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The Least Developed Countries Report 2023

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Main messages of the Report

1. LDC development has huge associated costs

2. The shortcomings of the international financial system hinder LDCs

3. Reforms needed to break the deadlock over LDC development financing

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1. LDC development has huge associated costs

Sustainable development requires massive dedicated financing

Examples:

- Doubling the share of industry in GDP (SDG 9.2) → annual investment of **$ 1 trillion**
  - = 3 x current levels of fixed investment
  - = annual rate of economic growth of 20% (→ unrealistic!)
- Social objectives of SDGs → spending needs correspond to 45% of GDP

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1. LDC development has huge associated costs

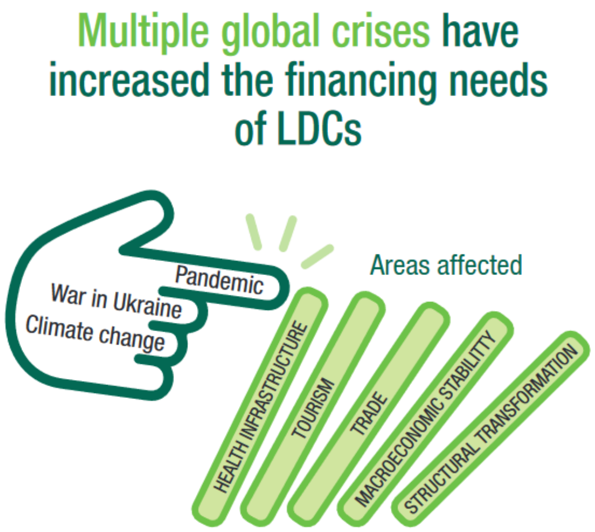
Multiple crises have further widened public spending and financing needs

- COVID-19
- Slowing world economy
- Rising global inflation
- Geopolitical tensions and wars
- Acceleration of climate crisis

➢ Shrinking fiscal space

⇒ LDCs spend 2x on debt service than on health

⇒ LDCs forced to cover shortfalls in development finance through external financing



1. LDC development has huge associated costs

Consequences of multiple crises

- Per capita income in 2023 16% below growth target
- Debt trap
  - LDC debt service ↑ 37% to $27 billion in 2021
  - The median PPG debt-to-GDP ratio up from 48.5% in 2019 to 55.4% in 2022 → highest level since 2005
  - Almost half of LDCs in debt distress or high risk thereof

Derailed progress towards the SDGs and transition to low-carbon economy

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2. Shortcomings of the international financial system hinder LDCs

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The international financial system not fit for the purpose

Does not meet LDC development financing needs

- Donor countries consistently fail to fulfil their commitments on aid
- Drift from grants to loans raises external debt
- Susceptible to economic and political conditionalities
- ↑ Complex = high transaction/administrative costs

➢ *Inadequate in predictability, quantity & quality*

The existing international financial architecture is unable to mobilize sufficient finance for sustainable development in LDCs

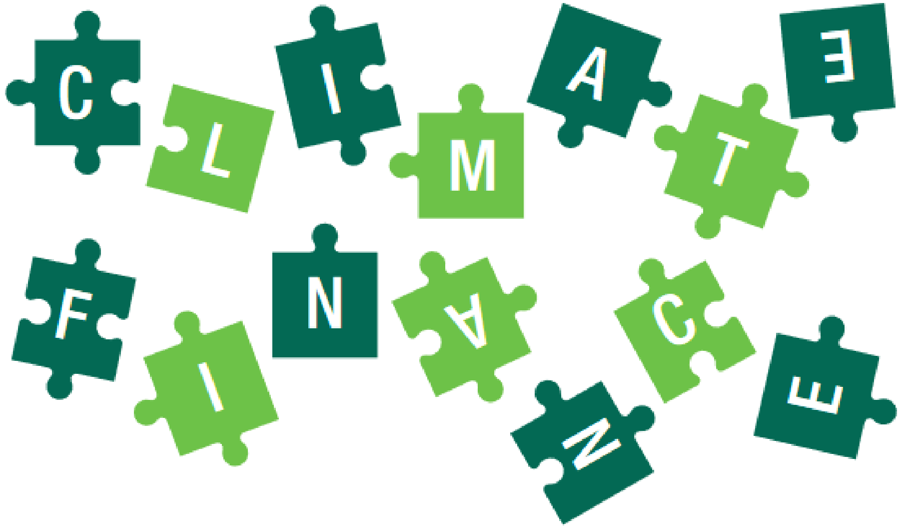
2. Shortcomings of the international financial system hinder LDCs

- Private financing is short-term and too expensive
- Voice of LDCs is not heeded when making decisions on the international financial system

