

Figure 2

Composition of external flows to LDCs and Non-LDCs

Outflows from DAC members, non-DAC members reporting to the OECD/DAC and multilateral agencies.



Source: OECD (2022), p. 2

In order to guide development partners' decisions on ODA allocation, the UN has agreed a separate target for ODA to the LDCs. Under previous Programmes of Action, donors committed to provide 0.15 percent to 0.20 percent of their Gross National Income (GNI) to LDCs, as part of their overall commitment to provide 0.7 percent ODA/GNI to developing countries of the global South. In 2020, ODA to LDCs reached only 0.09 percent of donors' GNI, missing the target by a wide margin. Only five of the 24 Member States of the OECD Development Assistance Committee (DAC) met or exceeded the 0.15 target in 2019.[74]

The EU AidWatch Report, commissioned by the CSO umbrella organization CONCORD, took a closer look at EU Member States' ODA allocation: Only three EU countries met the target for LDCs. Collective EU ODA to LDCs was only 0.10 percent in 2019. The ODA gap to the 0.2 percent target accounted for €14 billion in just one year. With Ethiopia and Afghanistan, only two LDCs featured among the top ten of the EU's collective ODA, while with Turkey, a higher middle-income country topped the list.[75]

74 Denmark, Luxembourg, Norway, Sweden and the United Kingdom.

75 CONCORD (2021).

Such numbers prove that development needs are not the key criteria used when EU governments come to allocate ODA. This is in spite of assurances by the European Commission that vulnerability has been a key allocation criteria for ODA from the EU instruments since 2014. In the recent EU financing instrument – Neighbourhood, Development and International Cooperation Instrument (NDICI) – climate change adaptation features.[76] Within NDICI, there are geographic programmes. The largest of these is the one for sub-Saharan Africa budgeted at € 29.18 billion to be disbursed over six years, until 2027. The European Commission states that, "The EU will continue to work towards achieving the target of investing 0.7 percent of its collective GNI in Official Development Assistance, and 0.2 percent to least developed countries." However, there is no specific programme for LDC funding in NDICI.[77]

The UN finds that development partner performance is on a downward trend. In 2011, 10 DAC members have met the specific ODA targets for LDCs. This number has halved over the past decade.[78]

Box 5

LDC-specific funds and facilities

As part of the International Support Measures, a number of specific funds and facilities have been created that provide financial support for certain purposes exclusively to LDCs. The relevance of such funds should not be underestimated. On the one hand, LDCs need finance on more concessional terms than other more developed countries. On the other hand, LDCs face difficulties when it comes to winning over better-off countries in competitions for scarce funds and claim a fair share. Specialized funds can cater for LDC needs specifically and can earmark resources for them. Some funds already exist for sectors or policy areas such as climate, trade or technology. These include the following:

The LDC Climate Fund

The Least Developed Countries Fund (LDCF) is a climate finance instrument that has been set up under the UN Framework Convention on Climate Change in 2001. It finances adaption projects exclusively in LDCs, supporting their National Adaptation Plans. According to the UN, the Fund has supported over 250 projects with US$ 1.7 billion in grants. The Fund operates in four-year programme cycles. The new programming strategy is currently under discussion and should be adopted by the LDCF Council in May 2022.[79]

76 Statement by Felix Fernandez-Shaw, Director of International Cooperation and Development Policy at DEVCO (now INTPA), at FERDI (2021).

77 See https://ec.europa.eu/international-partnerships/system/files/factsheet-global-europe-ndici-june-2021_en.pdf

78 United Nations (2021a), p. 94.

79 See https://www.thegef.org/what-we-do/topics/least-developed-countries-fund-ldcf

The Enhanced Integrated Framework for Trade

The Enhanced Integrated Framework (EIF) for Trade belongs to the aid for trade architecture. From 2008 to 2020, it has provided US$ 267.5 million funding to LDCs. The framework is financed through the EIF Trust Fund by a consortium of 24 donors.[80]

The Trust Fund for the UN Technology Bank for LDCs

Establishing the UN Technology Bank was a commitment under the Istanbul Programme of Action, adopted in 2011. It is financed through a Trust Fund, which faces severe challenges in attracting money. The budget for 2021 was only US$ 6.7 million, of which US$ 4.7 million was unspent resources from 2020, and US$2 million was a contribution by the bank's host country Turkey.[81]

All LDC-specific funds are massively underfunded, meaning the funds they could disburse in the past have been tiny. This is both in light of the magnitude of challenges in the areas they address – including climate change, trade promotion, or technology development – and bearing in mind that they are supposed to cater to 46 countries hosting a population of 1.1 billion people, which need to divide the resources between them. Consequently, LDC financing facilities and their adequate resourcing was among the key issues during the LDC5 negotiations.

Aid effectiveness and the LDCs

Beyond the quantity of ODA, there are also international agreements on aid modalities and aid effectiveness with specific relevance to LDCs. For example, development partners have committed to an average grant element of 90 percent in their ODA to LDCs. This is to avoid development assistance from driving them into debt crises.

The members of the OECD's Development Assistance Committee (DAC) have also committed to delivering untied ODA to LDCs, meaning that providers should refrain from attaching conditions to ODA-funded projects when inputs are purchased from providers of the country supplying the ODA. By spending locally, ODA can have a double dividend, stimulating local demand while funding vital development activities.[82]

While officially reported ODA is largely untied, independent watchdogs are critical that provider countries 'informally' tie large shares of their ODA by making it difficult, in practice, for suppliers from LDCs to bid for contracts. This happens, for example, because procurement processes are not transparent, tender documents are not available in the programme country's language, lots are too big for MSMEs from LDCs to access etc.[83]

80 See https://enhancedif.org/en/system/files/uploads/eif_annual_report_2020.pdf?file=1&type=node&id=6305

81 UN Technology Bank for the Least Developed Countries (2021), para 22.

82 Ellmers (2011).

83 Clay, Edward J., Matthew Geddes and Luisa Natali (2009).

Moreover, new ODA modalities, such as blended financing instruments or public-private partnerships, seem to be skewed towards benefitting private sector firms from richer countries, especially from those that provide the ODA share of the instrument used.[84]

In current development courses, blended finance is frequently presented as the development finance instrument that will come to the rescue to fill the SDG financing gap. However, the evidence does not support this: According to the 2020 UN Secretary-General report on the implementation of the Istanbul PoA, only 6 percent of private finance mobilized through ODA went to LDCs, and the leverage ratio per unit of ODA invested was lower than in other countries.[85]

Performance in other aid effectiveness areas is also problematic. A key example is that the proportion of ODA on budget and subject to LDC parliaments' scrutiny is just 59 percent, much lower than the 71 percent in other developing countries, and on a downward trend.[86] This indicates that donors continue to operate through parallel structures in LDCs. The continuous use of parallel implementation units to administer development projects undermines LDCs' ownership, reduces transparency and accountability, increases transaction costs, and makes overall development planning difficult. It also weakens public institutions and country systems in LDCs that have to compete with donor agencies for a limited pool of qualified staff for financial management and other necessary tasks.

