



Statement by the Permanent Mission of Malawi on behalf of the Group of 77 and China at the 69th Executive Session of the Trade and Development Board

Agenda item 2 – The Least Developed Countries Report 2019: The Present and Future of External Development Finance –Old Dependence, New Challenges

Wednesday, 5 February 2020

Excellency Ambassador Michael Gaffey, President of the Trade and Development Board,
Mr. Paul Akiwumi, Director of the Division of Africa, LDCs and Special Programmes,
Excellencies,
Distinguished delegates,
Ladies and Gentlemen,

1. The Addis Ababa Action Agenda – adopted in 2015 – is ambitious in its scale of action and its coverage of development challenges. It thus calls for the mobilization and provision of greatly expanded financial resources to support the investment and expenditure needed to meet the Sustainable Development Goals. Nevertheless, the Group of 77 and China expresses its concern about the findings contained in the Least Developed Countries Report 2019 of disappointing progress to date on the mobilization and allocation of development finance to the LDCs.

2. Urgent action is needed to ensure that LDCs and other developing countries secure access to the scale of external development financing that enables them to deliver on the targets of Agenda 2030. Both the Addis Ababa Action Agenda and Agenda 2030 emphasize potential new sources of development finance and signal a new and much enlarged ecosystem of development actors in spheres that are traditionally within the domain of public actors. Consequently, interdependence and new means of collaboration are increasingly the norms for the growing pool of development players. The Least Developed Countries Report 2019 explains that this interdependence masks an unequal balance of power and influence between partners. Weaker partners are not autonomous from the sphere of influence and network of advocacy of more powerful ones.

Mr. President,

3. Efforts to mobilize more development finance have resulted in the diversification of financial instruments used in development cooperation including the so-called blended finance methods. The Report describes blending as part of the attempt by donors to create an environment supportive of private sector engagement. It highlights evidence from some LDCs that the concept of blending is not well understood by LDCs nor uniformly conceptualized by actors in development cooperation. A critical first step towards more effective consideration of blended finance is therefore a common definition and methodology for its measurement, and enhanced capacity of LDCs to engage effectively in discussions.

4. The Report finds that among potential sources of external development finance, LDCs remain most dependent on traditional official development assistance (ODA) with its higher levels of concessionality. It predicts that this structural need for ODA will persist into the foreseeable future, simply because realizing structural economic transformation is a precondition for overcoming LDC dependence on ODA. It is also a precondition for LDCs to mobilize increased domestic resources and access progressively more diverse sources of external development finance that are typical of lower concessionality or purely commercial.

5. The Group of 77 and China takes note of the fact that ODA disbursements continue to fall short of donors' longstanding commitments on LDC development financing. Such disbursements account for just 0.09% of donors' GNI, well below the target of 0.15-0.20% reaffirmed in Agenda 2030. Moreover, the Group has also taken note with concern of other findings of the report that are of concern to LDCs, namely:

(i) that average growth in ODA disbursements to LDCs slowed from 7% under the Brussels Programme of Action to 2% during the implementation of the Istanbul Programme of Action;

(ii) that other actors in development cooperation effectively compete with the State for access to stagnating flows of ODA; and

(iii) that budget deficits of LDCs widened from 1.7 % of GDP in 2013 to 3.5 % of GDP in 2018, with the increase in domestic tax revenues largely outpaced by sharply rising public expenditures.

6. The Group of 77 and China believes that the LDC report 2019 rightly points to the risks to debt sustainability that the present scenario brings. The worsening conditions of ODA to LDCs and the rapid accumulation of foreign debt are causes of major concern to LDCs, especially in the present context of an either stagnating or deteriorating international economy.

7. In this context, donors have delegated to their Development Finance Institutions primary responsibility for supporting the private sector, using private sector instruments backed by ODA. The Group of 77 and China therefore expresses its concern for the accountability relationships between the different actors in development cooperation led by the private sector. Importantly, Development Finance Institutions report back on their activities directly to the donor while the State, as the recipient, is regularly left outside the accountability processes. The Report emphasizes that private development cooperation has limited impact on domestic entrepreneurship as it is inadequately aligned with national development plans and shows weak links with the local private sector.

8. The Group of 77 and China concurs with the proposal made in Report of an Aid Effectiveness Agenda 2.0, which combines the basic principles of the original agenda with the new realities of a much more diversified number of actors and instruments in the aid scene. Among the former principles, The Group of 77 and China believes that the principles of ownership, alignment and mutual accountability are especially important.

9. LDCs have carried out a major effort of mobilizing domestic resources. This should be rewarded by a corresponding strengthening of donor country efforts in official financing for development. The Group of 77 and China hopes that the process leading to the Fifth UN Conference on the LDCs, to be held in 2021, and the new Plan of Action to be adopted by it will strengthen the commitment of the international community to the development of LDCs. The Group believes that this includes reaffirming existing commitments and implementing new international support mechanisms that accelerate the development of LDCs' productive capacities and domestic entrepreneurship.

Mr. President

10. LDCs are in dire need of enhanced support to develop their services sectors. Dependence on commodities, particularly for exports, is a persistent challenge to many LDCs. There are some positive signs in this respect, for example the significant growth in services exports, which contributes to LDCs' progress towards achieving SDGs 1, 8, and 10. Indeed, recent data shows that in 2018 primary products accounted for 58% of LDC merchandise exports, significantly lower than the 73% in 2011. Also in 2018, LDCs' exports of commercial services reached US\$39.8 billion, their highest level on record, having expanded by 16%, the highest rate since 2012. Nevertheless, the services sector remains inaccurately measured in many countries, partly because capital flight and the reduction in FDI flows has led to a shift to the informal sectors in many LDCs that are focused on services. Paragraph 38 of the Nairobi Maafikano mandates UNCTAD to support LDCs with technical assistance and capacity building, including through services policy reviews. The Group of 77 and China therefore calls for UNCTAD to increase its support to LDCs on services, including through Service Policy Reviews work, and to incorporate a focus on services in their inputs for intergovernmental discussions. The Group believes that better measurement of the services sectors in LDCs is an important first step to contribute to more effective policymaking. Recent discussion at several fora have emphasized the need for economies to re-skill for future work. Yet, LDCs still cannot effectively compete in the current industrial environment, less so in the scenario that is being brought about by the Fourth Industrial Revolution. Services present an alternative or additional path to overcome commodity dependence. In this connection, UNCTAD should assist LDCs in making more comprehensive use of the service waivers accorded to them under WTO, while supporting them to effectively negotiate at the WTO.

Mr. President,

11. To conclude, the Group of 77 and China wishes to commend the high quality of the work of research and analysis on LDCs done by UNCTAD, as well as the pertinence and relevance of the policy options and suggestions presented. Therefore, the Group calls on the strengthening of this work to be one of the elements to be taken up by the upcoming quadrennial UNCTAD Conference, UNCTAD XV. Equally, the Group of 77 and China expresses its wish that UNCTAD plays an active and central role in the process of preparing and holding the LDC V Conference.

Thank you, Mr. President.