UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

THE LEAST DEVELOPED COUNTRIES REPORT 2019

EMBARGO
The contents of this report must not be quoted or summarized in print, broadcast, electronic or social media before
19 November 2019, 1700 GMT

The present and future of external development finance – old dependence, new challenges

UNITED NATIONS

United Nations Publications, 300 East 42nd Street,
New York, New York 10017,
United States of America

Email: publications@un.org
Website: un.org/publications

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/LDC/2019

ISBN: 978-92-1-112960-1

eISBN: 978-92-1-004377-9

ISSN: 0257-7550

Sales No. E.20.II.D.2

This Report is dedicated to the memory of
Madasamyraja Rajalingam

Acknowledgements

The Least Developed Countries Report 2019 was prepared by UNCTAD. The report was written by Rolf Traeger (team leader), Benjamin Mattondo Banda, Matfobhi Riba and Giovanni Valensisi, with the assistance of Josué Banga, Pablo García Moreno Dora and Carlota Schuster. Pierre Encontre contributed the section entitled “What are the least developed countries”. Shyami Puvimanasinghe (Office of the United Nations High Commissioner for Human Rights) contributed boxes 1.1 and 5.2. The work was carried out under the overall supervision of Paul Akiwumi, Director of the UNCTAD Division for Africa, Least Developed Countries and Special Programmes.

A meeting was held in Geneva on 15–16 May 2019 to conduct a peer review of the report, chapter by chapter and as a whole. It brought together specialists in the fields of development finance, official development assistance, external debt, development policies, agricultural development, industrial development and human rights. The participants were: Anna Abalkina (University of Munich), Daniel Gay (Secretariat of the Committee for Development Policy), Kee Beaom Kim (International Labour Organization), Motselisi Matsela (Commonwealth Secretariat), Rachel Morris (Organization for Economic Cooperation and Development), Ahmad Mukhtar (Food and Agriculture Organization of the United Nations), Annalisa Prizzon (Overseas Development Institute), Shyami Puvimanasinghe (Office of the United Nations High Commissioner for Human Rights), Jan Van de Poel (European Network on Debt and Development) and Frank van Rompaey (United Nations Industrial Development Organization), as well as the members of the report team and the following UNCTAD colleagues: Lisa Borgatti, Milasoa Chérel-Robson, Junior Roy Davis, Mussie Delelegn, Stefanie Garry, Ricardo Gottschalk, Penelope Hawkins, Michael Lim, Moritz Meier-Ewert, Alberto Munisso, Patrick Osakwe, Antipas Touatam Guendergue, Thomas van Giffen and Anida Yupari Aguado.

Anna Abalkina and Yury Zaytsev prepared a background paper for the report.

The UNCTAD Intergovernmental Support Service edited the text.

Nadège Hadjemian designed the cover. Carlos Bragunde, Nadège Hadjemian and Juan Carlos Korol designed the infographics. Juan Carlos Korol did the overall layout, graphics and desktop publishing.

Note

Material in this publication may be freely quoted or reprinted, but full acknowledgement is requested. A copy of the publication containing the quotation or reprint should be sent to the UNCTAD secretariat at:

Palais des Nations, CH-1211 Geneva 10, Switzerland.

The overview of this report can also be found on the Internet as a separate document, in all six official languages of the United Nations, at www.unctad.org/ldcr.

Main text

The term "dollars" ($) refers to United States dollars unless otherwise specified.

The term "billion" signifies 1,000 million.

Annual rates of growth and changes refer to compound rates.

Exports are valued "free on board" and imports, on a "cost, insurance, freight" basis, unless otherwise specified.

Use of a dash (–) between dates representing years, e.g. 1981–1990, signifies the full period involved, including the initial and final years. A slash (/) between two years, e.g. 1991/92, signifies a fiscal or crop year.

Throughout the report, the term "least developed country" refers to a country included in the United Nations list of least developed countries.

The terms "country" and "economy", as appropriate, also refer to territories or areas.

Tables

Two dots (..) indicate that the data are not available or are not separately reported.

One dot (.) indicates that the data are not applicable.

A dash (–) indicates that the amount is nil or negligible.

Details and percentages do not necessarily add up to totals, because of rounding.

Contents

Figures

Box figures

Boxes

Tables

Classifications

LEAST DEVELOPED COUNTRIES

Unless otherwise specified, in this report, the least developed countries are classified according to a combination of geographical and structural criteria. The small island least developed countries that are geographically in Africa or Asia are thus grouped with Pacific islands to form the island least developed countries group, due to their structural similarities. Haiti and Madagascar, which are regarded as large island States, are grouped together with the African least developed countries.

The resulting groups are as follows:

African least developed countries and Haiti:

Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Togo, Uganda, United Republic of Tanzania, Zambia.

Asian least developed countries:

Afghanistan, Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic, Myanmar, Nepal, Yemen.

Island least developed countries:

Comoros, Kiribati, Sao Tome and Principe, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu.

OTHER GROUPS OF COUNTRIES AND TERRITORIES

Developed countries:

Andorra, Australia, Austria, Belgium, Bermuda, Bulgaria, Canada, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Greenland, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom of Great Britain and Northern Ireland, United States of America, Holy See, Faroe Islands, Gibraltar, Saint Pierre and Miquelon.

Other developing countries:

All developing countries (as classified by the United Nations) that are not least developed countries.

What are the least developed countries?

47 countries

Forty-seven countries are currently designated by the United Nations as least developed countries. These are: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, the Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, the Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia.

Every 3 years

The list of the least developed countries is reviewed every three years by the Committee for Development Policy, a group of independent experts that report to the Economic and Social Council of the United Nations. Following a triennial review of the list, the Committee for Development Policy may recommend, in its report to the Economic and Social Council, countries for addition to the list or graduation from least developed country status. The following three criteria were used by the Committee for Development Policy in the latest review of the list in March 2018:

(a) A **per capita income** criterion, based on a three-year average estimate of the gross national income per capita, with an upper threshold of $1,025 for identifying possible cases of addition to the list and a lower threshold of $1,230 for possible cases of graduation;

(b) A **human assets** criterion, involving a composite index (the human assets index) based on indicators of: nutrition (percentage of undernourished population); child mortality (under-5, per 1,000 live births); maternal mortality (per 100,000 live births); school enrolment (gross secondary school enrolment ratio); and literacy (adult literacy ratio);

(c) An **economic vulnerability** criterion, involving a composite index (the economic vulnerability index) based on indicators of: smallness (logarithm of population); geographical exposure to shocks (index of remoteness); human exposure to shocks (share of population living in low-lying coastal areas); economic exposure to shocks (share of agriculture, forestry and fisheries in the gross domestic product; index of merchandise export concentration); natural shocks (share of victims of natural disasters in the population; index of instability of agricultural production); and trade-related shocks (index of instability of exports of goods and services).

For all three criteria, different thresholds are used for identifying cases of addition to the list of the least developed countries and cases of graduation from least developed country status. A country qualifies to be added to the list if it meets the addition thresholds on all three criteria and does not have a population greater than 75 million. Qualification for addition to the list effectively leads to least developed country status only if the Government of the relevant country accepts this status. A country normally qualifies for graduation from least developed country status if it has met graduation thresholds under at least two of the three criteria in at least two consecutive triennial reviews of the list. However, if the three-year average per capita gross national income of a least developed country has risen to a level at least double the graduation threshold, and if this performance is considered durable, the country will be deemed eligible for graduation regardless of its score under the other two criteria. This rule is commonly referred to as the "income-only" graduation rule.

In 2017, the Committee for Development Policy decided to undertake a multi-year comprehensive review of the criteria for identification of least developed countries, in accordance with a request Member States of the United Nations had made during the Comprehensive High-level Midterm Review of the Implementation of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011–2020, held in May 2016. According to the Committee for Development Policy, "possible refinements resulting from the comprehensive criteria review [will] become effective in 2021".

▶ 5 countries have graduated from least developed country status:

Botswana in December 1994, **Cabo Verde** in December 2007, **Maldives** in January 2011, **Samoa** in January 2014 and **Equatorial Guinea** in June 2017.

In a resolution adopted in December 2015, the General Assembly of the United Nations endorsed the 2012 recommendation of the Committee for Development Policy to graduate **Vanuatu**. In doing so, the General Assembly took into consideration the setback for the country triggered by Tropical Cyclone Pam in March 2015. The General Assembly decided, on an exceptional basis, to delay to December 2020 the graduation of Vanuatu from least developed country status.

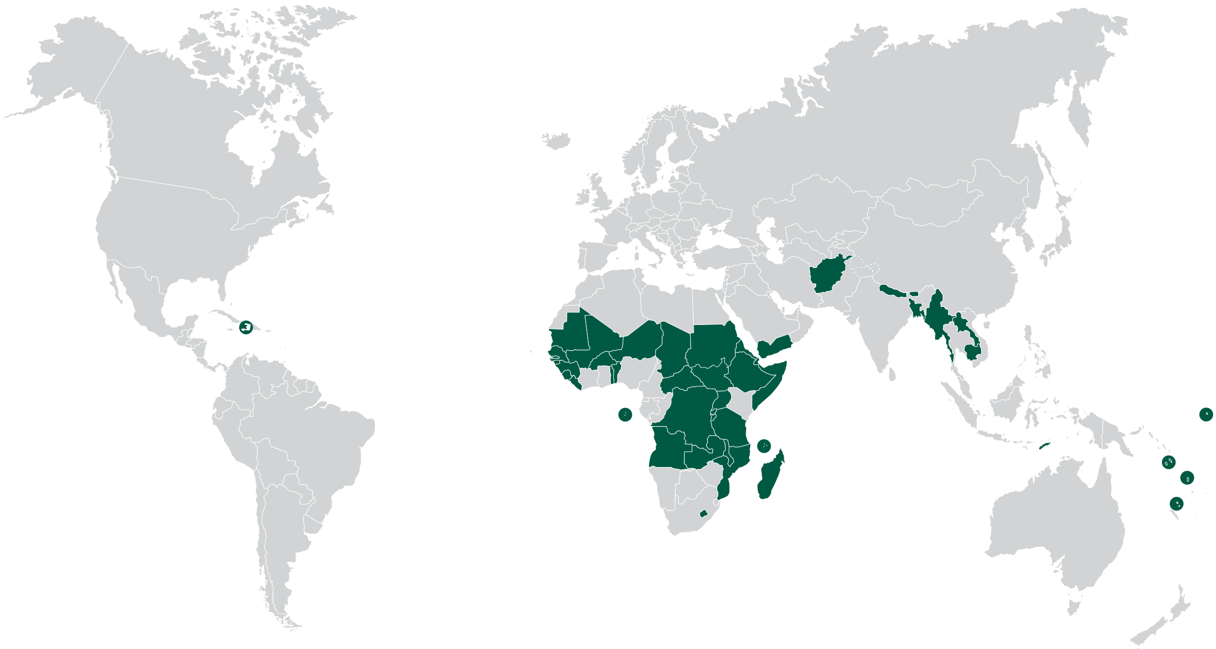
The 2015 recommendation of the Committee for Development Policy to graduate **Angola** was endorsed by the General Assembly in February 2016 through a resolution which set February 2021 as the date of the country's graduation from least developed country status. This decision was an exceptional measure to take into account the high vulnerability of the commodity-dependent Angolan economy to price fluctuations.

In a June 2018 resolution, the Economic and Social Council recalled the Committee's 2012 recommendation to graduate **Tuvalu** from least developed country status and deferred, to "no later than" 2021, the Economic and Social Council's consideration of the question of the country's graduation. In the same resolution, the Council also deferred its consideration of the graduation of **Kiribati** to "no later than" 2021, after the Committee for Development Policy recommended reclassification of Kiribati, to graduate from least developed country status, in its March 2018 review of the list of the least developed countries.

Also recommended for graduation in the 2018 review of the category were **Bhutan**, **Sao Tome and Principe** and **Solomon Islands**. The General Assembly endorsed these three recommendations in December 2018. At the same time, two least developed countries (**Nepal** and **Timor-Leste**) which the Committee for Development Policy found technically eligible for graduation, in March 2018 and for the second time, were not recommended for reclassification by the Committee after it accepted the plea made by these two States for deferred consideration in 2021 of the question of graduation.

Lastly, in the 2018 review of the list of the least developed countries, three Asian countries were found pre-eligible for graduation from least developed country status: **Bangladesh**, the **Lao People's Democratic Republic** and **Myanmar**. While the Lao pre-eligibility for reclassification is grounded in improved performance exceeding two of the three graduation thresholds, as in most previous graduation cases (per capita income and human assets), Bangladesh and Myanmar are the first historical cases of pre-qualification for graduation through heightened performance under all three graduation criteria (per capita income, human assets and economic vulnerability).

After a recommendation to graduate a least developed country has been endorsed by the Economic and Social Council and the General Assembly of the United Nations, the graduating country benefits from a grace period before graduation effectively takes place. This buffer period, during which the graduating State remains a least developed country, retaining eligibility for full least developed country treatment, is referred to by the General Assembly as the "preparatory period leading to graduation". It is granted by the General Assembly to enable the graduating least developed country and its development and trading partners to agree on a "smooth transition" strategy, so that the anticipated loss of least developed country status does not disrupt the socioeconomic progress of the country. A smooth transition measure generally implies extending to the graduated country, for a number of years after graduation, a concession the country had been entitled to by virtue of its least developed country status. Though the standard duration of the grace period was originally foreseen by the General Assembly to be three years in length, nearly all graduating States, over the past 15 years, have negotiated and obtained a grace period of greater length, of up to six years for some of them.