ODA during the COVID-19 crisis

ODA has been a remarkably resilient source of development finance during the COVID-19 crisis. On the positive side, ODA overall has not been cut during the recession in DAC Member States as some had feared, with the exception of a minority of provider countries, the largest of which was the UK. On the negative side, the calls for donors to scale up ODA in a similar manner as they scaled up public spending at home during the crisis have not materialized either. Some providers have scaled up, for example, Germany through their "Corona-Sofortprogramm". However, overall ODA increases were insignificant, and insufficient to allow LDC finance a stimulus anywhere near the volume that has benefitted richer countries during the crisis.[87]

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84 For support through the Belgian Finexpo SME instrument, the percentage of 'Belgian content' is a key criteria for financial support: https://www.un.org/ldcportal/ldcs-in-belgiums-finexpo-sme-instrument/

85 UN General Assembly / ECOSOC (2020), para 56.

86 Ibid, para 58.

87 The Committee for Development Policy tried to map additional bilateral support to LDCs during the crisis but faced the challenge that most providers did not disclose data in a way needed to identify LDC allocations, cf. UN Committee for Development Policy (2021a), p. 25.

In the absence of significant bilateral support, financial assistance came primarily from international institutions. Multilateral development banks (MDBs) scaled up lending significantly during the crisis, mainly by front-loading disbursements from their existing facilities. The UN development system mobilized funds for COVID responses by repurposing funds from other activities and projects. The IMF provided about US$ 5 billion in emergency financing to LDCs in the first phase of the crisis.[88]

While the assistance of MDBs and the UN Development System provided some additional liquidity, it was a drop in the ocean when compared to the magnitude of needs. Similarly problematic, in the absence of new financial inputs from richer Member States, few of the disbursements qualify as new and additional money. The MDBs exhausted their facilities earlier than planned, meaning facilities such as the World Bank's International Development Association needed early replenishment to continue to provide financing in 2022 and beyond. On the recipient side, additional loans by MDBs and the IMF boosted debt levels higher up, from already critical levels. This aggravated debt sustainability problems and might trigger debt crises further down the road. Multilateral debt is currently the most problematic debt category to bring down, as MDBs have categorically boycotted debt relief initiatives since the crisis started.

The Doha Programme of Action

The need for more and better ODA was highlighted by CSO representatives during the LDC5 preparatory process. One example was Gabriela Bucher, speaking on behalf of Oxfam, who stated "we need more aid. This is not charity, but justice. ODA matters to LDCs (…). Rich countries can do more as they have done at home in the pandemic, 0.32 percent of GNI spent on aid in 2020 is too little."[89]

However CSOs also criticized the way the current aid regime works, and demanded change: Harpinder Collacott of Development Initiatives called for a shift from donor-controlled ODA towards a system of 'Global Public Investment': She advocated "moving away from the broken promises and the patronizing language of the current only system to assist a new system where all contributors approach public finance as a[n] obligation that they all contribute to and they all receive from based on need."[90]

ODA and other sources of external public finance are covered in the Doha Programme of Action from Paragraph 249 onwards. Scaling up ODA, substantially and soon, would be crucial to help support LDCs in

88 United Nations (2021a), p.95.
89 Quoted in Marmo, Elena and Alexa Sabatini (2021), p. 8.
90 Ibid, p. 8.

their recovery from the COVID-19 crisis and catch up with SDG implementation. During the negotiation leading up to the Doha Summit, the LDC Group – together with the G77 and China –suggested a new target for ODA for LDCs. In Paragraph 252 of the zero draft, the ODA to LDC targets were lifted to "at least 0.35 percent of GNI or at least 50 percent of net ODA by 2025".[91]

A 0.35 percent target would nearly quadruple the amount of ODA available to LDCs, when bearing in mind that ODA to LDCs accounted only for 0.09 percent of DAC donors' GNI in 2019. Based on 2019 figures, it would make the amount of US$ 177 billion in annual ODA available, an increase of nearly US$ 132 billion. This would help substantially to fill the expenditure financing gap in LDCs, while still accounting for only 50 percent of the ODA that donors have pledged to deliver under the 0.7 percent target. While it would imply that DAC donors collectively more than double their ODA spending, the amount is equivalent to less than 1 percent of the US$ 14 trillion in stimulus spending that rich countries used at home in the first year of the pandemic.

A commitment to additional action on ODA quantity could not be sustained as the negotiations proceeded. The specific target in the final PoA read as follows: "Ensure the fulfilment of respective ODA commitments to least developed countries."[92] Outside the LDC process, the EU has the existing commitment to reach the 0.2 percent target, but only within the timeframe of the 2030 Agenda, which is naturally too late to help with achieving the goals of the 2030 Agenda.[93] The USA is distancing themselves from any binding agreements on ODA quantity.

On aid allocation, during the preparatory process LDCs had lamented the lack of support to economic sectors. The final PoA does not explicitly commit to scaling up in this area, but simply states that the right balance between the three dimensions of sustainable development – economic, social and environmental – should be ensured. The final PoA also commits to "significantly scaling up" funding for existing private sector instruments to support MSMEs, but not to create a dedicated facility for LDCs with more concessional terms, as LDCs had asked for in the zero draft.

A last-minute success for DAC members is that the new OECD metrics "Total Official Support for Sustainable Development (TOSSD)" is

91 United Nations (2021d), para 252.

92 United Nations (2022), para 281.

93 It could also be noted that the EU had committed, in 2005, to achieving the 0.7 percent target by 2015, in order to support the implementation of the Millennium Development Goals, the SDG predecessor. Actual EU-ODA was only 0.47 percent of GNI in 2015, and even substantially less if imputed refugee costs are subtracted: https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2015-detailed-summary.pdf

mentioned in the final version of the PoA. TOSSD is a DAC-developed new metric that has been contested: on the one hand, because it has not been developed in an inclusive UN process; on the other hand, because there is fear that it might be used for window-dressing, for hiding that DAC donors are repeatedly failing to meet their ODA commitments. The PoA affirms that existing commitments will not be diluted and promises inclusive dialogues on ODA modernization.

On aid effectiveness, the PoA recommits providers to align ODA with national systems and development priorities as well as to a larger number of other actions related to development cooperation effectiveness. However, it does not entail any new targets or actions to address the lacklustre performance in this area. LDCs are expected to "provide whole-of-society national sustainable development strategies and costed medium term financing frameworks [and] improve transparency and accountability on external finance to all domestic constituencies".[94]

The Doha Programme of Action restates old ODA quantity and aid effectiveness targets but does not go beyond them as the LDC group demanded at the outset of the negotiations, when they requested a substantial increase of ODA, a new 0.35 percent target. Moreover, the PoA does little to address the accountability and delivery gap. Given that neither previous ODA quantity nor quality targets have ever been met, the PoA should have gone beyond a business-as-usual approach. As far as ODA and other public finance is concerned, the LDC5 process has been a missed opportunity. The PoA contains no news, therefore it is unlikely to contribute to mobilizing any additional foreign public resources towards filling the SDG financing gap.