LDC debt has been shifting from mostly public to private lenders, thus raising borrowing costs and endangering debt sustainability

2. Shortcomings of the international financial system hinder LDCs

Climate finance is inadequate in terms of quantity and quality, and its complex structure hinders access



Climate financing

- Insufficient
- Too complex
- Fragmented
- Opaque

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3. Reforms to break the deadlock over LDC development financing

UNCTAD proposes the Triple A guiding principles for development and climate financing for LDCs

- **Amount** (quantity) → amounts should be commensurate with LDCs' financing needs for sustainable development
- **Appropriateness** (quality) → prioritise grants, long term and low-cost modalities
- **Access** → simple and transparent, with minimum conditionalities and appropriate debt workout mechanisms

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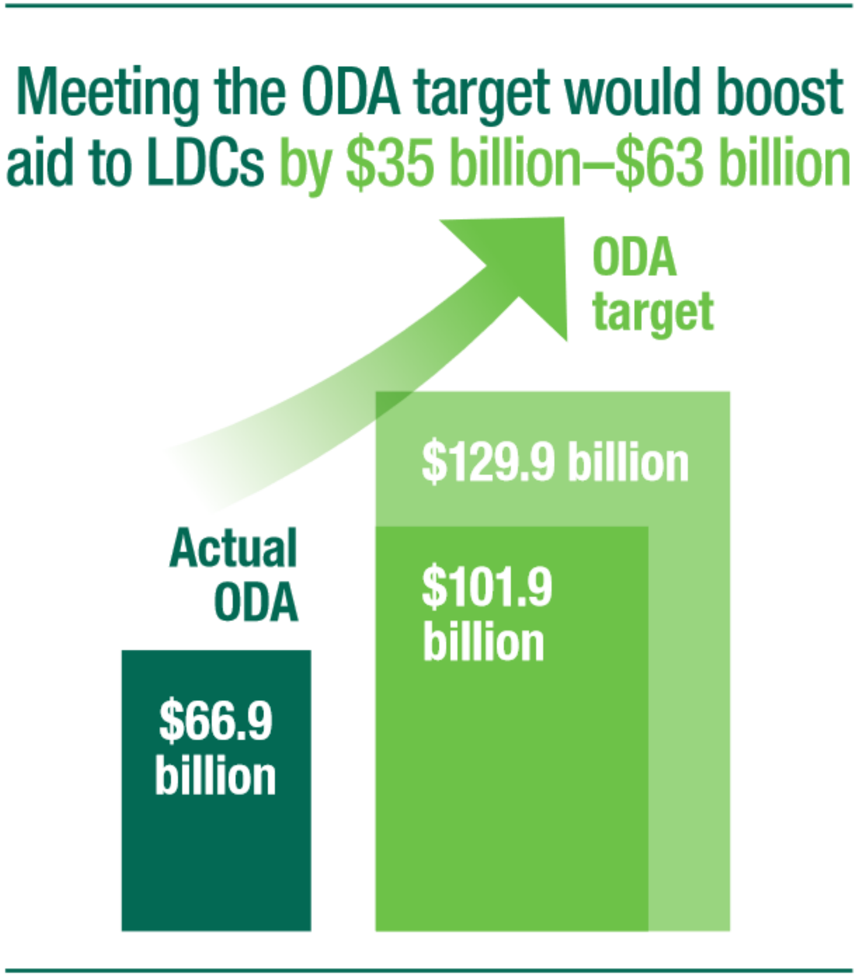
3. Reforms to break the deadlock over LDC development financing

International financial system adapted to specific needs of LDCs provides:

Long-term concessional financing coming mainly from public sources

- ODA
- Multilateral development banks

➢ *low-cost and long-term loans to LDCs*



International financial system adapted to the specific needs of LDCs *if:*

- Appropriate management of external debt
  - More transparent contracts
  - Debt workout mechanism

- LDCs have a say in important decisions on the international financial system

3. Reforms to break the deadlock over LDC development financing

Appropriate climate finance *if:*

- Transparent and sufficient
- Additional to traditional official development assistance
- Adopts an LDC-specific climate finance target
- Loss and Damage Fund launched at COP28 could be a game-changer for LDCs *if*:
  - ✓ Funds are sufficient and accessible
  - ✓ LDCs are among main beneficiaries

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3. Reforms needed to break the deadlock over LDC development financing

Central banks of LDCs could play a role at the domestic level…

Climate central banking should align with industrial policy to foster green structural transformation

channelling financial flows towards low-carbon transition *provided*

→ they have the legal mandate, and their actions are guided by/complement industrial policies to foster green structural transformation and are tailored to country-specific economic and social contexts

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Thank you

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