Abbreviations

DAC	Development Assistance Committee
FDI	foreign direct investment
GDP	gross domestic product
GNI	gross national income
ISO	International Organization for Standardization
HIPC	heavily indebted poor country
LDC	least developed country
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
UNCTAD	United Nations Conference on Trade and Development

Foreword

A formidable challenge facing the least developed countries is their dependence on external development finance. Their vulnerabilities imply higher investment needs to achieve the Sustainable Development Goals by 2030, but weak productive capacities shackle their financing efforts and dampen their capacity for mobilizing market-based sources of external development finance. As a result, levels of aid dependence in these countries remain among the highest worldwide.

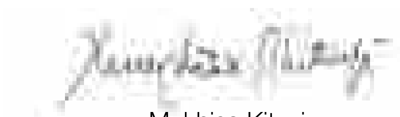
At a juncture when revitalizing international cooperation is as pressing as ever, *The Least Developed Countries Report 2019: The Present and Future of External Development Finance – Old Dependence, New Challenges* discusses the impact of the evolving development finance landscape on the world's poorest countries. In spite of all the talk about "leaving no one behind", attempts to redress long-standing flaws in the international financial architecture remain elusive, while the interests and needs of the least developed countries are poorly reflected in deliberations of the international community. Amidst heightened uncertainty and a decelerating global economy, this inaction leaves these countries with inadequate access to long-term development finance. Instead, their debt sustainability concerns loom large as external debt stocks and debt servicing surge, draining resources from development spending.

With multilateralism under fire and aid budgets under strain, official development assistance flows to the least developed countries have also slowed down considerably and remain far below the long-standing international commitments reaffirmed in the 2030 Agenda for Sustainable Development. Only a minor share of this assistance is channelled to economic infrastructures or productive sectors (15 and 8 per cent, respectively), and concessional financing terms for most of these countries have worsened.

Meanwhile, an increased focus on mobilizing private sector-led development financing has not helped the least developed countries to transition away from aid dependence. Amounts mobilized to date through incipient private sector instruments remain limited, and the deficit of transparency and accountability in development finance has widened. In addition, the blurring of concessional and non-concessional flows makes previously comprehensible aspects of official development assistance opaque, while undermining key pillars of the development effectiveness agenda: ownership, alignment, harmonization, managing for results and mutual accountability. This further undermines these countries' aptitude to concretely take responsibility for their own development plans.

Barely two years ahead of the Fifth United Nations Conference on the Least Developed Countries, *The Least Developed Countries Report 2019* makes a call to action for the international community to launch an "Aid Effectiveness Agenda 2.0", taking into account the realities of the evolving aid architecture.

It is my hope that the development policy community finds the proposals put forward in this report an invaluable contribution to unpacking the needs and interests of the least developed countries in pursuit of a revitalized Global Partnership for Sustainable Development that truly leaves no person, nor country, behind.



Mukhisa Kituyi
Secretary-General of UNCTAD

Overview

Sustainable Development Goals, structural transformation and financing for development

Dependence on external resources to finance fixed investment and, more generally, sustainable development is a crucial feature of the economies of the least developed countries (LDCs). Consequently, such dependence has a determining impact on the ability of these countries to reach their development goals, especially the Sustainable Development Goals and the objectives of the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action).

This report re-examines that dependence and contributes to development policy debates by showing the linkages between development goals, structural transformation, sustainable development and human rights. Human rights are scarcely mentioned in those debates, yet the connection is evidenced by the fact that both the objectives of the Istanbul Programme of Action and the Sustainable Development Goals aim at the realization of human rights in general and, specifically, of the right to development. While no single human right has ascendency over the various other human rights, the realization of the right to development creates an enabling environment for the realization of all human rights.

International cooperation, which is central to this report, is a key contributor to the realization of human rights. Specifically, the report concentrates on development aid, in the context of the broader topic of international cooperation for development, structural transformation and sustainable development. An "Aid Effectiveness Agenda 2.0", as proposed in this report, could contribute decisively to structural transformation through better management and delivery of aid. Structural transformation is, in turn, a condition for the realization of human rights — including the right to development — and the realization of the Sustainable Development Goals and objectives of the Istanbul Programme of Action.

LDCs have progressed too slowly towards achievement of their objectives under the Istanbul Programme of Action and of the Sustainable Development Goals, largely due to scant progress in structural transformation. Here, structural economic transformation is understood to mean the transfer of productive resources (particularly labour, capital and land) from activities and sectors of low productivity to those of higher productivity. One reason for this scant progress is the failure of the international community to create an international economic environment conducive to the structural transformation of LDCs.

Structural transformation plays a crucial role as an enabler of sustainable development. It is also a given that the financial resources available to LDCs are limited. In this report, therefore, the point is made that these countries and their development partners should sequence their policy and spending focus with an eye on the Sustainable Development Goals most relevant to structural transformation — Goals 7, 8, 9, 12 and 17 — initially receiving greater attention and resources. Rapid progress towards achieving these Goals is an enabler of the realization of the other Goals.

In terms of balance of payments, the reallocation of resources towards higher-productivity activities leads to expansion and diversification of exports and lower dependence on imported intermediates and capital goods (as domestic firms narrow their competitiveness gap vis-à-vis foreign suppliers). This gradually contributes to reducing current account deficits, by means of a dynamic relationship between exports, profit and investment.

The positive growth performance of LDCs since the global financial crisis of 2008/09 has not been sufficient for these countries to accelerate structural transformation or reduce dependence on external resources (i.e. foreign savings) to finance fixed investment and development. Despite a difficult international environment, LDC exports of goods and especially services have seen a significant expansion since the outbreak of the crisis. However, two negative developments overshadow this positive development for LDCs: (a) the very limited diversification or upgrading of their export baskets; and (b) the even more rapid expansion of imports (leading to widening current account deficits).

Domestic resource mobilization on a scale commensurate with the enormous investment needs of LDCs is not an option for them, due to their low income and high levels of poverty. By the same token, these countries have little ability to attract market-based forms of sustainable long-term financing.

LDCs' sluggish progress on structural transformation is reflected in persistent current account deficits. These deficits need to be financed by foreign capital inflows, hence LDCs' external financing needs and their dependence on foreign savings. From a balance of payments point of view, the main sources of external finance have traditionally been foreign direct investment (FDI), traditional official development assistance (ODA), resources arising from South–South cooperation, remittances, external debt and portfolio investments. More recently, blended finance and public–private partnerships have emerged as alternative sources. These different sources each have, however, a distinct development footprint, degree of alignment with a country's development strategies and consequences for external indebtedness.

The major source of external development finance for LDCs as a group is ODA, and the vast majority of these countries are dependent on ODA for their development finance. By contrast, for other developing countries, FDI is the most important source.

The state of LDC aid dependence depicted so far is worrisome per se. Moreover, such dependence has become even more challenging to LDCs as the aid landscape has changed considerably in recent years. The aid architecture has become more complex and less transparent since the early 2000s, which further challenges LDC policymakers' already constrained capacities to manage the financing of their sustainable development. The aid architecture has been transformed as a result of: (a) changes in the aid policies of traditional donors; (b) the declining role of non-governmental organizations and the emergence of new forms of private sector engagement; (c) the strengthening and broadening of South–South cooperation; (d) the entry of philanthropists; and (e) the development of new modalities and instruments of raising and delivering aid, such as blended finance and public–private partnerships.

The Least Developed Countries Report 2019: The Present and Future of External Development Finance – Old Dependence, New Challenges aims at answering the question of whether, and to what extent, available external resources are contributing to the structural economic transformation of LDCs. The report is intended as an input and contribution to the policy debate and deliberations of the forthcoming Fifth United Nations Conference on the Least Developed Countries, in 2021, leading to the adoption of a new plan of action for LDCs to guide policy actions and international cooperation until 2030.

Official flows and the evolving terms of aid dependence

Despite LDCs' respectable growth performance since the global financial crisis of 2008/09, their sizeable investment needs coupled with sluggish progress on the domestic resource mobilization front, imply that current account imbalances will likely persist — and possibly widen — over the medium term. This leaves LDCs largely dependent on external finance to sustain their much needed capital accumulation and redress long-standing infrastructure gaps. With their relatively small economic size and slow move away from commodity dependence, most LDCs remain unable to attract market-based resources commensurate with their financial needs. Indeed, for LDCs as a group, ODA disbursements continued to outstrip other sources of external finance in 2017. This is not to disregard the fact that sources of external finance other than ODA have gradually become more conspicuous, even for LDCs. Yet, FDI flows continue to be concentrated on a relatively few LDC economies – mainly resource-rich or large enough to attract market-seeking FDI. Also, remittances play a significant role in only about one third of LDCs. Moreover, with downside risks and uncertainties threatening the global economy, prospects for significant expansion in other sources of external finance remain grim.

As a consequence of these persistent challenges, levels of aid dependence among LDCs remain comparatively high by international standards, reflecting their heightened vulnerability, which justifies dedicated support measures from the international community. Yet this should not overshadow some improvements that have accompanied the recent growth spell, including in the aftermath of the global financial crisis of 2008/09. For instance, economic dynamism in most LDCs has been accompanied by declining levels of aid dependence, as the magnitude of aid flows declined relative to gross domestic product (GDP) or other macroeconomic variables (such as imports or gross fixed capital formation). For the median LDC, the ratio between ODA and gross national income (GNI) fell from 16 per cent in 1990, to 10 per cent in 2000 and, after picking up in the early 2000s, declined again to some 7 per cent in 2017. Nonetheless, whether relative to GDP or in per capita terms, ODA continues to play a key role for sustainable development financing in many of the smallest and most vulnerable LDCs, including many small island developing States and conflict or post-conflict States. This poses significant challenges not only for the current development finance of LDCs, but also for the future in the medium term. By then, it is expected that many of these countries will reach middle-income status (and possibly graduate) and face the so-called "missing middle of development finance" (i.e. the challenge of a middle-income country in the transition from aid to other sources of development finance).

The world's 47 LDCs received $52 billion worth of gross ODA disbursements — roughly 27 per cent of total ODA flows — as recorded by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). In addition, they received some $2.4 billion of other official flows (i.e. other State-to-State transactions that do not qualify as ODA because of insufficient concessionality or because their primary objective is not developmental). While other official flows may have been required to mobilize additional development finance, the scale of development financing, both globally and for LDCs, falls short of the ambitious levels required to achieve the objectives of the 2030 Agenda for Sustainable Development. Despite the arguably sizeable sums cited, in fact larger than FDI and remittances flows accruing to LDCs, they remain well below long-standing international commitments enshrined in Sustainable Development Goal target 17.2. Had DAC donors met the 0.15 per cent of donors' GNI target in 2017, net ODA disbursements to LDCs would have increased by $32.5 billion. If they had met the more ambitious 0.20 per cent target, these disbursements would have expanded by as much as $58.3 billion.

With the increasing pressure on aid budgets in the aftermath of the global financial crisis of 2008/09, ODA flows to LDCs have expanded only marginally since the Istanbul Programme of Action was adopted, increasing at 3 per cent per year, half the pace at which they had grown under the Brussels Programme, at 7 per cent. The interplay of stagnant ODA flows and sectoral allocation disproportionately geared towards social sectors and humanitarian activities (jointly accounting for 60 per cent of total disbursements) has left economic infrastructures and productive sectors critically underfunded. On average, these two areas, which constitute the backbone of the Aid for Trade initiative, accounted for 15 and 8 per cent of total gross disbursements, respectively. As a consequence, LDC efforts to redress infrastructure gaps and foster technological upgrading have hinged mainly on domestic funding and concessional and non-concessional debt.

The proportion of DAC donors' bilateral commitments to LDCs targeting gender equality, either as the principal or a significant objective, rose from 24 per cent in 2002 to 46 per cent in 2017. More than half of aid geared at gender equality is concentrated on social infrastructures and the services sector, mainly health and education.

Over the last few years, the level of concessionality has gradually decreased not only for developing countries in general, but also for LDCs. The rise in ODA gross disbursements to LDCs since 2011 is chiefly due to increased ODA loans, whereas grants have remained essentially stagnant, or even declined, for most of the 2010s. The proportion of loans in total ODA disbursements to LDCs increased by more than 10 percentage points between 2011 and 2017, surpassing 25 per cent in 2017, when it reached levels comparable to those of the early 2000s. The rising prominence of concessional loans in ODA disbursements touches virtually all LDCs and adds to an incipient use of other official flows. The decline in levels of concessionality is driven mainly by multilateral donors resorting increasingly to (non-concessional) loans, especially in relation to infrastructure investments and productive sectors.