4. Innovative financing instruments

Innovative financing is frequently called upon when it turns out that there is a mismatch between the ambition set by development goals, and the political will to finance them. The term is ill-defined; in practice it means different things to different people, and the interpretation has changed over time. In the 1990s, innovative finance referred mainly to new – and often global – taxes such as the financial transaction tax or different forms of environmental taxes. Researchers close to the UN Development Programme (UNDP) were initially among the most active proponents, arguing in the debate about financing global public goods that substantial revenue could be generated by taxing the 'global public bads', such as speculation and pollution.[95]

94 United Nations (2022), para 286.

95 See the comprehensive overview in UNDP (2006).

More recently, the term mostly refers to blended finance facilities that are capitalized with ODA-eligible resources from bilateral donors or MDBs and are supposed to leverage private capital for investments. In particular since the adoption of the SDGs, private capital is seen as a promising complement to public finance. Under the heading "from billions to trillions", the IMF and World Bank have argued that investing billions in public monies could leverage trillions in private finance for SDG financing.[96]

Blended finance instruments have recently mushroomed. Bilateral development finance institutions, regional actors such as the EU and its European Investment Bank, as well as MDBs and even the UN Development System, offer a range of different mechanisms. A blended financing facility specifically for LDCs is the BRIDGE facility of the UN Capital Development Fund. BRIDGE is a blended finance de-risking facility that aims to provide capital to growth small- and medium-sized enterprises (SMEs) and private investments with transformative SDG potential.[97]

Despite the hype, blended finance has contributed little towards fulfilling the needs of LDCs, or to fill financing gaps in LDCs. The UN analyses that the share of private finance mobilized by ODA that goes to LDCs is

Box 6

Blended finance for LDCs: The BRIDGE Facility

New instruments to scale up support for private sector development were one focus of LDC5 negotiations. One example to scale up support to SMEs is through an "adequately-resourced" BRIDGE Facility, under the UN Capital Development Fund (UNCDF). It is a blended financing facility that is de-risking private investments.[98] The BRIDGE facility would receive US$ 50 million as initial capitalization from official donors or philanthropy foundations. It would eventually provide concessional loans to private sector partners, or guarantee private investments. Preference should be given to local currency loans, which reduce exchange rate risks for private partners, but foreign currency loans could also be part of the portfolio.

BRIDGE targets the "missing middle", according to UNCDF's own descriptions. Particularly when it comes to the range from US$ 100,000 to US$ 1 million, there is a gap in SME financing in LDCs that BRIDGE should cover. The facility is already operational with seed funding from aid agencies from Sweden, Norway and South Korea. In its own public relations work, it showcases mainly its support to renewable energy companies as successful pilot projects.[99] There is no mention of the BRIDGE facility, or adequate resourcing to it, in the Doha Programme of Action.

96 See, for example: https://live.worldbank.org/from-billions-to-trillions

97 See https://www.uncdf.org/article/7020/call-to-action-dedicated-financing-facility-for-ldcs---the-bridge-facility

98 See https://www.un.org/ldcportal/content/uncdfs-bridge-facility-dedicated-finance-ldcs

99 UN CDF (2021).

marginal, at 6 percent of the total. Generally, LDCs manage to attract private finance only for a few sectors, such as energy and financial services. During the COVID-19 crisis, providers of blended finance switched to defence mode and focused on protecting their existing stock of investments.[100]

Special Drawing Rights

The new kid on the block of (development) finance is Special Drawing Rights (SDRs), a global reserve asset issued by the IMF. Development needs to be put in brackets because there are different views about the extent to which SDRs can be used for fiscal purposes – including development-related expenditures – or whether they are simply a supplement to IMF Member States' currency reserves that helps to secure financial stability.

In August 2021, while the preparatory process for the LDC5 conference was ongoing, the IMF allocated SDRs worth US$ 650 billion, and distributed them among Member States according to their IMF quota. As the quota is mainly determined by a country's economic strengths, LDCs' quotas are tiny, and so was the share of the SDR Allocation that went to the 46 LDCs, less than 3 percent of the total allocation to the 190 IMF Member States. Nevertheless, relative to the size of their economies, the SDR allocation represented a substantial boost of liquidity, and was very significant when put in relation to existing currency reserves, or their stock of short-term debt.

At the time of writing, the majority of countries had simply added its SDR allocation to their currency reserves. There are, however, also examples of countries that exchanged them into currency such as the US dollar and used them to finance fiscal expenses or debt service.[101]

A highly relevant matter for international affairs is SDR rechannelling. The initial allocation largely side-lined financially constrained countries that needed additional liquidity, while it swamped the economic powers that issued reserve currencies and therefore needed no support from the IMF. Political pressure on rich countries to share their SDRs with needier countries is therefore high. In particular, CSOs are requesting that rechannelling should preserve the character of SDR allocations as a financial instrument that – contrary to traditional IMF facilities – does not create new debts and does not come with economic policy conditions attached.[102]

100 United Nations (2021a), p. 94.

101 Arauz, Andrés and Kevin Cashman (2021).

102 Latindadd et al (2021).

The G20 had pledged the rechannelling of SDRs worth US$ 100 billion in summer 2020, a pledge reaffirmed by the G7 at their 2021 Summit in Carbis Bay.[103] By the time the G20 convened in Rome in November 2021, they had not delivered. The G20 just welcomed the US$ 100 billion pledge in their "Leaders' Declaration".[104] The G20 Finance Minister meeting in February 2022 reported in their final communique that, in the meantime, pledges worth US$ 60 billion had been made.[105] However, there is no evidence to date that any SDRs have actually been moved and made available for use by LDCs.

In order to facilitate rechannelling, the IMF is setting up a new facility, the Resilience and Sustainability Trust (RST).[106] Richer countries would lend their SDRs to the RST, which in turn would provide concessional loans to developing countries. As the RST is also going to provide loans to middle-income countries, this innovation might reduce the share of rechannelled SDRs that goes to LDCs, as compared to a new no-RST scenario where the IMF's Poverty Reduction and Growth Trust would be the main channel.

At a UN consultation on SDG financing in February 2020, UNCTAD Secretary-General Rebecca Grynspan warned that SDRs worth US$ 400 billion would lie idle if no further efforts for rechannelling to countries in need of liquidity were made. Almost two thirds of the allocation would have no impact or results, as SDRs lie dormant in central bank accounts in the global North. This is despite the severe SDG financing gaps in LDCs and the calls from LDC governments to get access to additional SDRs, beyond the tiny share that the IMF gave to them.[107]

The Doha Programme of Action

SDRs featured already in the zero draft of the Doha PoA. The allocation took place while the negotiations on the PoA were ongoing. Contrary to the LDC Ministerial Declaration of 2020, which had set a US$ 50 billion rechannelling target for the benefit LDCs, neither the zero draft nor the final PoA includes a specific number for the LDCs. There is only a positive reference to "voluntary channelling" in the Doha Programme of Action (para 289).

103 G7 (2021).

104 G20 (2021).

105 See http://www.g20.utoronto.ca/2022/220218-finance.html

106 See https://blogs.imf.org/2022/01/20/a-new-trust-to-help-countries-build-resilience-and-sustainability/

107 See the recording on UN WebTV: https://media.un.org/en/asset/k13/k13c7zfidf

When it comes to the use of SDRs, the zero draft explicitly mentioned "vaccines" and "green recovery" as potential purposes of SDR spending. This is no longer the case in the final PoA. There is just a reference to the IMF's efforts to seek channelling options, including through the IMF's new Resilience and Sustainability Trust, and to seek options to channel through MDBs. It is unlikely that any channelling through IMF facilities or the MDBs would come free of new debts or policy conditionalities.

