SG's Ad Hoc Expert Group Meeting

UNLDC IV: Key Development Challenges facing the LDCs

18-19 February 2010

ODA and Debt Issues

By

Ms. Yuefin Li
Head, Debt and Development Finance Branch, GSD/UNCTAD

The view expressed are those of the author and do not necessarily reflect the views of UNCTAD
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United Nations LDC IV: Key Development Challenges Facing the LDCs

(ODA and Debt Issues)

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Major Macroeconomic Changes since LDC III 2001

• A major boom and bust cycle since LDC III
• Increasing importance of emerging economies at the ODA and debt relief fronts
Capital Flows to Sub-Saharan Africa and Selected Countries

- Mozambique
- Rwanda
- Uganda
- Zambia
- Ethiopia
- Tanzania
- Ghana
- Sub-Saharan Africa
- Nigeria

per cent of GDP:
- Remittance
- FDI
- ODA
- Portfolio
Aid from emerging economies and philanthropists not included in the data and ODA/GNI ratio of some donors worsened

Net ODA disbursement and ODA/GNI (% change between 2005 and 2008)
Paradigm Shift of ODA

- From mostly focusing on poverty alleviation and social expenditure (e.g. MDGs and PRSP)
- To greater emphasis on economic growth (e.g. agriculture, infrastructure, productivity, etc.)
Financial Crisis and ODA

• With the global economic crisis, the financing gap is getting bigger for LDCs because of the big drop in the world trade, volatility in commodity prices, significant fall in remittances and FDI. Now is the time when ODA is needed most by LDCs. But forecasts and ex-post analysis by many pointed to a possible reduction in ODA.
“We are encouraging all member countries to meet their commitment. It is more needed than ever before. Aid is only part of the solution…But it is a very important part of the solution.”

Secretary-General of OECD, 17 Feb. 2010
New LCS-specific International Support Measures

- Commitments still need to be met, 0.15 to 0.20 percent of GNI to LDC. Scale up ODA;
- Strengthening global partnership. Complementarities and coherence should be enhanced;
- In view of the crisis and heavy burden of public debt in some donor countries it is important to adopt measures to break the procyclicality of ODA: endowment funds, vulnerability fund, introduction of taxation, etc.
- Reduce fragmentation and transaction costs;
- Aid effectiveness discussion leading some people to believe that ODA is the source of non-growth. We do not believe enhancing ODA absorptive capacity should deprive countries of ODA;
- Need to be more country specific. There should be good diagnosis of the economic problem of a country before the decision of how the ODA should be used.
- Correct mix of ODA in promoting productivity and social expenditure.
LDCs: External debt stocks, public and publicly guaranteed (PPG),
comparing 2001 and 2008
Data of debt relief by developing countries is scant

- China forgave debts of USD 1.38 billion for 31 heavily indebted poor countries and least developed countries in Africa in 2006
- Venezuela announced it would forgive Haiti's USD 295 million debt after the 2010 earthquake
Debt sustainability still a major challenge

- Negative impact of the global economic crisis on debt sustainability and MDGs. External shocks like falling demand, reduced capital flows, fall in remittances, volatility of cost of borrowing beyond the economic fundamentals of borrowing countries;
- HIPC and MDRI are coming to an end;
- The world economy is not out of the woods. Recovery from crisis is not firm and some developed creditor countries become heavily indebted.
Why Low Debt Tolerance by LDCs?

Though currently debt/GDP ratio of many LDCs are better than many European countries, they are facing greater debt sustainability risks. Their low tolerance to debt is mainly due to their poorly diversified economies and their excessive reliance on the exports of a few commodities.
Challenges to debt sustainability

• out of 70 PRGF-eligible countries…
  – 35% are under high risk or in distress
• as for 13 pre-completion point HIPC*s…
  – 84% are under high risk or in debt distress
• overall, the crisis will worsen dramatically key macroeconomic aggregates of HIPC*s; 7 countries have worsened debt sustainability

(IMF 2009: Sub-Saharan Africa. Weathering the storm, page 43)
Debt Service to Export Ratio

Debt Service to Exports

Year

Debt Service to Revenues Ratio

Year

Non-HIPCs

HIPCs
Support from international development community

• More concessional lending, in the form of grants and not loans;
• Enhancing global partnership;
• Temporary debt moratorium;
• Promoting responsible sovereign lending and borrowing;
• Better debt management, capacity building.
Thank you!

Yuefen Li
Head, Debt and Development Finance Branch
UN Conference on Trade and Development
e-Mail: yuefen.li@unctad.org