Meanwhile, the aid effectiveness agenda — enshrined in the 2005 Paris Declaration on Aid Effectiveness — remains unfinished business, especially in terms of persistent volatility and unpredictability of aid flows, prevalence of tied or "informally" tied aid, fragmentation and limited ownership, needlessly stretching the absorptive capacities of LDCs. Similarly, the institutional capacities of LDCs come up against the development finance landscape's growing complexity and, consequently, the need to strategically engage a rapidly widening array of development partners, from traditional donors to South–South and triangular cooperation actors, to a range of private players supposedly acting in line with sustainable development objectives. The challenge of such task is heightened by growing diversification of the financial instruments utilized, which at times blur the distinctions between concessional and non-concessional finance or between private and official funds, potentially hampering adequate monitoring of different transactions. This makes the call for greater transparency all the more central, to ensure that the positive effects of the greater availability of instruments are not outweighed by the strains imposed on absorptive capacities.

The remarkable intensification of South–South and triangular cooperation, and broadening of related partnerships, potentially expands external finance options available to LDCs, continues this reshaping of the development finance landscape and contributes significantly to spurring sustainable development. South–South cooperation is already having a visible impact on infrastructure financing and, among other areas, technical assistance, support for productive sectors and knowledge and technology transfer. As LDCs learn how best to harness synergies and complementarities across partners, and as their economies become more closely integrated at the regional level (e.g. through the African Continental Free Trade Area), cooperation and economic integration within the global South could become even more valuable. Challenges remain, however, most importantly in terms of regional imbalances in access to development finance, the need for increased transparency in concessional and non-concessional lending and the additional complexity that growth in South–South cooperation brings to LDCs' aid management and coordination.

In a context of heightened uncertainty and persistent financial instability, the challenges underpinned by the interplay of these trends are compounded by a worsening debt sustainability outlook. While in itself LDC access to concessional finance might be a positive sign – and indeed typically goes hand in hand with the capacity to raise additional non-concessional resources, the sharp rise in LDC external debt stock raises serious concerns for the sustainability of their indebtedness. The total stock of external debt for LDC more than doubled between 2007 and 2017, from $146 billion to $313 billion. Moreover, whereas the weight of concessional debt in total LDC external debt declined steadily between 2004 and 2015, this process came to a halt as interest rates in developed countries began their rebound. Since then, non-concessional lending has largely cooled off, whereas the expansion of concessional debt stock has accelerated further. The shifting modalities in ODA flows to LDCs only make a holistic reassessment of debt sustainability and related systemic issues even more urgent.

If external debt financing inevitably represents a key element of any sustainable development strategy in LDCs, the main policy challenge is how to harness such instruments while minimizing associated risks, such as increasing costs for debt servicing which takes resources away from allocating to investments related to the Sustainable Development Goals. The scale of this challenge can be easily gauged. Even by focusing only on public and publicly guaranteed external debt — which, in the case of LDCs, accounts for some 78 per cent of total external debt stock — debt service has more than doubled since 2010, jumping from $6.2 billion to $13.2 billion in 2017. For LDCs as a group, the debt service burden exceeded 6 per cent of exports of goods and services and primary income in 2017 (with several individual LDCs at double-digit rates), approaching levels last seen before the onset of the debt relief initiatives of the early 2000s. This trend also reflects the fact that the composition of LDC external debt has gradually shifted towards more expensive and riskier sources of finance, including a growing share of external debt at variable interest rates. Although concessional debt still accounts for nearly two thirds of LDC debt stock, the importance of commercial creditors and of bilateral non-Paris Club creditors have both been on the rise, which could have profound implications on debt servicing, debt rollover risks and – potentially – the costs of negotiating any restructuring.

As of May 2019, of the 46 LDCs covered by the Debt Sustainability Framework of the World Bank and International Monetary Fund, 5 were in debt distress (the Gambia, Mozambique, Sao Tome and Principe, South Sudan and the Sudan) and 13 more were classified at high risk of debt distress (Afghanistan, Burundi, the Central African Republic, Chad, Djibouti, Ethiopia, Haiti, Kiribati, the Lao People's Democratic Republic, Mauritania, Sierra Leone, Tuvalu and Zambia). Equally worrying is that most of these LDCs had received debt relief only 10–15 years earlier, under the Heavily Indebted Poor Countries Initiative or the Multilateral Debt Relief Initiative.

This points to the fact that LDCs have a considerable stake in discussions related to so-called systemic issues, notably development financing, international liquidity and debt sustainability. Economically, their weight might be marginal when assessed on a global scale, but the terms of their integration into the global market are profoundly affected by the relevant measures the international community agrees on. It is thus all the more important that LDCs' interests are adequately considered and reflected in global forums for debating systemic issues.

Private development cooperation: More bang for the buck?

In the face of the ambitious 2030 Agenda for Sustainable Development, donors have turned to the for-profit private sector to supplement the widening gap in official development finance vis-à-vis the heightened financing needs generated by the pursuit of the Sustainable Development Goals. The intention is to scale up investment projects that have an impact on the Goals in cases where the opportunity for private investors (domestic and foreign) may not be clear cut. The DAC is now pursuing a strategy of private sector engagement using private sector instruments and new financing windows to leverage private investment in the Sustainable Development Goals in developing countries based on financial additionality, i.e. an investment that would not have materialized without the official sector's involvement. Donors are tempted to label any investments in LDCs that combine concessional and private finance as additional.

This turn towards the private sector implies sacrificing the long-standing portrayal of ODA as inherently concessional and reserved exclusively for developing country Governments and citizens in poor countries. In addition to introducing commercial financial techniques and instruments into ODA, the donor private sector engagement agenda adopts an array of related jargon for which there are no universally agreed definitions. These are understood and applied in different ways by an expanding cast of development actors. One of the central aims of ongoing modernization of ODA by DAC is to incentivize donors to intensify their private sector engagement, including in LDCs.

The role of the private sector is perhaps most controversial in development cooperation. In the business case made to support a dominant role for the private sector, the private sector is praised for being more efficient, capable and innovative than traditional development actors. The hypothesis is that the private sector embodies the relief that developing country Governments, overburdened by risk and debt, desperately need. The perception is that the private sector has a unique ability to deploy innovative and inclusive business models and new technologies to address the needs of poor consumers.

Supporters of this view consider it possible to distinguish two categories of private investment:

(a) Private investment mobilized using international and domestic public funds to support sustainable development;

(b) Commercial private investment (such as FDI).

The main issue with such distinctions between categories of private investment is that it is very difficult to operationalize in the real world. Advocacy on institutional approaches and policies on private sector engagement has not been matched so far by clarity on important aspects such as the criteria for distinguishing these two categories. The framework for the operationalization of donor private sector engagement remains provisional and effectively ill-defined. More worrying, issues of interest to ODA recipients and the risks of private sector involvement in aid get limited attention.

One element of donor private sector engagement that has captured the imagination of donors is leveraging ODA to mobilize significantly greater amounts of private finance for investment in the Sustainable Development Goals, which has led to the catchphrase “billions-to-trillions”. Blending complements and engages a variety of sources of finance, including but not limited to the for-profit private sector.

Donor private sector engagement is intended to operationalize this characterization of essentially benevolent private sector investments for the good of society with the backing of official support. Donors have accordingly embraced commercial practices and instruments and agreed provisional arrangements to advance standardized treatment and reporting of practices not previously eligible as ODA and help mobilize additional private development finance, under a concerted programme of private sector engagement. Private investment has thus become a central component of the Global Partnership for Sustainable Development.

A logical assumption is that the development-conscious role envisaged for the private sector differs markedly from unilateral sustainable actions increasingly adopted by business to incorporate the Sustainable Development Goals into business strategies. Motivated by a variety of business interests, sustainable actions can take a variety of forms, ranging from defensive (in response to market competition), charitable (as part of corporate social responsibility), promotional (linked to marketing), strategic (seeking investors), to transformative (targeting development impact). A further challenge is that business has significant leeway in how it markets its sustainable actions, as such marketing can be mistaken for deeper engagement. Monitoring frameworks for sustainable business actions are multiplying, but they remain non-binding.

The private sector engagement and blended finance agendas are closely linked to the public–private partnership agenda and regulatory reforms typical of the bygone public–private partnership era, pursued especially by multilateral development finance institutions. The implication is that the lessons from the structural adjustment era of the 1980s and 1990s have either not been learned or are not being heeded.

To some extent, donors (or their agents) engage in “picking winners” deemed worthy to receive the embedded subsidies of ODA-backed private sector instruments, which ultimately amounts to a sort of transnational industrial policy initiated and financed by donors that takes place in countries benefiting from aid. The assumption is also that the balance of risks and rewards for all private sector investments can be known in advance.

ODA recipients were not effectively party to the decision-making processes that led to ODA reform. Unlike the expectations and authority vested in business to act on behalf of developing countries, the mechanisms to hold the private sector accountable to recipients of ODA, for which the sector will effectively act as a proxy, remain unclear. At the core of the issue are the right to development, sovereignty and the very fabric of the concept of democracy and the social licence it confers on Governments.

Despite the original high hopes, mounting evidence on low leverage ratios are attracting increased scepticism of the business case for use of scarce official public development finance in private sector engagement. The amount of capital mobilized from the private sector and channelled to LDCs totalled $9.27 billion in 2012–2017. LDCs accounted for 6 per cent of the capital mobilized, equivalent to only 5.8 per cent of the volume of ODA disbursed to LDCs. Moreover, distribution of that capital across LDCs is uneven and concentrated in a few countries. The top three recipients accounted for nearly 30 per cent of all additional private finance, while the top 10 countries, for almost 70 per cent. This evidence confirms LDCs' continued need for official development finance. Private sector engagement and blended finance are unlikely to compensate for the structural difficulties that many LDCs confront in attracting private capital. It is not realistic to expect the private sector to be the main source of development finance in LDCs.

The sectoral distribution of mobilized private capital also shows a concentration in revenue-generating sectors in LDCs, especially energy, banking, financial services, industry, mining and construction. These are sectors that would in any case be likely to attract commercial finance, which puts into question the role of blending.

Nevertheless, donors' enthusiasm for this approach has not waned. Still, the lack of standard definitions and methodologies to estimate the amounts mobilized adds further controversy, similar to other areas of the changed development finance landscape. The main challenges of leveraging are difficulties in attracting some classes of investors (e.g. institutional investors), as the blended finance market is dominated by public players (in effect, public–public blending, contrary to the original intention behind blending of leveraging considerably greater amounts of private finance).

Opportunities and challenges around the initiation of private sector-led development action and its deployment in LDCs has raised concerns because of possible adverse consequences. First, such action could adversely affect local private sector development. Second, it could flout accepted principles of development effectiveness. Third, it means subsidizing the private sector of donor countries. Strategic interests threaten to undermine development policy and development impact. Changes to the ODA architecture also shift the balance of power between and across an ever-expanding cast of development actors. The aid sector, traditionally dominated by bilateral and multilateral donors and financial institutions, recipient Governments and civil society organizations, is being disrupted by the private sector, philanthropists and many other actors branching out into the area of aid. The clout of these actors is growing, displacing the power relations of actors of the traditional aid architecture. The roles played by philanthropy, the private sector, civil society and donors have become blurred. In addition, different actors' interests and perspectives on development often do not converge. Moreover, the greater emphasis of donors on private sector instruments leads to lower levels of transparency (as compared to traditional ODA), due to commercial confidentiality in matters linked to the private sector.

While global solidarity around the Sustainable Development Goals is based on the concept of shared value, the relationship between value and strategic interests is not free of tensions. It is generally accepted that national interests are a permanent feature of development cooperation. Nationalist–populist sentiment in many donor countries leads to advocating for greater use of aid to serve strategic national and short-term oriented interests. Headline issues include security and migration, geographic focus and how much aid should go to more advanced developing countries.

The quality of partnerships that LDC Governments will be able to broker with the private sector and other stakeholders thus becomes a key area of concern. LDC Governments are typically constrained in their ability to fulfil their traditional roles, including that of stewarding the development process, due to limited institutional State capacity. But this should not become an excuse to relegate them to the role of bystander. A more constructive attitude by donors would be for donors themselves to contribute to addressing the problem of LDC capacity for aid absorption (and broader aspects of State capacity), rather than accepting shortcomings as a standard. Such a change in attitude could better entrench sustainable development in the long term.

Donors increasingly delegate the task of operationalizing the use of ODA-backed private sector instruments to their development finance institutions. Bilateral development finance institutions operating as State-owned risk capital investment funds have sometimes been characterized as the "third pillar" of international development cooperation, alongside donors and multilateral development banks. Development finance institutions today look to achieve financial results alongside development impact. They invest using their reinvested profits, subventions from their Governments (ODA) and amounts mobilized from their own blending activities. The assets they manage have more than doubled since 2012. At present, flows linked to private sector instruments account for only about 2 per cent of total bilateral flows to developing countries as a group, with grants occupying a dominant position, at 89 per cent. Still, donor countries project to expand the role for these institutions and private sector instruments in developing countries, including in LDCs.

All development finance institutions included in a sample of major institutions of this type list infrastructure (including, energy and communications) as a priority sector, with agriculture or agro-industry also a common priority. They made far fewer investments in social sectors. Achieving greater distribution of private investments across LDCs and their underinvested sectors is an important factor to substantiate the rationale for ODA-backed private sector instruments and the operations of such institutions in LDCs. However, greater distribution is not assured unless these institutions better orient their business models to emphasize high-risk investments with inherently longer gestation periods in LDCs.