The paragraph on blended finance underwent severe changes during the course of the negotiations. In the zero draft, submitted by the LDC group, there was a clear commitment for blended finance to be additional, in light of the risk that scarce ODA could be diverted from other areas. In the final PoA, there is a commitment to expand ODA allocations for blended finance, which implied in a constant-ODA scenario exactly the diversion that LDCs tried to prevent. Moreover, while the zero draft explicitly mentioned a "dedicated financing facility" for LDCs, obviously referring to BRIDGE, the final PoA promotes scaling up support to existing facilities.[108]

In the area of private financing facilities, an element that was added to later versions of the PoA is related to impact investment. Impact investing is ill-defined. It usually refers to financial instruments which, beyond a financial return, intend to achieve positive outcomes in the social and environmental spheres with their investments.[109] The PoA calls for greater efforts establishing impact investing funds, especially those targeting agri-commodities and the farmers and SMEs that produce them.

5. Private investment

Only a small share of foreign direct investment (FDI) flows goes towards LDCs – just 1.4 percent of the world's total. Reasons include the fact that markets are small, investors perceive a high political risk and an unattractive investment climate, and LDCs can invest less in promoting investment.[110] According to the OECD, private financial flows constitute only 1 percent of total net external finance from OECD Member States to LDCs (see figure 2).[111] According to UNCTAD, private flows overall play a more relevant role (see Figure 3).

108 Compare para 257 of the zero draft (United Nations 2021d) and para 288 of the final PoA (United Nations 2022).

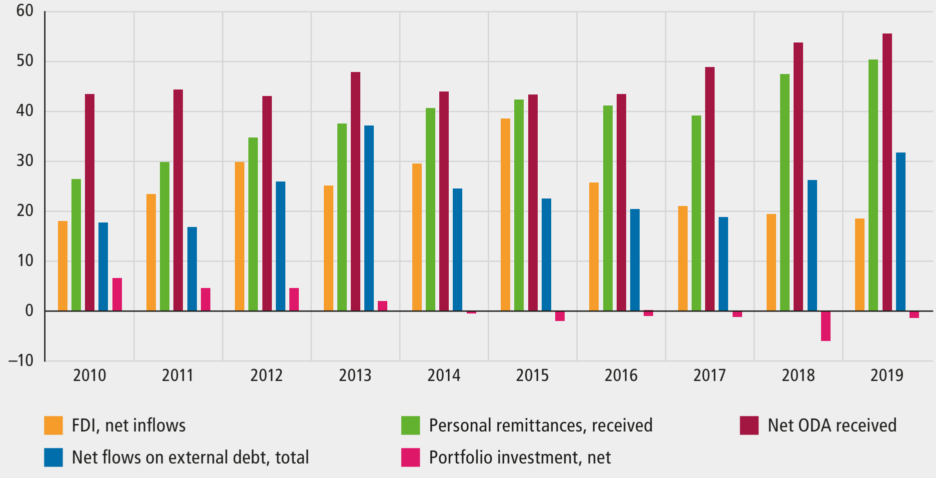
109 See, for example: https://thegiin.org/impact-investing/

110 United Nations (2021a), p. 89.

111 OECD (2002), p. 2.

Figure 3

Types and volumes of external finance to LDCs (US$ billion)



Source: UNCTAD (2021), p. 103

FDI inflows had already shown a downward trend since 2015, several years before the COVID-19 shock. This shock led to a further drop in investment.[112] Net portfolio investment has even been negative since 2014. Net flows on debt have remained positive over the past decade. However, this came with the negative side-effect that debt stocks, as well as debt service costs in LDCs, have risen dramatically. The most stable and sustainable source of private external finance for LDCs are migrant remittances, most of which are used for consumptive purposes only (see section 6).

A challenge for LDCs related to FDI is that just a small share of profits that foreign investors make are reinvested. According to UNCTAD analysis, the share was as low as 5 percent for Lesotho and Niger. In the better off countries, such as Mali, this rate barely surpassed 30 percent.[113] It is therefore reasonable to assume that, after a few years, foreign investors take out more money from LDC host countries than they injected in the first place. Moreover, while the private return on investment is high in many cases, the social return is not. Taxing transnational corporations remains challenging.

112 United Nations (2021a), p. 89.

113 UNCTAD (2021).

LDCs receive a disproportionately high level of resource-seeking FDI investments in the extractive industries sector. The social and environmental impact in this sector is particularly harmful, as large-scale mines pollute, and in some cases displace vulnerable people, including indigenous communities. The fact that the global North tries to transition to greener products does not always play out in favour of environmental protection in LDCs, as batteries or windmills require minerals that are often located in environmentally sensitive areas and are extracted under poor working conditions. Coltan mining in the Democratic Republic of Congo is just one prominent example.[114]

Supporting private sector development in LDCs is high on development partners' agendas. In light of the meagre result that, despite the financial support, private flows represented only 1 percent of net external finance, the OECD concluded: "it would be important for the DAC to further analyse the quality of such assistance in order to secure efficiency and focus of the involved expenses".[115]

Portfolio investments

An increasing number of LDC governments have started to tap global financial markets over the past decade. Even in LDCs, lending from private investors through bonds or loans is increasingly complementing borrowing from traditional sources such as the World Bank, regional development bank, or bilateral creditors. Access to financial markets implied that additional funding could be raised, and increased the pool of potential funding sources, and thus the choices that LDCs have.[116]

From the perspective of private portfolio investors, LDCs are 'frontier markets'. They offer new investment opportunities at very attractive returns. The average yield on low-income country bonds is near 7 percent in US dollars. Some LDCs, such as Angola, Cameroon or Ghana, need to pay more than 8 percent annually.[117] Despite high perceived risk, new LDC bond issuances tend to be several times oversubscribed. Liquidity in the global North was abundant in recent years, following a decade of expansionary monetary policies, while interest rates on safe assets in the North were low or negative. For private speculators, high-yield assets from LDCs offered an attractive alternative.

114 Cf MISEREOR (2016).
115 OECD (2020), p. 4.
116 For challenges related to first-time issuance, see IMF (2014).
117 Munevar, Daniel (2021a), p. 9–10 and p. 30–31.

In consequence of the "lending boom to the global South",[118] LDCs' foreign currency debt owed to private creditors has reached record highs. The debt service costs on this type of debt have been rising constantly over the past few years, absorbing increasing shares of government revenue, draining LDCs' foreign currency reserves.

Independent watchdogs find that the costs of debt service have outpaced health and education spending in many countries and turned into a real opportunity cost that undermines progress towards the SDG targets and other national development objectives. Moreover, net flows on debt are already negative in some developing country regions, meaning that they pay more on debt service than they receive in new loans. While the outflows caused by debt service are substantially higher in Latin American middle-income countries, LDCs in Africa and Asia might soon face similar challenges as the stocks of expensive private debt increase.[119]

The Doha Programme of Action

The Doha Programme of Action frankly acknowledges the dire state of FDI to LDCs, despite their attempts to incentivize investments. It reaffirms the commitment of the Addis Ababa Action Agenda to adopt and implement investment promotion regimes for LDCs as an explicit target in this thematic area, seven years after the Addis Ababa Financing for Development Summit has agreed on it for the first time.