Differentiating among LDCs, those with favourable market odds could stand to benefit from private sector engagement. High population, urbanization and middle-class growth rates in LDCs will tend to attract investor interest, but LDCs with smaller markets and higher rates of poverty can be expected to lose out.

There is little evidence that the approach of development finance institutions takes account of the wider context in which they operate in LDCs. There is limited indication of their systematic interaction with LDC Governments or that they structure investment in line with specific components of LDC development plans. Consequently, development finance institutions typically do not set specific targets to address goals according to specific strategies presented by recipient Governments. In other words, there is little evidence of alignment with beneficiary country development priorities. Consultations envisaged with recipients are either promotional in nature, focused on adherence to international standards of interest to investors or, alternatively, aim at influencing regulatory reform in the interests of investors from donor countries.

Ownership information of development finance institution investees is often hard to find and presented in an opaque way. No targets are pursued to achieve a balance of ownership between foreign and indigenous private sectors. This runs counter to evidence that local ownership confers developmental advantages, not least, the opportunity to achieve a more balanced spread of investment and employment creation capacity across a broader spectrum of sectors in an economy. Moreover, local ownership affords citizens the opportunity to accumulate the necessary assets to overcome intergenerational poverty and grow an endogenous base for sustainable development.

Development finance institutions do not design development projects – they accept applications for funding from business whose investment projects carry the prospect of financial returns for these institutions. Their business model, consequently, is disconnected from country development plans, and the type of development finance institution investment shapes the type of development impact that is achievable. Development finance institutions do not display an appetite for high risk, prioritizing instead investment circumstances with a probability of success higher than 80 per cent, regardless of an investment's capacity for transformative impact.

The nature of development finance institution operations, including the need to minimize costs and make profit on investments, favours larger enterprises and foreign over local entrepreneurs. This is of concern because of the inherent inequality between indigenous and foreign firms, the impact of the composition of firms on local market structure and the ability of indigenous entrepreneurs to compete in the most profitable segments of their home markets. Investees of these institutions are often domiciled in jurisdictions that are advantageous for taxes.

These institutions' business model also implies that the space for LDC Governments to undertake and coordinate industrial policy is shrinking. ODA recipient States, though charged with the primary responsibility for achieving the Sustainable Development Goals by the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, have been given a secondary role in decision-making on private sector engagement.

Furthermore, accountability frameworks for achieving development impact are generally not well developed, and there is little evidence that development finance institutions consult States systematically. Development finance institutions are accountable to their own Governments, while their investees are accountable to these institutions. Transparency in development finance institution activities is complicated by recourse to claims of commercial secrecy. Indeed, even the degree of government oversight over these institutions varies.

Development finance institutions officially aim at financial and development additionality, but these are difficult to measure, and evidence on both is scant. Consequently, these institutions rely on making assumptions and engaging in estimations when striving to gauge their development impacts. The main development impacts they purportedly seek are:

- **Job creation.** While the direct impact on job creation in LDCs is recognized, the impact on job quality is not clear, and private sector engagement risks perpetuating or creating work poverty.
- **Access to finance.** Evidence suggests that development finance institutions tend to favour larger companies (especially those with a share or majority of foreign capital), rather than small and medium-sized enterprises. The apparent bias might not be a bad thing, if it delivers systemic gains from "high-impact" firms and entrepreneurs whose contribution to structural transformation is more assured than other types of entrepreneurship prevalent in LDCs. Investing in large companies is not in and of itself negative for structural transformation. However, as noted in *The Least Developed Countries Report 2018: Entrepreneurship for Structural Transformation – Beyond Business as Usual*, the central aim of national entrepreneurship policies is to encourage a balanced ecosystem of enterprises of all sizes. Nevertheless, it might disadvantage domestic high-impact microentrepreneurs that already have difficulties in accessing loans for small and medium-sized enterprises.
- **Local ownership.** Development finance institutions emphasize the importance of investor local operations but are largely silent on the issue of local ownership.

ODA reform and, in some cases, a single-minded focus on the private sector of some approaches to Sustainable Development Goal implementation has brought to the fore the widening deficit of accountability in international development finance. The blurring of concessional and non-concessional flows triggered by ODA reform has made previously comprehensible aspects of ODA opaque.

How dependence on external development finance is affecting fiscal policies

Critical to achieving the Sustainable Development Goals in LDCs are the domestic public resources needed for public investments and services to sustain economic transformation and eradicate poverty and hunger. Strengthening domestic public resource mobilization is critical to closing development financing gaps and lowering the pressure on public debt. However, persistent structural deficits and balance-of-payments problems among LDCs suggests a greater need for ODA to supplement domestic public resources. The pace of implementation of the Sustainable Development Goals and the quality of results will also depend on synergy between external and domestic public resources.

Tax capacity, as measured by a tax revenue-to-GDP ratio, has increased tremendously among LDCs, from an average of 11 per cent in 2000 to 19 per cent in 2017. The median tax revenue-to-GDP ratio for LDCs reached the 15 per cent mark in 2011, widely regarded as the minimum threshold necessary to support sustainable growth and development. In many LDCs, however, tax revenue still amounts to less than 10 per cent of GDP. Most LDCs operate below tax capacity, though Benin, Burkina Faso, Kiribati, Lesotho, Malawi, Nepal and Togo have consistently operated close to full tax capacity. Moreover, countries such as the Gambia, Kiribati, Liberia, Nepal, Rwanda and Timor-Leste have achieved improvements in tax administration — including compliance —that has helped them to better link tax revenue to economic activities.

Over the years, the composition of taxes among LDCs has shifted significantly, from deriving mainly from duties on international trade, to coming from broadly defined consumer and income taxes. Consumer and income taxes amounted, on average, to 32.4 per cent and 23.5 per cent of tax revenues in 2017, respectively.

The main factors constraining the tax potential of LDCs include tax evasion, the relative size of the informal economy compared to the formal economy, weak tax administration systems, corruption, illicit financial flows and underperforming public policy and institutions. Moreover, low levels of GDP and of economic diversification limit the extent to which LDCs can further increase net revenue from taxes on income, profits, and goods and services. Still, efforts to strengthen domestic resource mobilization need to be undertaken.

Fiscal reforms in LDCs should carefully weigh the welfare implications of new taxes or review existing tax components. The focus should be on comprehensively reviewing the tax base, improving tax administration systems, closing loopholes, simplifying the tax system, removing ill-designed tax incentives and tax holidays that fail to balance foreign interests with local enterprise development requirements, and providing adequate tax information to the public. Building fiscal spaces requires a series of budget cycles over which LDCs should cumulatively align fiscal reforms with broader structural transformation objectives. Curbing illicit financial flows has the potential to boost revenue, as such flows averaged an estimated 5 per cent of LDC GDP in 2015. Combating them requires international tax cooperation and enhanced national capacity of regulatory and tax administration bodies to track, stop and prevent illicit activities that drain resources and reduce the tax capacity of LDCs.

Aligning public expenditure with a structural transformation agenda is as strategic as mobilizing domestic and external resources to finance the Sustainable Development Goals. The link between external finance and various categories of public sector expenditure is critical, particularly how external finance impacts the quality of public financial management institutions and their ability to generate domestic resources. The relationship between traditional ODA and domestic fiscal effort is complex and context specific. Traditional ODA can support or undermine domestic fiscal effort, depending on how aid is delivered and targeted, and how and to what extent recipient countries manage that aid. Creating synergy between ODA and domestic resource mobilization thus depends on sectoral allocation of ODA and the impact of aid on tax effort and public expenditure.

Building the productive capacities of LDCs requires scaling up capital accumulation, through both public and private investment. Despite concerns about volatility of allocations, ODA would in fact have a positive impact on economic growth when used directly in productive activities, e.g. aid earmarked for improving public services and the physical and social infrastructure of a recipient country: transport, communication, energy, water, banking, industry, health, education and population. In most LDCs, tax revenue and ODA fall short of desired public expenditures. The divergence between ODA and public capital expenditure has risen sharply from $3.5 billion in 2006, to $92.6 billion in 2017.

Both capital expenditure and current expenditure in LDCs have seen a rapid increase. However, as evidenced by the short trend between 2014 and 2017, capital expenditures decline faster during a recession than current expenditures and recover sluggishly during economic recovery. There is thus a limit to growth based on the expansion of government spending focused on physical and social infrastructure. This is particularly the case if there are no measures to complement domestic resources, including strategies to better align ODA with the priorities of LDCs. Growth is also limited by the absence of domestic policies to crowd in the private sector, which offsets the impact of an expanded Government. A worrying trend is the growing gap between tax revenue and public expenditure, whereas ODA has remained relatively unchanged over the years. Government budget deficits have steadily widened from an average of 1.8 per cent of GDP in 2013, to 3.6 per cent in 2018.

Tax revenue to government expenditure ratios remained relatively high among LDCs between 2002 and 2017, while ODA as a share of GDP has gradually declined from about 16 per cent to 11 per cent over the same period. This implies that most government priorities were financed by domestic resources. However, donor aid and tax revenue are each equivalent to at least two thirds of government expenditure. This implies the existence of parallel donor structures that are bypassing national systems. ODA was less than 30 per cent of government expenditure only in a few countries between 2009 and 2017, including Angola, Bangladesh, Bhutan, Lesotho, Myanmar, the Sudan and Yemen. LDCs that received aid equivalent to more than 50 per cent of government expenditure but having similarly high tax-revenue to government-expenditure ratios faced significant aid diversion problems.

Fragmented modalities of traditional ODA create and sustain "independent bureaucracies" in both source and beneficiary countries. Parallel donor structures do not have a clear mapping to fiscal accounts on both the revenue and the expenditure side. Developing ODA-recipient countries whose aid is broken up into projects exhibit worse fiscal outcomes than those with streamlined ODA. Overcoming structural bottlenecks and better alignment of donor and national priorities, through a substantial shift away from projects to more programmatic forms of aid that use national systems and reduce donor overlaps, could improve domestic resource mobilization.

Aid coordination and aid effectiveness have re-emerged as topical issues in development financing, as the number of players has increased tremendously and due to the scant level of implementation of the aid effectiveness agenda. The purpose of donor coordination is threefold: (a) ensuring integration of external development assistance with the priorities of recipient countries; (b) asserting recipient countries' responsibility for national development agendas; and (c) ensuring that any external support adheres to the strategic objectives of national development agendas. LDCs need strong aid coordination strategies, institutional and human capacities and proactive foreign policies that cement the role of national systems over national development. In this report, therefore, it is recommended that donors streamline the aid delivery process to strengthen national systems and thus ensure effectiveness and alignment of donor support with national priorities.

Where aid coordination is institutionalized, a clear mapping exists between national development strategies, external support received through policy on international cooperation and national budget aggregates. A country's aid coordination mechanism is deemed successful when it gathers donors support to one sectoral programme, rather than to separately conceived donor projects within a sector. LDCs such as Rwanda and the Lao People's Democratic Republic have achieved strong progress in aid management and donor coordination.

A focus on narrow sectoral themes is, instead, common among bilateral donors. With less than 10 per cent of total aid receipts of LDCs making use of the budget support aid modality, the aid process remains a donor-centric affair despite the target of the 2005 Paris Declaration on Aid Effectiveness of increasing this type of aid. More than two thirds of total ODA from DAC member countries are provided bilaterally and mainly through project-type interventions. Aid disbursements are weakly associated with national development priorities in LDCs, mainly because aid is delivered in a way that falls outside the policy frameworks of recipients. However, a positive correlation between revenue and aid, and between aid and domestic debt, shows the positive complementary impact of aid when it is fully supportive of national priorities, as has been the case in Rwanda in recent years.

A country-owned institutional approach for aid coordination places high value on country ownership. As intended by the Paris Declaration, alignment in the context of external support refers to the use by donors of partner countries' national development strategies, institutions and procedures and a commitment to contribute to strengthening recipients' capacities. As budget support to LDCs remains fragmented, and less inclined towards developing productive capacities, there is a need to improve coordination of programmatic interventions to avoid a selective focus, misalignment and wasteful allocation of donor support to non-performing sectors.

A critical component of inefficiency in aid allocation arises from the static way in which aid is structured over time, as opposed to changing national priorities.

Several basics of development policy remain relevant for LDCs, including the need for better policies and institutions, diversification and structural transformation, development-oriented public financial management, alignment of external support to national priorities and incrementally raising the profile of domestic resource mobilization to reduce aid dependence. ODA should, however, continue playing a catalytic role in financing development in LDCs.

Policies to enhance the developmental impact and effectiveness of external development finance

Strengthen State capacities to steer structural transformation and its financing. The Addis Ababa Action Agenda affirms that the central responsibility for economic and social development lies with each country. This means national States have a central role in guiding the pursuit of the Sustainable Development Goals. State capacities of LDCs therefore need to be strengthened, especially the related competences to design and implement development strategies and to perform the long-term planning, execution and management of financial resource mobilization for sustainable development. To enhance the development policymaking capacity of LDCs, partners can set up capacity-building and training programmes for LDC policymakers in the areas of development planning, financial analysis, awareness and understanding the evolution of the aid architecture.

LDC partner countries can strongly contribute to building State capacity in LDCs through elimination (or at least attenuation) of features of the current aid architecture that weaken States. Overall, this is related to the tendency to create a vicious circle between aid dependence and weak State capacity. Specifically, exclusion of LDC Governments from different aspects of delivering and using aid weakens capacity in two key areas:

- LDC Governments are often excluded from decision-making in matters which directly and significantly affect development, such as aid allocation or decision-making on private sector engagement projects and operations. Such exclusion prevents LDC Governments from learning-by-doing in the process of development policymaking.
- When traditional donors establish or use a parallel system of aid delivery, this has the pernicious effect of weakening State capacity by excluding LDC States from policy implementation and causing brain drain from the State bureaucracy to donor-established parallel structures.

LDCs are advised to establish a unit or function in charge of the long-term financial planning of national development plans and to establish domestic systems and an accountability framework. These will allow them to, first, learn how to best harness complementarities and synergies across development partners and engage them in the most effective manner, while retaining ownership of their own development agenda. Second, such a policy could help LDCs to put in place a strong measurement and monitoring framework to better measure concessional resources obtained and gauge the development footprint of an increasingly complex array of transactions. These transactions involve both official and private actors, as well as official external sources from developed and developing countries.

Revamp international development partnerships and build up aid management systems. Given the increasing complexity of the evolving aid system, LDCs need to adopt policies vis-à-vis donor countries and the non-State actors – public or private – of the new aid architecture. Together with donor countries and non-State actors, LDC Governments need to review the terms and modalities of their development partnership. Partnerships should be (re)shaped around the following precepts: national ownership; alignment of projects and activities with national development plans and priorities; mutual accountability; transparency; mutually agreed methodology and measurement to evaluate the development impacts of foreign finance for development; standards of efficiency of financial resource disbursement, allocation and use; and, finally, mutually agreed mechanisms to monitor the implementation of these precepts.

While some of the precepts listed above were already present in the discussions around the traditional aid effectiveness and incorporated into the Paris Declaration on Aid Effectiveness, these precepts refer not only to the relationships between LDCs and traditional donors, but also to non-State agents such as philanthropic organizations and non-governmental organizations. This does not however mean subjecting all partners to the aid effectiveness agenda in the same way. There should be common precepts for all actors, but implementation of those precepts, and their corresponding mechanisms, should be differentiated according to types of players of the new aid architecture. The reason for this differentiated implementation is that there are fundamental qualitative differences in the relationship between LDCs and the various sources of external finance.

Traditional donors and recipient countries – including LDCs – should agree on an Aid Effectiveness Agenda 2.0, as is proposed in this report. This Agenda 2.0 should comprise two components. The first component would aim at addressing the unfinished business of the original aid effectiveness agenda. This includes the need for donors to implement previous commitments on the volume of ODA. It is of paramount importance that traditional partners deliver on long-standing commitments and ODA targets, reaffirmed in Sustainable Development Goal target 17.2, both in relation to LDCs and developing countries at large. This would bring between $32.5 billion and $58.3 billion to LDCs in additional inflows of development finance. Moreover, it would also involve donors fully implementing their commitments under the Paris Declaration and the subsequent policy documents agreed between traditional donors and beneficiary countries, including on ownership, alignment and additionality.

The second component of such an Aid Effectiveness Agenda 2.0 would address the challenges that emerge from ongoing changes in the aid architecture. These include, first of all, collaborating on private sector engagement in development cooperation. Recipient Governments and beneficiaries have so far not been an effective party to the ODA modernization process and to the design of the private sector engagement in development cooperation. Donors could create a platform for joint decision-making with recipient countries on a range of issues, such as methodologies, standards of transparency, expediting decisions on the unfinished business of aid modernization and reaching a common understanding on private sector engagement.

A second challenge is enhanced transparency in project selection and implementation, which can be achieved by proactively delineating the scope and limits of the public and the private sectors' roles in the delivery of public services, and putting in place the necessary institutional frameworks, laws and regulations to align private sector engagement with national development priorities and goals.

Third, the new aid architecture should contribute to the development of the LDC endogenous entrepreneurial base. Fostering local entrepreneurship can have major developmental impact and is a critical part of inclusive and sustainable economic development. LDC Governments need to be proactive in private sector engagement, in ways that define the role and space for the local private sector and its interface with the foreign private sector, and structure investment incentives in domestic economies accordingly. Specifically, LDC Governments can consider identification of strategic national interests (or sectors) in their economies; preservation of the necessary space for local private sector participation in the most profitable segments of their economies; exploration of innovative ways to enhance linkages with FDI; and revisiting entrepreneurship strategies in line with the contribution of different types of entrepreneurship to structural transformation and wealth generation.

A fourth challenge is to build international consensus on a development impact evaluation framework, agreed by the various actors of the new aid architecture.

South–South cooperation has evolving dynamics where learning by doing is happening on both sides of bilateral (or triangular) cooperation. For South–South cooperation to further enhance its developmental impact on LDCs, projects and financing flows need to be expanded and bilateral policy dialogue, deepened, while continuing to adhere to the well-established principles of South–South cooperation, especially those of respect for national sovereignty, national ownership and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit. Discussions are ongoing to build upon existing country-level efforts to improve transparency and monitoring of the sustainable development footprint.

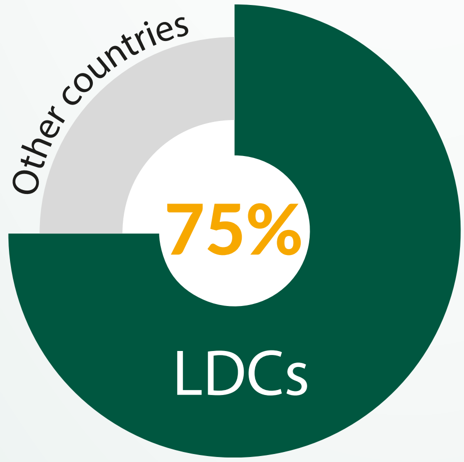
Bolster LDC fiscal systems. LDCs need to further strengthen their fiscal capacity as this gradually reduces aid dependence, strengthens the ownership of their development policies and strengthens their negotiating position vis-à-vis external sources of financing. This can be achieved by building up the institutional and human capacities of LDC States for revenue collection and expenditure allocation.

LDCs can typically expand their tax base by tapping into revenue and wealth sources that they traditionally tax very lightly, such as natural resources, urban property and luxury consumption. Other revenues can be raised by closing loopholes and exemptions given to transnational corporations and expatriates. Moreover, the development of a new aid architecture and the substantial increase in the number of agents active in the economy of LDCs implies other potential sources of taxation that should be considered but are typically neglected. These include levying income taxes on private sector engagement projects and aid workers and closing ODA loopholes and tax exemptions. LDC States should also have a share of the profits of public–private partnerships.

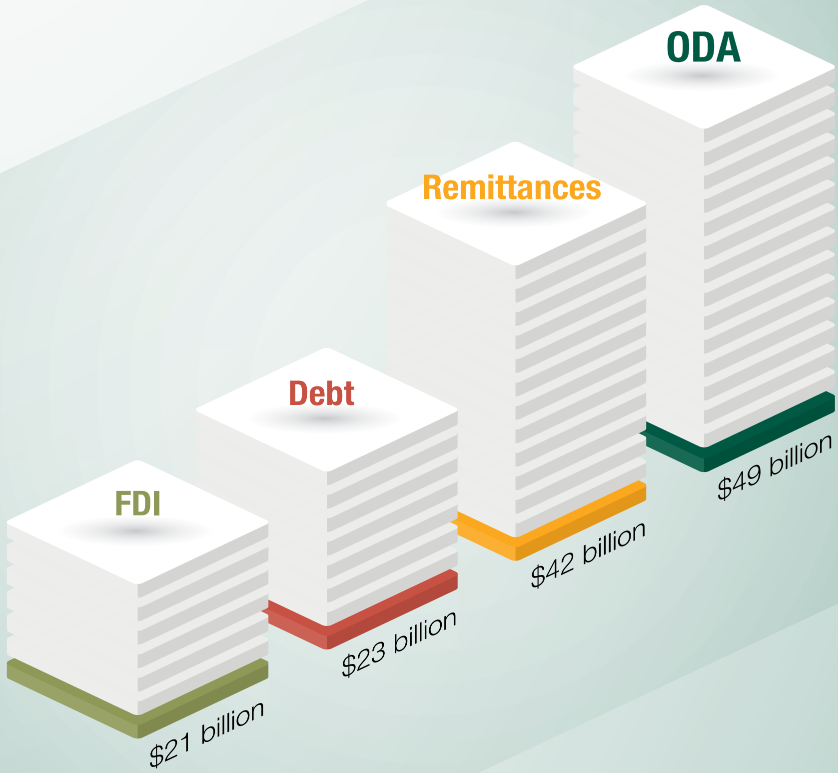
Reinforce LDCs' voice in international financial forums and restore the primacy of multilateralism. LDCs have a particularly strong vested interest in preserving and strengthening multilateralism. This is the sphere where the voice and interests of small countries and weaker actors of the international community are best represented and defended. Multilateralism is presently under attack in the fields of trade, finance and (geo) politics. Therefore, actions by the international community to reverse the trend of weakening multilateralism will, by extension, benefit LDCs' position. It would be important that LDCs concerns be adequately taken into account, if the promise to leave no one behind is to be taken seriously.

In the field of external development finance, the following areas are especially critical to bolster LDCs' capacity to finance their structural transformation:

- Combating illicit financial flows, achievable only through joint actions of all actors in development. This is indicative of the importance of international cooperation, especially in multilateral forums, where all countries – including LDCs – should be represented;
- Agreeing on a multilateral framework for debt restructuring. LDCs stand to gain the most from the development of a comprehensive multilateral framework to facilitate equitable debt restructuring, given their growing external indebtedness in recent years and chronic current account deficits;
- Facilitating access to long-term finance. This is especially relevant for long-term investment in infrastructure and in the expansion of productive capacities.



OF THE 20 MOST AID-DEPENDENT COUNTRIES,
15 ARE LDCs



EXTERNAL FINANCE
LARGEST SOURCES FOR LDCs

RESOURCE GAP
IN 2015–2017

CHAPTER 1

Sustainable Development Goals, structural transformation and financing for development

CHAPTER 1

Sustainable Development Goals, structural transformation and financing for development

A. Introduction

With the world fast approaching the end of the period for implementing the Istanbul Programme of Action and one third of the time elapsed to pursue achievement of the 2030 Agenda for Sustainable Development, LDCs continue to face stark difficulties in reaching their development goals. In this context, taking stock of their dependence on external development finance, a key facet of the development challenges of LDCs, is useful. This issue has long been discussed as both a symptom and a cause of sluggish structural transformation. Such dependence is one reason for international support mechanisms for LDCs. Therefore, analysis of recent developments in the dynamics of volume, sources, motivations and modes of delivery of external finance, and of their impact on the prospects for structural transformation of LDC economies, provides valuable inputs to the process of decision-making on the next 10-year Programme of Action for the Least Developed Countries. Adoption of the next Programme of Action is expected at the forthcoming Fifth United Nations Conference on the Least Developed Countries, in 2021.

Midway into the implementation of the Istanbul Programme of Action, in 2015, the international community adopted the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. The Addis Ababa Action Agenda points to vastly expanded financial resources to finance the investment and expenditures required to reach the Sustainable Development Goals. The outcome to date, however, has been disappointing. The required additional financing to be made available to developing countries has not materialized, and total external finance declined by 12 per cent in real terms between 2013 and 2016 (OECD, 2018a). Inflows of FDI to developing countries in 2018 were 3 per cent lower than in 2015, while LDCs suffered a much sharper contraction of FDI inflows, at 37 per cent, over the same period (UNCTAD, 2019a). At the same time, the foreign debt levels of many countries have risen to critical levels. By mid-2019, one third of LDCs were in debt distress or at high risk of debt distress. The challenging financing landscape is compounded by deceleration in world economic growth and world trade, as well as lingering global trade tensions (UNCTAD, 2019b). Together with rapid population growth, environmental degradation and persistent fragility and conflicts, difficulties in financing the development of LDCs could jeopardize the realization of the Sustainable Development Goals.