One of the few tangible institutional innovations of the Doha PoA is the idea of setting up an International Investment Support Centre (IISC) for LDCs. The level of ambition shrank during the negotiation process. While the zero draft still requested the UN Secretary-General to present a Roadmap for the IISC to the UN General Assembly, the final PoA takes it several steps back and simply asks for a feasibility study, to be considered by the General Assembly not before late 2023.

The remaining parts of the PoA is non-operational language related to incentivizing more investment and improving access of LDCs to sustainable finance.

118 Jones, Tim (2015), p. 9.
119 Munevar, Daniel (2021b), p. 11–12.

6. Remittances

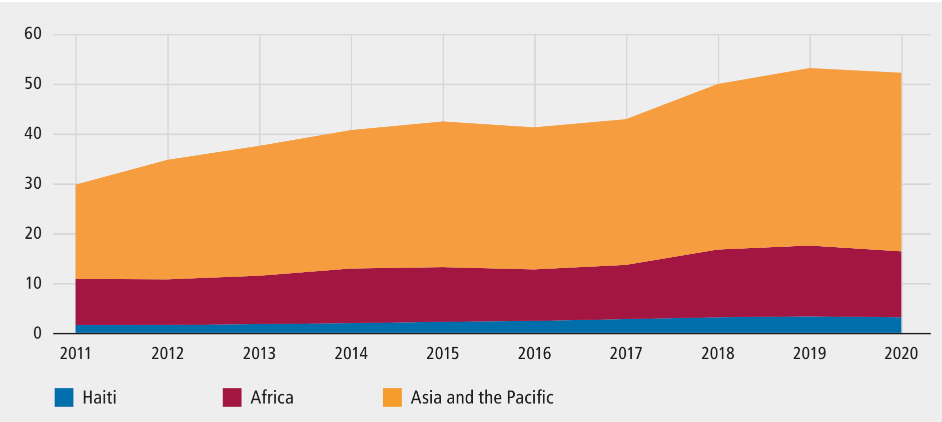
As already mentioned above, an important source of private finance comes from LDCs' outward migration. About 45 million LDC citizens are living abroad, according to World Bank figures. The remittances they send home are an important source of foreign exchange for the countries of origin. While they do not flow into the public budget, they boost the purchase power of families in LDCs and finance better access to food, education and health supply in contexts where these are not provided as public goods. As these funds are spent on consumption, they also boost tax revenue due to the VAT charged, and thus indirectly increase public revenue in LDCs.[120]

Remittance flows to LDCs almost doubled over the past decade and have reached a level of more than US$ 50 billion annually, roughly 5 percent of LDCs' GDP. The number of people worldwide supported through remittances is 800 million. In some African countries, almost half of the population benefits from remittances – for example, 43 percent in The Gambia and 38 percent in Lesotho.[121]

A key challenge is the high charges from financial industry providers for transferring migrant workers' money home to their families. In 2015, in the Addis Ababa Action Agenda, the international community set a

Figure 4

Volume of remittance inflows to LDCs by region (US$ billion)



Souce: https://www.un.org/ldc5/sites/www.un.org.ldc5/files/stateldc_2021.pdf, p. 92

120 United Nations (2021a), p. 91–92.

121 Ibid, p. 92–3.

target of 3 percent for transfer costs. In practice, costs decreased from a staggering 9 percent in 2011. At 6.8 percent in 2020, they continue to be twice as high as desired. Progress in reducing remittance costs has stalled in more recent years. For African LDCs, the costs are higher than for Asian countries, at 8.5 percent. In some Small Island Development States, the transaction costs can exceed 10 percent. The increased use of digital payment instruments, including mobile phone providers, has helped to reduce remittance costs.[122]

Remittances have been a remarkably resilient source of external finance during the COVID-19 crisis, despite initial World Bank predictions that lockdowns and recession would lead to a drop of 20 percent.[123] In 2020, the total value of remittances declined by only 1.7 percent. In 2021, remittances to low- and low-middle income countries rebounded strongly by 7.3 percent, to reach US$ 589 billion in total.[124]

The Doha Programme of Action

The Doha Programme of Action simply reaffirms the existing target to reduce the transaction costs to less than 3 percent. The main addition is that it adds a second target, which is to tackle the most costly corridors and to make sure that transaction costs are no higher than 5 percent anywhere.

The means of implementation are to improve access to financial services, train migrants and their families to become financially more literate and create more transparency through public databases that compare providers. Incentive programmes that intend to turn remittance flows into long-term investments should be promoted. A better link with financial services such as savings and insurance should increase resilience.[125]

While these measures are largely welcome, they put the burden on reducing remittance costs on migrants and their families, who are dependent on private financial service providers and the terms they offer. Without stricter financial regulation of financial services, or offering public alternatives of it, the 3 percent target will be difficult to achieve. Reducing the remittance costs of US$ 589 billion transferred annually to 3 percent would generate an additional US$ 22.3 billion annually for poor families in LDCs, an amount comparable to the bilateral ODA that LDCs receive.

122 United Nations (2021a), p. 93–94.

123 World Bank (2020).

124 World Bank (2021).

125 United Nations (2022), para 303–307.

7. Dealing with debt crises

The debt situation in LDCs is once again a reason for concern. The stock of debt doubled between 2011 and 2019, from US$ 198 billion in 2011 to US$ 385 billion. Worryingly, the growth of debt outpaced the growth of LDC economies, the debt-to-GDP ratio consequently surged from 34 percent in 2011 to 53 percent in 2019. LDCs had less access to credit than richer countries during the COVID-19 crisis. Still, the recession and additional lending, including by MDBs, caused a further surge to 58 percent of GDP in 2020. Debt service costs surged in line with rising debt stocks, in relation to export revenue it more than doubled within a decade.[126]

Beyond higher debt levels, the changing composition of the debt stock has been the second reason for surging debt service costs. A large number of LDCs have started to tap international financial markets over the past decade, issuing sovereign bonds denominated in foreign currency. In some cases, state-owned companies took out government-guaranteed loans. Private creditors and investors charge high premiums when lending to LDCs. Due to the high interest rates, debt service is extremely costly, and absorbs scarce government revenues. Both UN research and independent watchdogs confirm that some LDC governments cut spending on essential services in order to free up money to pay their creditors.[127] UNCTAD warns that the debt service burden of LDCs has tripled over the past decade, and is expected to surge due to the impacts of the COVID-19 crisis (see Figure 5).

During the preparations for the LDC5 conference, action on debt featured among the most prominent issues. Gabriela Bucher from Oxfam International stressed that further steps are needed: "We need debt relief, cancelling all payments, including to private creditors until the end of 2023. LDCs need to be paying for nurses and not paying back debt at the moment. We need to move now to deliver a first step."[128] Government representatives from developing countries took the same view.[129]

In early 2020, after the outbreak of the COVID-19 crisis, the G20 offered debt suspension to LDCs. This provided some breathing space. However, the G20's Debt Service Suspension Initiative (DSSI) covered only bilateral loans. Debt service on multilateral debt and on private debt continued throughout the crisis and drained the resources that LDCs had badly needed to cope with the COVID-19 shock. Moreover, debt suspension

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126 United Nations (2021a), p. 97–98.