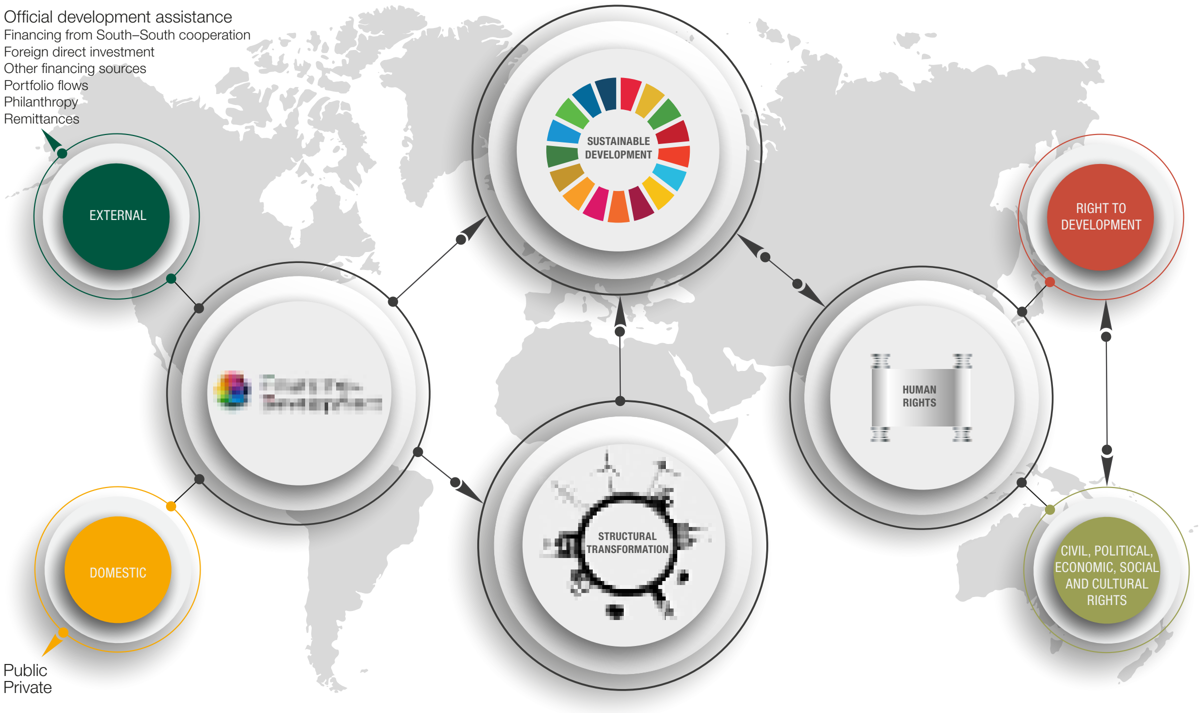
The outcome of the Addis Ababa Action Agenda for financing resources has been disappointing

This negative external landscape is a major obstacle to sustainable development, given the ongoing strong dependence of LDCs on external resources. Such dependence on external resources to finance development, deriving from the continuous failure of domestic savings to finance these countries' fixed investment needs (see section E), is common to most developing countries, both LDCs and other developing countries (developing countries that are not LDCs). The crucial role of official development assistance (ODA) in development financing is, however, the major specificity of LDCs that renders many of them dependent on this particular external resource. In contrast, other developing countries rely much more on external finance sources other than ODA. At the same time, the landscape of official external finance for development has undergone radical changes in recent years, currently comprising not only ODA, but also financing from sources other than traditional donors. Analysis of changes in the aid architecture and their impacts on the prospects for the structural transformation of LDCs are the central themes of *The Least Developed Countries Report 2019*. The analysis is based on a broader framework that highlights the relationships between financing for development, structural transformation, sustainable development and human rights.

That most developing countries need to access foreign sources or resources to finance their development process has long been recognized in both international development literature and practice (see section D). Current discussions take the form of debates on financing for development (e.g. United Nations, 2019a) or financing for sustainable development (e.g. OECD, 2018a), in the context of the pursuit of the Sustainable Development Goals. The framework adopted by this report adds two crucial components to these discussions. First, structural transformation. As explained in section C of this chapter, *The Least Developed Countries Report* series has shown that structural transformation is a sine qua non for developing countries – and especially LDCs – to reach the Goals. Therefore, structural transformation is the critical link between dependence on external resources and the pursuit of sustainable development. Structural transformation will eventually allow LDCs to escape from their dependence on

Figure 1.1

The relationship between financing, structural transformation, sustainable development and human rights



Source: UNCTAD.

ODA, while allowing them to reach their development goals sustainably.

Second, in this report, the links are recalled between not only dependence of these countries on external resources – particularly ODA – and structural transformation and sustainable development, but also the relationship these have with the elevated goals on human rights. While the pursuit of sustainable development is crucial to realizing the right to development, codified multilaterally in 1986 – long pre-dating the adoption of the 2030 Agenda, realization of the right to development itself, particularly in LDCs, creates an enabling environment for that of economic, social, cultural, civil and political rights. The ultimate goal of mobilizing and allocating development finance is not only to attain sustainable development, but – much more crucially – also to be a means of realizing fundamental human rights. The report thus adds value to ongoing debates and discussions by explaining the economic and logical linkages between dependence on external resources, structural transformation, the Sustainable Development Goals and human rights. For LDCs, undergoing structural economic transformation is ultimately a condition to both escape aid dependence and realize the right to development (figure 1.1). This report thus points out linkages that are usually not made in development policy discourse and practice, underscoring the importance of structural transformation and human rights to the financing for development–sustainable development relationship.

The motivation and rationale for this report are presented in this chapter. In the next section of the chapter, the relationship between the Sustainable Development Goals of the 2030 Agenda and the realization of human rights are highlighted, which is often neglected in development policy discussions. The main interconnected impediments to the realization of the Goals and human rights, i.e. LDCs' continuing dependence on external finance and the failure of most LDCs to undergo structural economic transformation, are then analysed. In section C, the financing needs entailed by the 2030 Agenda are discussed and the crucial role played by structural economic transformation in achieving the Goals is shown. In section D, external finance is related to the structural transformation of LDC economies. In section E, how LDCs have been performing in the current century is analysed in terms of economic growth, trade, current accounts and structural transformation. The consequences of this for the dynamics of LDCs' dependence on foreign financing are examined in section F. A brief characterization of the changing aid architecture is provided in section G, while the chapter concludes with section H, presenting the structure of the remainder of the report.

B. Development goals and human rights

Linkages between development finance, structural transformation and human rights are often not highlighted in research and policy discussions, as there tends to be a disconnect in international forums between development and development policy discussions on one side and human rights debates on the other. Some of these linkages are highlighted below.

Both of the main development goal documents relevant to LDCs point to a close relationship between development and human rights. The Istanbul Programme of Action states that "development requires and strengthens… respect for all human rights", while the 2030 Agenda affirms that "the 17 Sustainable Development Goals and 169 targets… seek to realize the human rights of all".[1] These documents go beyond commitments to human rights overall in recognizing the right to development. It is one of the principles of the Istanbul Programme of Action, while the 2030 Agenda states that "the new Agenda… is informed by other instruments such as the Declaration on the Right to Development".[2]

The link between the Sustainable Development Goals, the Istanbul Programme of Action objectives and the right to development is therefore clear (see box 1.1). First codified multilaterally in 1986 in the United Nations Declaration on the Right to Development, the right to development was later reaffirmed in other multilateral documents (United Nations, 2013). The fact that it has been continuously reaffirmed attests to the importance placed on it by the international community. Many elements of the Declaration (e.g. right to education, health, food) are included in other international treaties and conventions that are legally binding.

The precise nature of the right to development has given rise to continuous debates (Piron, 2002), but it has been established as a human right, distinct from other rights (Pillay, 2013). All human rights are indivisible and interdependent, without hierarchy, as stated by human rights treaties and the Declaration itself. Still, the realization of the right to development creates an enabling environment for the realization of other fundamental rights, mainly economic, social, cultural, civil and political rights.[3]

The human rights perspective is central to some fundamental principles of development policymaking

The Declaration prescribes some elements which are key to development policymaking as necessary to the implementation of the right to development, namely the formulation of appropriate national and international development policies and effective international cooperation. Among the duties of States in promoting the right to development is the duty to cooperate with other States to promote the universal realization of the right to development (United Nations, 2013, chap. 1). The Declaration states: "As a complement to the efforts of developing countries, effective international co-operation is essential in providing these countries with appropriate means and facilities to foster their comprehensive development" (United Nations, 1986, article 4.2). Thus, the human rights perspective is central to some fundamental principles of development policymaking. The principle of development partnerships is a long-standing part of international development cooperation practice, and it is at the core of Sustainable Development Goal 17 (and, previously, of Millennium Development Goal 8). Consequently, the human rights dimension permeates the main topics of this report, i.e. international cooperation for development, structural transformation and sustainable development.

In July 2019, the Human Rights Council adopted a resolution with the telling title, "The contribution of development to the enjoyment of all human rights". The Council called upon "Member States and the United Nations system, including its funds and programmes and specialized agencies, in accordance with their mandates, to mobilize resources to carry out development cooperation and assist States, upon their request, in promoting sustainable development" (United Nations, 2019b, para.10).

International cooperation – which includes ODA – is especially relevant for LDCs. As Sengupta (2013, 82) puts it, "international cooperation is as important as the package of national policies in implementing a

1 United Nations, 2011, para. 29 (e); United Nations, 2015a, preamble.

2 United Nations, 2011, para. 29 (f); United Nations, 2015a, para. 10.

3 As the then President of the Human Rights Council said in 2017, "the fulfilment of the Sustainable Development Goals has a positive impact on human rights. That is to say, greater levels of development can lead towards greater levels of achievement of human rights" (Maza Martelli, 2017).

Box 1.1 Sustainable Development Goals, human rights and the right to development

The 2030 Agenda for Sustainable Development acknowledges that global progress has been uneven, particularly in Africa, LDCs, landlocked developing countries and small island developing States. Realizing the international development policy agenda – including the 2030 Agenda and the Sustainable Development Goals, the Addis Ababa Action Agenda, the Paris Agreement on climate change, the Sendai Framework for Disaster Risk Reduction, and, for LDCs, the Istanbul Programme of Action – requires inclusive, equitable and sustainable development to "leave no one behind" and "reach the furthest behind first", as pledged in the 2030 Agenda.[a] For millions of men, women and children in LDCs, development is an urgent human rights imperative. The Istanbul Programme of Action contains many references to human rights, including the right to development, the right to food, the right to health, sexual and reproductive health, and gender equality and the empowerment of women.

Under Article 1 of the Charter of the United Nations,[b] international mechanisms are mandated to promote the economic and social advancement of all peoples and international cooperation in solving problems of an economic, social, cultural or humanitarian nature. Under Article 55, it is stipulated that the United Nations shall promote higher standards of living, full employment and conditions of economic and social progress and development; solutions to international economic, social, health and related problems; international cultural and educational cooperation; and universal respect for, and observance of, human rights and fundamental freedoms. In the Universal Declaration of Human Rights (1948) of the United Nations, under article 1, it is recognized that "all human beings are born free and equal in dignity and rights" and, under article 28, that "everyone is entitled to a social and international order in which the rights and freedoms set forth in the Declaration can be fully realized".[c] All human rights – civil, cultural, economic, political, social and the right to development – are keys to sustainable development and "the right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations".[d]

The 1986 Declaration on the Right to Development provides a holistic paradigm for sustained peace, human rights and sustainable development. Aimed at the constant improvement of human well-being, it makes development a human right of all individuals and peoples without discrimination. The Declaration entitles everyone, everywhere, to participate in, contribute to and enjoy economic, social, cultural and political development, through which all human rights and fundamental freedoms can be fully realized, and to fair distribution of the benefits of development, including income, and equal opportunity in access to basic resources and services. The human person is the central subject of development, should be the active participant and beneficiary of the Declaration and is entitled to free, active and meaningful participation in development, a comprehensive process that advances all human rights and fundamental freedoms.[e]

The Declaration on the Right to Development recognizes the right of peoples to self-determination and their right to full sovereignty over all their natural wealth and resources. It affirms that equality of opportunity for development is a prerogative both of nations and of individuals who make up nations.

Good governance at both the national and international levels, shared responsibilities and mutual accountability are all integral to the Declaration, whereby States have obligations to their own populations; to persons outside their jurisdiction who could be affected by their domestic policies; and in their collective role through international and regional organizations.[f]

[a] United Nations (2015a).
[b] United Nations (1945).
[c] United Nations (1948).
[d] United Nations (1993), annex I, Rio Declaration on Environment and Development, principle 3.
[e] United Nations (1986).
[f] United Nations (2010a).

strategy for realizing the right to development. It is, perhaps, even more critical in the case of poor and least developed countries". And, out of all external sources of financing, LDCs as a group are the countries most dependent on ODA (see chapter 1, section F). The volumes, modalities, ways of delivery and allocation of ODA in LDCs, therefore, play a determinant role in the realization of their right to development. If these factors are adequately harnessed, ODA has the potential to be conducive to structural transformation (and, in turn, to the right to development), which has not always been the case (UNCTAD, 2008).

This report adds value to development debates by highlighting the critical role played by structural transformation in the link between financing for development and human rights. On one side, the implementation of an "Aid Effectiveness Agenda 2.0", as called for in chapter 5, should contribute to the deepening and acceleration of structural transformation, which would thus allow LDCs to eventually escape their current dependence on ODA. On the other side, the attainment of structural transformation is part of the process of achieving sustainable development and, thereby, enables the realization of the right to development and all other human rights (figure 1.1).

C. Development goals, structural transformation and their financing

Barely four years have gone by since the international community adopted the 2030 Agenda for Sustainable Development. Yet, with little more than 10 years to the 2030 deadline, the mood has shifted markedly. Despite the rhetoric of “leaving no one behind”, rising disengagement has hit LDCs hard, jeopardizing the prospects of achieving the objectives of the Istanbul Programme of Action and the more recent Sustainable Development Goals. LDC stakes in the global economy continue to be marginal, with over 13 per cent of the world’s population and barely 1 per cent of global GDP. Moreover, progress towards meeting the various Sustainable Development Goals targets specific to LDCs has been sluggish at best (UNCTAD, 2018a; UNCTAD, 2019b).

One major reason for the slow pace of progress towards achieving the 2030 Agenda and the subsequent sluggish implementation of the Sustainable Development Goals in LDCs is the international community’s lack of decisive action to make the international environment – including issues of financing for development – in which these countries’ economies evolve more amenable to sustainable development, and the persistence of barriers to the structural transformation of their economies. In this section, the interaction between foreign financing and structural economic transformation is discussed.

The pursuit of the Sustainable Development Goals in developing countries requires heavy investments in economic, social and environmental infrastructure (capital expenditure), as well as raising levels of current expenditure (i.e. operating expenditure). Current expenditure is especially crucial in the areas of health, education and social services. UNCTAD has estimated that, for LDCs, investment needs (i.e. capital expenditure) amount to $120 billion, annually, between 2015 and 2030, a quantity three times higher than current investment in the Goals, calculated at $40 billion annually. These capital investment figures include domestic and foreign, as well as public and private, investment (UNCTAD, 2014a).

The question is then how to scale up, mobilize and allocate the funds – not just capital expenditure, but also operating expenditure – required to support the Sustainable Development Goals. Mobilization and allocation of finance to meet the enormous investment

Despite the rhetoric of “leaving no one behind”, rising disengagement has hit LDCs hard

needs of developing countries is a traditional issue in development research and policy (Eaton, 1989; Boussichas and Guillaumont, 2015). The issue of financing for development was already apparent at the time of the Millennium Development Goals and was addressed at the first two International Conferences on Financing for Development in Monterrey (2002) and Doha (2008). However, the issue received relatively little attention from the international community and policymakers, a shortcoming which should have been corrected for the Sustainable Development Goals.

Financing for development is one of the means of implementation of the 2030 Agenda and all the Sustainable Development Goals (along with technology, capacity-building and (international) trade). Going well beyond the corresponding Millennium Development Goal 8 (Develop a Global Partnership for Development), Sustainable Development Goal 17, “Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development” reflects the greater attention given to the means of implementation. Moreover, the international community built consensus on the means of implementation of the Sustainable Development Goals in the outcome document, i.e. the Addis Ababa Action Agenda, of the Third International Conference on Financing for Development.

Though common to many developing economies, the challenge of financing investment and technological upgrading for structural transformation, while maintaining sustainable balance of payments outcomes, assumes particular significance for LDCs.[4] The sluggish progress in development of the productive capacities of LDCs jeopardizes their ability to reap benefits from integration into global markets, and justifies the special support above and beyond what is granted to other developing economies (UNCTAD, 2016a; United Nations, 2018).

The various Sustainable Development Goals are interwoven, resulting in a complex interrelationship. On

[4] The 2016 update of the Diagnostic Trade Integration Study of Ethiopia represents a practical example of how the specific challenges of LDCs translate into concrete policy recommendations on the intersection between trade and development finance.

one hand, there are many synergies among them, and they are mutually supportive, as in the case of poverty eradication (Goal 1) and hunger eradication (Goal 2). On the other hand, the 2030 Agenda also implies trade-offs, e.g. between employment generation and rising productivity (both targets of Goal 8) and between construction of physical infrastructure (Goal 9) and preserving people's settlements (Goal 11) (Basnett and Bhattacharya, 2015). Countries therefore often need to prioritize among Goals, given the limited resources and national circumstances (Donoghue and Khan, 2019). Such prioritization not only takes into account budget constraints, but also allows synergies to emerge in the medium term, by recognizing that striving for certain targets presupposes that others have been realized, e.g. industrial development (Goal 9) and energy supply (Goal 7) (UNCTAD, 2017a).

Budget constraints requiring prioritization among the Sustainable Development Goals exist in all developing countries, but are especially stringent in LDCs. The UNCTAD *The Least Developed Countries Report* series has argued that, beyond mutual support among the three pillars of sustainable development (economic, social and environmental), the crucial condition for LDCs to achieve the Goals is that their economies undergo structural transformation. Structural economic transformation implies the transfer of productive resources (especially labour, capital and land) from low-productivity activities and sectors, to higher-productivity activities and sectors. This requires both the intersectoral transfer of resources (e.g. transfer of labour from agriculture to manufacturing) and intrasectoral progress (i.e. technological upgrading which results in higher productivity, while resources remain in the same activity sector) (UNCTAD, 2014b). Through rising levels of productivity, countries can attain higher income levels and raise the financial resources (especially from domestic sources) necessary to sustain the spending required for sustainable development, whether capital expenditure or operating expenditure.

Given the interconnection and synergies between the Sustainable Development Goals, all contribute directly or indirectly to structural economic transformation in developing countries and, thus, in LDCs. Some Goals are, however, more directly relevant to structural economic transformation than others, particularly Goals 7, 8, 9 and 12, as are the means of implementation in Goal 17. In view of the critical and enabling role played by these Goals, to achieve higher levels of productivity throughout all sectors of economic activity, investment in the following priority areas is critical:

(a) Productive infrastructure and facilities, corresponding largely what the Intergovernmental Committee of Experts on Sustainable Development Financing termed "national sustainable development investment financing needs, such as for infrastructure, rural development, adaptation and climate resilient development, and energy" (United Nations, 2014, p. 4);

(b) Technological upgrading.

Placing particular emphasis on these Goals does not mean neglecting the others. The question is rather one of selecting priorities and sequencing. Selecting these two priority areas leads to employment creation, productivity acceleration and poverty reduction (required to attain Goal 1). This also drives economic growth and higher tax intake for government, which in turn allow for greater spending on the social policies required to achieve the Goals related to social development. This sequencing of policies is necessary in order to give rise to a virtuous circle of sustainable development, which includes positive feedback loops (e.g. between rising domestic demand, economic growth, public and private investment and technological upgrading).

LDCs need significant amounts of external finance to accelerate the process of structural transformation, given the lower levels of development and productivity of these countries. The issue of financing the expenditures required to achieve the Goals is directly related to two structural features of these economies: first, their dependence on external sources of financing and, second, the early stage of structural transformation at which these economies find themselves. This issue and the relationship between these structural features are discussed below.

D. Structural transformation and external finance

While often addressed separately in international development practice, limited availability of development finance and lack of economic diversification exhibit an interdependence long identified in economic theory as challenges that developing countries confront.[5] The interlinkages between these two facets have been highlighted, spanning from Prebisch's core-periphery models, to the two-gap models popularized by Chenery and the various formulations of Thirlwall's balance of payments constrained models – just to cite the most renowned examples (Prebisch, 1959; Chenery and Bruno, 1962; Thirlwall, 1979 and 2011). Recalling the interlinkages between these two facets of the development process is important before moving into a discussion of LDC dependence on external finance, so as to better contextualize the debate on mobilizing development finance, which has been framed as moving "from billions to trillions" in the post-2015 context (African Development Bank et al., 2015; OECD, 2018a; United Nations, 2019a), and clarify how this debate applies to LDCs.

The interdependence between development finance and current account balances can be explained by examining national account identities, especially the identities between the following: (a) savings on one side and investment and trade balance on the other; and (b) trade balance and net capital flows. These national account identities imply that investment and technological upgrading can be sustained through either domestic savings or external finance, i.e. capital inflows that enable running a deficit of the trade balance (figure 1.2).[6]

As per capita income grows, the equilibrium of the balance of payments is underpinned by a dynamic relationship between the expansion of exports and of imports, in turn largely dependent on the sophistication of a country's productive structure relative to the rest of the world. As economic growth takes place, structural transformation ultimately hinges on mutually supportive supply and demand dynamics, which favour the reallocation of resources towards higher productivity activities. This process admittedly has ramifications well beyond international trade, encompassing also the structural change dynamics relevant for domestic production and consumption, particularly in terms of fostering greater integration of rural and urban areas (UNCTAD, 2015a; UNCTAD, 2018b).

The debate on mobilizing development finance has been framed as moving "from billions to trillions"

From a balance of payments point of view, the reallocation of resources towards higher-productivity activities leads to the expansion and diversification of exports and lower dependence on imported intermediates and capital goods (as domestic firms narrow the competitiveness gap vis-à-vis foreign suppliers). This gradually contributes to the correction of a disequilibrium in the balance of payments through a dynamic export–profit–investment nexus (UNCTAD, 2006a; UNCTAD, 2016b). The development of productive capacities plays a critical role, in this respect, in three different ways. First, it shifts the composition of exports away from primary commodity dependence and towards more dynamic products, i.e. products with a higher growth in demand in international markets that can therefore provide a demand impulse for economic growth in the exporting country. Second, it reduces the income elasticity of demand for imports, i.e. growth of the domestic economy will progressively lead to a smaller increase in imports. Finally, development of productive capacities supports more effective domestic resource mobilization at the public and private levels, which allows for higher levels of public- and private-sector investment.

Proactive exchange rate policies and capital controls can also play a useful role in preserving a stable and competitive real exchange rate, boosting demand for exports. These benefits, however, are contingent on economic and political factors and, in the long run, cannot be the unique driver of industrialization and growth (Frenkel and Rapetti, 2008; UNCTAD, 2016b; UNCTAD, 2018c). Moreover, in general, financing investments made mainly through domestic – rather

5 These areas have also traditionally lain at the core of UNCTAD analysis and policy proposals, particularly those related to international liquidity and investment-friendly macroeconomic policy, on the one hand, and trade preference and commodity markets, on the other (UNCTAD, 2014c).

6 Leaving aside the government sphere, national accounting identities imply that aggregate income (Y) is equal to consumption (C) plus investment (I) plus net exports (Exp - Imp)

$$Y \equiv C + (Exp - Imp) + I$$

This can be rewritten as

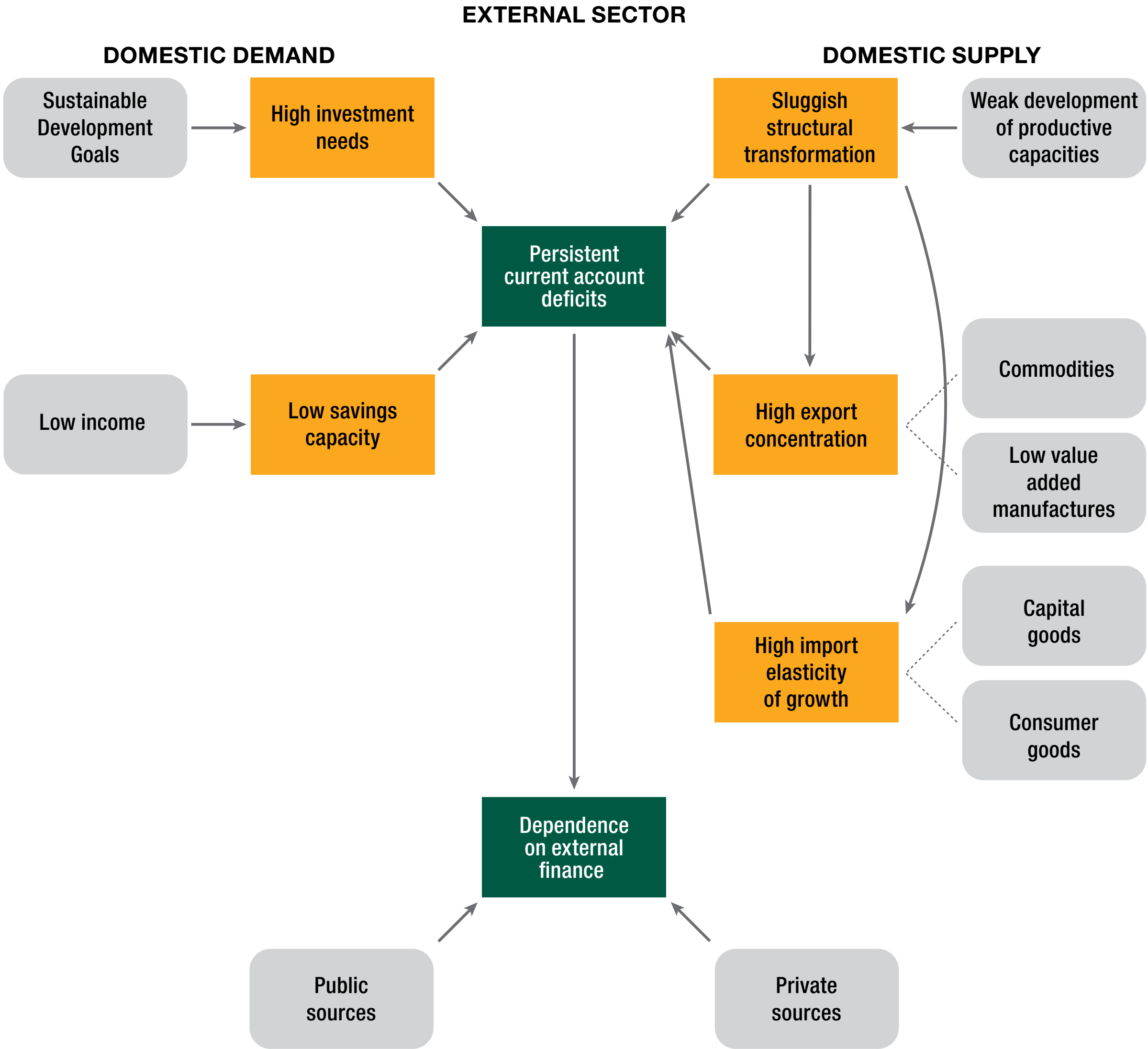
$$Y - C - I = (Exp - Imp)$$

Since $S = Y - C \Rightarrow S - I = (Exp - Imp)$

This shows that the excess of domestic savings (S) over investment is equal to net exports. In the typical LDC case, the results are negative on both sides of the identity. Therefore, the excess of investment over domestic savings is equal to net imports (i.e. the trade deficit).