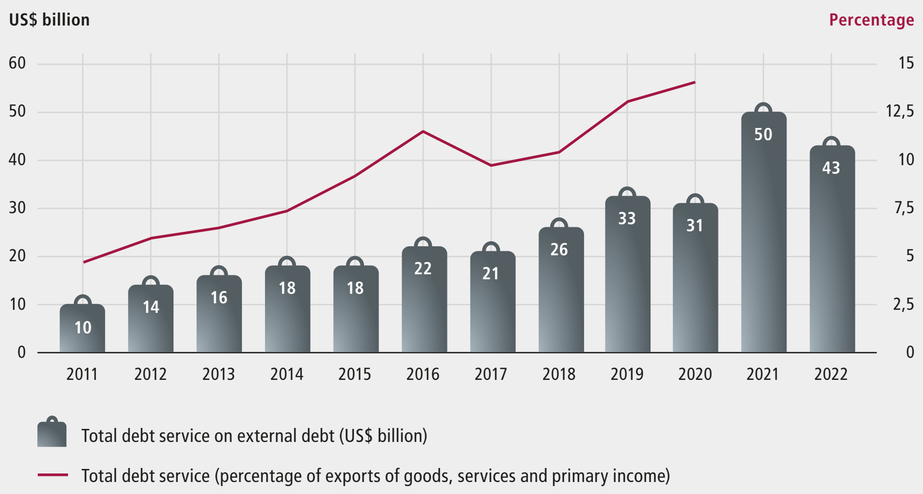
127 United Nations (2021a), p. 97–98; and Jubilee Debt Campaign (2020).

128 Quoted in Marmo, Elena and Alexa Sabatini (2021), p. 8.

129 Cf Sabatini, Alexa (2021), p. 6.

Figure 5

Surging debt service burdens in LDCs



Source: UNCTAD: https://unctad.org/topic/least-developed-countries/chart-march-2022

is not debt reduction; in practice it just means kicking the can down the road. Many LDCs require actual debt cancellation.[130] The DSSI expired in December 2021. The *Financial Times* concluded: "Few nations have chosen to tap the scheme: just 42 out of 73 eligible countries have applied for support. The US$ 12.7 billion deferred fell far short of initial estimates which suggested the DSSI would provide about US$ 20 billion of relief in 2020 alone."[131]

In November 2020, the G20 adopted a 'Common Framework for Debt Treatments beyond the DSSI'. This would make actual debt cancellations possible, on a case-by-case basis. Bilateral debt relief would only be granted under the condition that private creditors participated, on comparable terms. Early on, three LDCs applied for the Common Framework: Chad, Ethiopia and Zambia. By early 2022, not a single case had been concluded. It turned out that the absence of a mechanism that could enforce private creditor participation undermines the functioning of the framework, as they refuse to participate voluntarily. In light of these failures, no further LDC has applied. In late 2021, even the IMF urged the stepping up of efforts.[132]

130 For an early assessment of the DSSI, see Fresnillo, Iolanda (2020).

131 See https://www.ft.com/content/db7753b7-a2b5-469c-9441-e85afb44ea12

132 Georgieva, Kristalina and Ceyla Pazarbasioglu (2021).

The UN's Committee for Development Policy suggested involving multilateral creditors in debt relief. This is not foreseen in the design of the Common Framework. But multilateral creditors together account for more than half of LDCs' total public and publicly guaranteed debt. The World Bank is the largest single creditor. The CDP also urges IFIs to consider the LDC category when designing debt relief initiatives. Savings from debt relief could be channelled into sustainable investments and help LDCs to recover better.[133]

The only multilateral creditor that offered some debt relief since the beginning of the COVID-19 crisis was the IMF, through its Catastrophe Containment and Relief Trust (CCRT). The CCRT allows the cancellation of instalments due on IMF loans for certain periods. By January 2022, 29 countries have benefitted to the tune of US$ 850 million.[134] The CCRT is funded by richer IMF Member States, mostly using money from their development cooperation budgets. Thus, CCRT debt relief is not entirely a net gain for LDCs, as the transfers to the IMF reduce the amounts of ODA they could potentially receive.

Participants in the consultations leading to the Doha Programme of Action, such as Amanda Khozi Mukwashi from Christian Aid, concluded: "Since COVID-19, the share of revenues spent on debt repayments has risen from 20 percent to 30 percent. The IMF estimates that over half of the countries in the [African] region are in debt distress, or at least at high risk of it. The G20's debt servicing suspension initiative falls far too short of what is needed. Almost half of all African government external debt is owed to commercial creditors who are outside the scope of the deal. Private creditors, including the multilateral development banks, must come to the table."

The online journal *LDC news* recalls the CDP's criticism on the steps taken so far: "Merely suspending debt servicing constitutes a procrastination measure rather than effective development financing, as in 2020 many LDCs spent more on debt servicing than on health".[135]

The political pressure for additional action on debt was high while the Doha PoA was negotiated. A large civil society campaign, supported by more than 200 organizations worldwide, demanded to actually cancel debts, including those owed to multilateral and private creditors.[136] Action on debt has also been a priority for the UN Secretary-General in

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133 UN Committee for Development Policy (2021a), p. 28.

134 See https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#CCRT

135 Quoted in Davies, Daphne (2021).

136 See https://jubileedebt.org.uk/press-release/call-for-immediate-cancellation-of-developing-country-debt-payments

the run-up to LDC5. In his 2020 report on the implementation of the Istanbul Programme of Action, he cited "urgent measures … to reach sustainable debt levels in all least developed countries" as one of the six priorities for the future LDC development agenda.[137]

The Doha Programme of Action

The Doha Programme of Action notes that debt problems have become more severe in LDCs and welcomes the steps taken by the international community during the COVID-19 crisis, namely the DSSI and the Common Framework.

The target included in the final PoA is to "address the debt distress of LDCs by 2025 and provide coordinated and appropriate debt solutions in a timely manner to all LDCs that face debt vulnerabilities or are in debt distress in order to work toward sustainable debt levels in all LDCs".[138] This target, on activity-level, reflects a significantly lower ambition than in the zero draft, where the target was defined at the outcome-level: "Achieve sustainable debt levels in all LDCs through debt cancellation by 2031 and ensure that no LDC is in debt distress by 2025."[139] Debt cancellation has been a longstanding policy priority for LDCs, even more so since the beginning of the COVID-19 crisis, as expressed in their 2020 Ministerial Declaration.[140]

As using the term "debt cancellation" was not politically acceptable to all parties, the mentioned means are mainly vague commitments around debt restructuring, copied and pasted from previous UN agreements. On a positive note, it is explicitly (re-)stated that debt relief should not detract from ODA resources available to LDCs.

The only major institutional innovation in the zero draft of the Doha PoA was the request to the UN Secretary-General to convene a high-level expert panel on the debt crisis in LDCs. This idea might have created and sustained some political momentum for debt architecture reforms, at the UN level. It has not made it to the final PoA. During the negotiations, the UN expert panel was scrapped, and replaced by an invitation to the IMF to review the debt issues in LDCs and potential policy recommendations on a national and international level.

The remaining part simply lists vague actions related to debt management capacity building and debt transparency, which are not new. The use of

137 UN General Assembly / ECOSOC (2020), para 98.
138 United Nations (2022), para 297.
139 United Nations (2021d), para 265.
140 UN General Assembly (2020b).

state-contingent debt instruments is recommended, as well as exploring the use of debt swaps for climate and SDG-financing.

The new Programme of Action does not contain any debt architecture innovation that would facilitate debt crisis prevention in LDCs or help to resolve debt crises quickly. With regards to the large and rising number of LDCs that are at high risk of debt distress, this is an inexcusable omission. The PoA does not contain any concrete debt relief commitment. In light of the projections that debt service costs for most LDCs will rise steeply in the coming years, this means that many LDC governments will have less not more resources available for SDG financing in the remaining years of the decade of action.

8. The graduation challenge

Graduation from LDC status is a sign of successful development. It is therefore something that each LDC strives for. Graduation is also the objective of international support measures provided to LDCs. At the same time, graduation is a risk and a shock for LDCs as they lose access to the international support mechanisms (ISMs) that were specifically designed to promote LDC development. If the transition is not managed well, in the worst case scenario it can reverse development progress made.

In the four decades following the establishment of the LDC category in 1971, only two LDCs graduated. The speed picked up in 2011. In the decade that followed, four more LDCs graduated. Four additional LDCs have been designated to graduate between now and 2024, another 12 have met the graduation thresholds since 2011. While this is evidence for significant progress over the past decade, it also means that the Istanbul PoA's target that half of the LDCs will graduate during the duration of the programme has been missed.[141]

Watchdogs such as the Third World Network (TWN) have pointed out that the last review did not take the impact of the COVID-19 crisis into account, hence the recommendation for the graduation of Bangladesh, Lao PDR and Nepal is based on outdated information and is therefore faulty.[142] TWN has advocated for deferring the review altogether.[143]

141 UN General Assembly / ECOSOC (2021), para 1.

142 Bomzan, Prerna (2021c).

143 Bomzan, Prerna (2020).

Table 3

List of Least Developed Countries by graduation status
With scheduled graduation date where available

Group	Countries	Criteria met
Graduating countries	Angola (12/2/2024) Bhutan (13/12/2023) Sao Tome and Principe (13/12/2024) Solomon Island (13/12/2024)	Income only Income only; GNI per capita, HAI, EVI GNI per capita, HAI, EVI GNI per capita, HAI
Countries recommended for graduation before 2021	Kiribati Tuvalu	Income only; GNI per capita, HAI Income only; GNI per capita, HAI, EVI
Countries considered for graduation before 2021	Bangladesh Lao People's Democratic Republic Myanmar Nepal Timor-Leste	GNI per capita, HAI, EVI GNI per capita, HAI, EVI GNI per capita, HAI, EVI HAI, EVI GNI per capita, HAI
Countries meeting the eligibility criteria for the first time	Cambodia Comoros Djibouti Senegal Zambia	GNI per capita, HAI GNI per capita, HAI Income only GNI per capita, HAI GNI per capita, HAI
Remaining LDCs	30 countries	GNI per capita, HAI

Source: UN Committee for Development Policy (2021), p. 17

Rolf Traeger, Chief of UNCTAD's Least Developed Countries Section, explains that incorporation in the LDC category does not guarantee good development performance. Overall, the economic gap between LDCs and the rest of the world has widened since the category was established 50 years ago. The economic growth rate has outpaced the world's average in only seven LDCs. 16 LDCs grew in line with the global average, and more than half have fallen behind the rest of the world.

Traeger argues that special ISMs are needed to support the LDCs that graduate. At the same time, there is a need to review and update those for the LDCs that remain in the category, to reflect "the realities of the 21st century, such as the growing digital divide, the Fourth Industrial Revolution, accelerating climate change and the lingering adverse effects of the COVID-19 shock".[144] A new generation of ISMs should aim to

144 Traeger, Rolf (2021).

strengthen public and private institutions, and support the development of technological capabilities of LDCs. This would allow LDCs to become more resilient and also respond to the call to leave no one behind.

Transitioning

In the discussion about the upcoming graduation of Bangladesh, Laos and Nepal, the CDP suggested a five-year transition period, because these countries face the double challenge of preparing for the transition, while at the same time struggling with the COVID-19 pandemic and the recovery from it. In 2024, it will be decided if there will be an extension.

Countries that graduate are invited to prepare a "smooth transition strategy", usually with the help of UN entities and other development partners.[145] Ahead of the Twelfth WTO Ministerial conference scheduled for November 2021, which eventually got cancelled due to the pandemic, the LDC group submitted a proposal for transitory support measures. It suggests to gradually phase out trade preferences to LDCs over a transition period of six to nine years.[146]

The Doha Programme of Action

The challenge of graduation featured strongly in the preparatory process of LDC5. The documentation of Third World Network summarizes an intervention by Malawi, on behalf of the LDC Group: "It underlined that the need for continuation of LDC-specific support to graduated countries is 'pivotal', sharing concerns that many of them are 'truly scared' to graduate from the category as they are 'apprehensive of losing LDC-specific support', referring to the 'specific differential and preferential treatment' granted to LDCs." [147]

The challenges are acknowledged in the Doha Programme of Action in the sense that it contains a whole section titled "Extension of international support measures to graduating and graduated least developed countries to make graduation sustainable and irreversible".[148] The new target set is that 15 additional LDCs meet the graduation criteria by 2031, when the Doha PoA expires.

The PoA commits to support LDCs' smooth transition strategies. The scope of transition measures should be improved where necessary, and recently graduated LDCs should benefit from specific support measures.

145 UN General Assembly (2021).
146 WTO (2021).
147 Quoted in Bomzan (2021a).
148 United Nations (2022), Para 308–321.

The commitments related to trade preferences were highly contested during the negotiations. This was not only for reasons related to content, but also because some parties argued that these are World Trade Organization (WTO) topics that should not be negotiated as part of a UN process. In consequence, the zero draft's proposal to extend trade preferences for 12 years after graduation no longer features in the final PoA, neither are TRIPS flexibilities[149] mentioned. The relevant paragraph 314 simply invites partners to extend trade preferences and notes that LDCs put forward proposals at the WTO.

In the area of finance, development partners asked to continue providing climate finance to vulnerable countries despite graduation and avoid abrupt reductions in ODA. Transition strategies should aim to diversify finance. Vertical funds including the UN Technology Bank should consider extending access for graduating LDCs, but the timespan is not specified in the PoA. The PoA welcomes the UN's new Sustainable Graduation Support Facility (SGSF), which enables coordinated capacity-development on graduation by the UN system.[150]

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149 The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) regulates intellectual property. Critics argue that it prevents diffusion of new technologies. Recently, the debate about patented COVID-19 vaccines has been particularly heated.

150 See https://www.un.org/ldcportal/content/ldc-sustainable-graduation-support-facility-note-december-2021

Conclusion

The LDC5 conference in Doha and the new Programme of Action for the Least Developed Countries have both been a key opportunity to design international support measures that are adequate to ensure SDG implementation in the LDCs. The Doha Programme lasts until 2031 and it will run parallel to the remaining period of the 2030 Agenda. SDG financing needs, as calculated by UNCTAD and others ahead of the conference, should have been reflected in the negotiations. A comprehensive package of actions related to financing for development should have been agreed in order to mobilize financing from different sources in the required amounts.

This did not happen to the extent that would have been necessary for SDG implementation. At the final meeting of the preparatory committee on 21 December 2021, the negotiation process's co-chair Bob Rae called the Doha Programme "under the circumstances the best possible text". The host country Qatar described it as "the most ambitious result that can be achieved for the LDCs".[151]

However, the only tangible innovations in the Doha Programme of Action are the new International Investment Support Centre and the Sustainable Graduation Support Facility. These two institutional innovations stand out as key outcomes of the LDC5 process until now, as far as development finance is concerned. It remains to be seen how many resources they can mobilize in practice. The design of the former still needs to be suggested by the Secretary-General, and eventually accepted by the Member States. The volume of the latter, and how it will be funded, is not clear either.

Problematic is the absence of support measures that would reliably contribute to closing the SDG financing gap. Besides a vague commitment on doubling aid for trade, no clear commitment to scale up financial support has been made by richer countries, either in the area of ODA or SDRs, or through other means of international public finance.

The Doha Program does confirm existing ODA targets for LDCs, the ones that have so far not been met by the majority of donors. An increase in the target, as desired by LDCs, did not find political consensus. Nor was it possible to agree on a clear target for the reallocation of SDRs to LDCs, who had been clearly disadvantaged when the IMF distributed the SDRs.

151 All quotes taken from the recording of the third session of the LDC5 Preparatory Committee, 21 December 2021: https://media.un.org/en/asset/k11/k11tcx78kv

Given the high debt burden, LDCs had called for debt cancellations. But no new commitments on debt relief have been made; neither has the process given a boost to creating better institutions for debt crisis prevention and resolution in the international debt architecture.

The LDC5 process had been an opportunity to agree on shifting taxing rights to LDCs, for example, on economic activities by transnational corporations, but this went beyond what other countries were willing to accept.

Nepal, one of the more outspoken LDCs, judged at the final PrepCom meeting: "It is a balanced document. However, we wanted an ambitious one". Co-chair Rabab Fatima from Bangladesh comforted LDCs by saying, "we are aware that not all your priorities are included".

During the final stages of the negotiations, the Third World Network stated that the Doha Programme is "offering little that is substantive to the LDCs for the next decade". It would be a "disservice by the developed countries if indeed such an empty, regressive outcome document is adopted".[152]

The main problem with the Doha Programme of Action from the perspective of financing for sustainable development is that the numbers do not add up: LDCs entered the negotiation process with a severe SDG financing gap. They exited the process with a new 345-paragraph Programme of Action, and with an SDG financing gap that is not one single dollar smaller.

Seen in this light, the LDC5 process so far has been a missed opportunity, at least in the area of development finance. If no additional FfD efforts for the LDCs are made, beyond those made explicit in the Doha Programme of Action, it is now certain that the SDGs will not be achieved in the LDCs, with extremely serious consequences for the 1.1 billion people who live there.

There is also a severe mismatch between the relatively ambitious graduation targets in the Programme, and the absence of adequately ambitious international support measures. The slow path of graduation over the past 50 years since the LDC category has been established should have been a lesson for the negotiating parties.

152 See https://www.twn.my/title2/wto.info/2021/ti211209.htm

As the negotiations on the Doha Programme came to an end, Courtenay Rattray, the High Representative for the Least Developed Countries of the LDCs, reminded everyone of the unmet financing needs. He urged attendees once again to consider how to fill the – widening – financing gaps in LDCs.

The LDC5 process took place under the difficult conditions of the COVID-19 crisis, have made a normal negotiation process impossible. It was at least useful in clarifying where the challenges lie in development finance and what potential solutions might look like. This paper has analyzed both the problems and the solutions in detail. Actual implementation will remain on the UN agenda, and needs urgent attention.

The actual LDC5 conference, when it finally takes place in March 2023 in Doha, offers a new opportunity for the international community to put some flesh on the bones of the Doha Programme of Action.

List of Abbreviations

AFRODAD	African Forum and Network on Debt and Development
BEPS	Base Erosion and Profit Shifting
CCRT	Catastrophe Containment and Relief Trust
CDP	United Nations Committee for Development Policy
CONCORD	European NGO Confederation for Relief and Development
COP	Conference of Parties
CSO	Civil Society Organisation
DAC	OECD Development Assistance Committee
DEVCO	Directorate General Cooperation and Development
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ECOSOC	United Nations Economic and Social Council
EIF	Enhanced Integrated Framework
EVI	Vulnerability Index
FACTI	Financial Accountability Transparency and Integrity
FDI	Foreign Direct Investment
FERDI	Foundation for Studies and Research on International Development
FfD	Financing for Development
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNI	Gross National Income
HAI	Human Assets Index
IBRD	International Bank for Reconstruction and Development
IFF	Illicit Financial Flow
IISC	International Investment Support Centre
IMF	International Monetary Fund
INTPA	Directorate General International Partnerships
ISM	International Support Measure
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
MDB	Multilateral Development Bank
MSME	Micro-, Small- and Medium-sized Enterprise
NDICI	Neighbourhood, Development and International Cooperation Instrument
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PGA	President of the UN General Assembly
PoA	Programme of Action
PPE	Personal Protective Equipment
RST	Resilience and Sustainability Trust

SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SGSF	Sustainable Graduation Support Facility
SME	Small- and Medium-sized Enterprise
TOSSD	Total Official Support for Sustainable Development
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TWN	Third World Network
UN-ESCWA	United Nations Economic and Social Commission for Western Asia
UN-OHRLLS	United Nations Office for the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Development States
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
VAT	Value Added Tax
WTO	World Trade Organisation
ZAMSOF	Zambia Social Forum

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Financing for Development in the Least Developed Countries

Needs, challenges and the Doha Programme of Action

Once in a decade, the UN convenes a conference on the least developed countries (LDCs) to negotiate a programme of action, consisting of political agreements and international support measures. Financing for development in all its dimensions is an essential component of these programmes.

The process that led to the Fifth UN Conference on Least Developed Countries and the Doha Programme of Action took place under the difficult conditions of the COVID-19 pandemic. Given the limited financial space that LDCs had to respond to the pandemic and the economic crisis it caused, it was even more important that the LDC5 conference reaches an ambitious outcome.

This report analyses the financing needs of LDCs and assesses the status quo of international support at the beginning of the negotiations that led to the Doha Programme. It presents the policy positions of the various stakeholders and finally summarizes and assesses the outcome.

As the Doha Programme runs in parallel with the remaining period of the 2030 Agenda for Sustainable Development, its actions are critical to achieving the Sustainable Development Goals in the 46 LDCs and for the 1.1 billion people who live in LDCs.

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