Figure 1.2

Structural transformation, external gaps and development finance in the least developed countries



Source: UNCTAD.

than foreign – savings remain the preferable option, often entailing more stable growth dynamics and somewhat greater policy space. This underscores the importance of effective domestic resource mobilization (Cavallo et al., 2018). Yet the option of financing investments through domestic savings is often not feasible at low levels of income, as is the case for LDCs. This is due to the limited scale of domestic resources and ineffective resource mobilization (caused by failings in domestic fiscal and financial systems), as compared to the much larger investment needs of these countries. Additionally, many LDCs suffer from large volumes of illicit financial outflows, which undermine efforts in domestic resource mobilization.[7]

[7] This issue is discussed further in chapter 4.

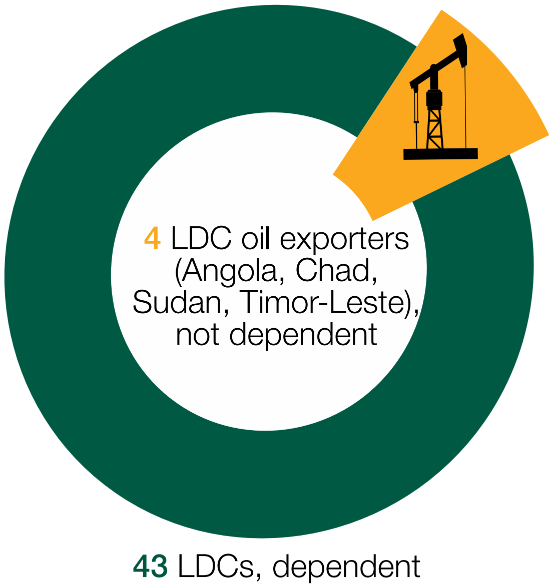
E. Economic performance, structural transformation, resources and current account deficits

1. Growth, structural transformation and current account deficits

Though since the global financial crisis of 2008/09, LDCs have mostly maintained a respectable record in economic growth, the pattern of performance has so far failed to redress some of their structural sources of vulnerability. This refers specifically to the heightened reliance on external financial resources for investment and overall negative contribution of trade to an expansion of aggregate demand. Moreover, even though LDC exports have grown significantly in recent years, this has been accompanied by sluggish performance in structural change, such as the slow expansion of relatively higher productivity activities, notably in the manufacturing sector (UNCTAD, 2018a; UNCTAD, 2019b). In most cases, the pattern of specialization rather is heavily skewed towards primary commodities and manufactures embodying limited domestic value addition, with the associated challenges for the sustainability of long-run growth. These issues – widely discussed in *The Least Developed Countries Report* series and other UNCTAD publications – are outlined in this section, with a discussion on the implications for current account balances at the end.

LDC growth performance since the 2008/09 global financial crisis has been encouraging, albeit generally lower than 7 per cent growth as set out in target 8.1 of Sustainable Development Goal 8. For instance, for LDCs as a group, the average real GDP growth rate was 4.6 per cent during 2011–2017 (2.1 per cent in per capita terms). The uneven global recovery, coupled with weak commodity prices for most of the past decade, have certainly taken a toll compared to the pre-crisis period. As at 2019, seven LDCs are meeting the 7 per cent growth target, roughly half of those at the beginning of the 2000s, while the number of LDCs experiencing a contraction of real GDP per capita is only marginally lower than the peak in 2015–2016 (UNCTAD, 2018a; UNCTAD, 2019b).[8] Economic growth, moreover, has been mainly underpinned by the expansion of the services sector, including a plethora of traditional (and often informal) consumer-oriented businesses, along with small pockets of relatively higher-productivity activities, such as software development or finance (UNCTAD, 2018b). Dynamism in agriculture and – even more so – manufacturing, in contrast, has been rather subdued, with the contribution of both sectors to growth far lower than that of services. In particular, notwithstanding the expansion in value addition of manufacturing, only a few LDCs have avoided stalled industrialization or even premature deindustrialization[9] (UNCTAD, 2018a; UNCTAD, 2019b; UNCTAD, 2016b). This sectoral pattern of growth signals the persistent difficulty of stepping up agricultural productivity and generating employment in higher-productivity sectors in a way that reallocates labour to boost economic growth

Dependence on external resources for capital accumulation



(McMillan et al., 2014; UNCTAD, 2016b; McMillan et al., 2017; UNCTAD, 2018b).

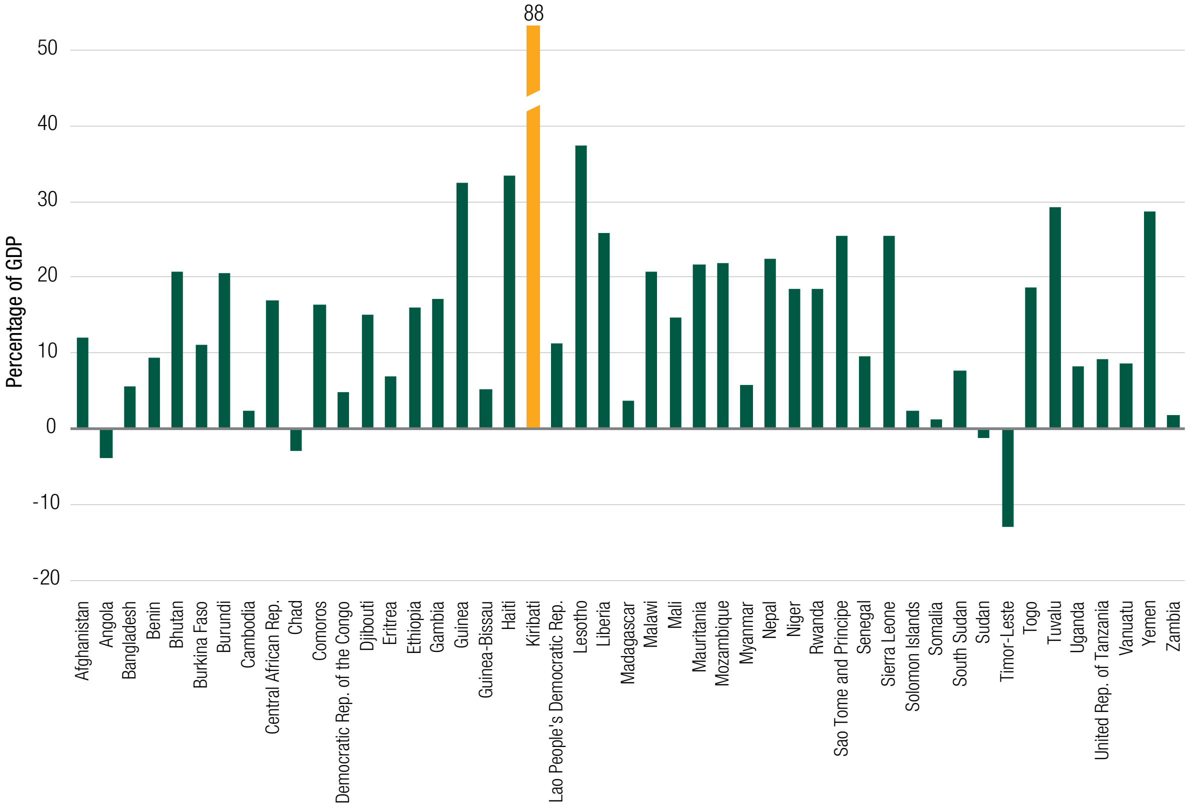
On the demand side, LDCs have achieved relatively high investment ratios (at least since the mid-2000s) but consumption absorbs, on average, 80 per cent of GDP. LDCs have therefore traditionally relied on foreign savings to finance the bulk of their capital accumulation (UNCTAD, 2019b). This dependence has declined only marginally over the last decade, as investment needs remain generally high, whereas domestic savings have expanded sluggishly, constrained by limited purchasing power. In the 2015–2017 period, LDCs' resource gap (defined as the difference between domestic savings and gross fixed capital formation) averaged 8 per cent of GDP. Moreover, only some oil exporters – Angola, Chad, the Sudan and Timor-Leste – were able to escape this pattern of dependence on foreign savings, despite fluctuations in commodity prices and resource revenues (figure 1.3). At the other end of the spectrum, for nearly half of LDCs, the resource gap remained above 15 percentage points of GDP, which is particularly high for small economies and island LDCs.

Another critical consideration in the context of macroeconomic balance is that GDP growth has mostly stemmed from final consumption and, only to a far lesser extent, gross fixed capital formation (figure 1.4). The contribution of gross fixed capital formation, moreover, has shrunk since the global financial crisis of 2008/09, as overall growth slowed while the investment ratio stabilized at around 26–27 per cent of GDP. Perhaps more important, in terms of external finance, is that the contribution to GDP growth of

[8] Bangladesh, Burkina Faso, Cambodia, Ethiopia, Rwanda, Senegal and South Sudan.

[9] Defined as a stagnant or declining share of the manufacturing sector in total value added.

Figure 1.3
Resource gap in the least developed countries, 2015–2017



Source: UNCTAD calculations, based on data from the UNCTADstat database.

net exports (i.e. exports minus imports) has been negative for most of 2000–2017. This holds true across all subgroups: African LDCs and Haiti, Asian LDCs and island LDCs. The reason is that the dynamism of imports – leakages from the point of view of aggregate demand – exceeded that of exports, resulting in an overall negative effect on growth in aggregate demand.

2. Economic structure and trade performance

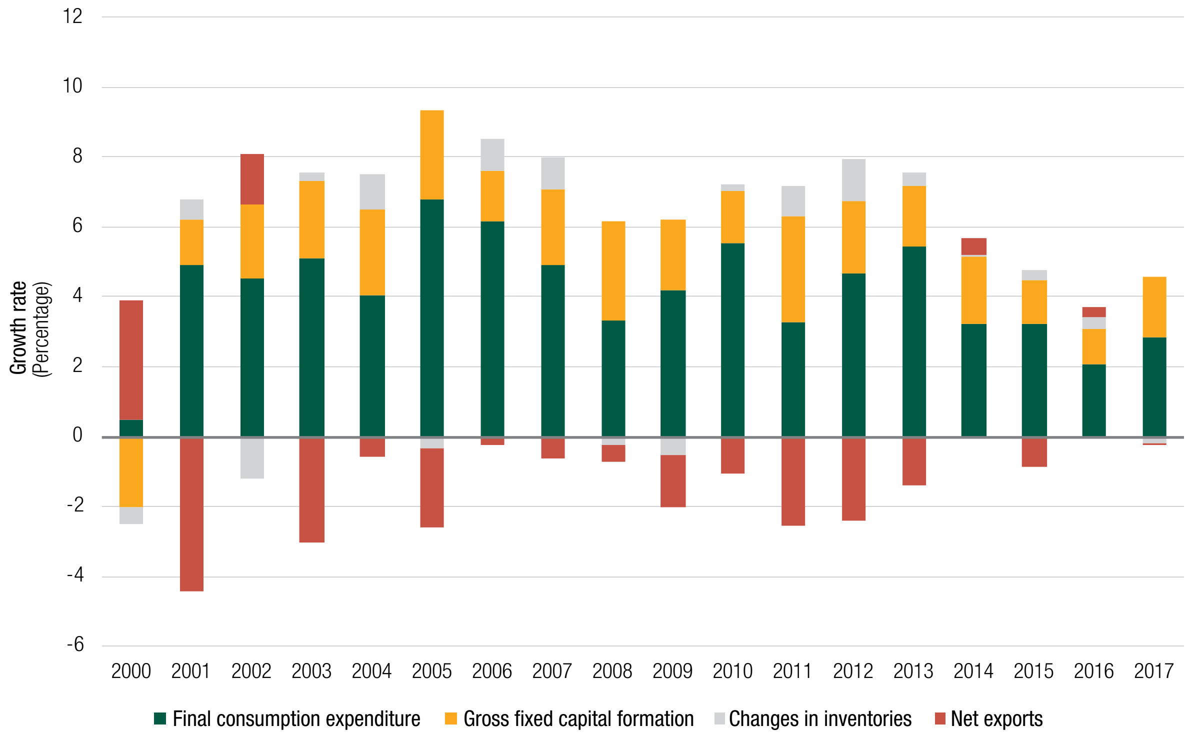
The previous analysis does not negate some improvements in LDC trade performance. Despite the challenging international environment, for instance, LDC export revenues (both goods and services) increased at an average rate of 2.7 per cent per year between 2010 and 2017, reaching $209 billion at the end of the period. Exports of goods have been particularly buoyant for Asian and island LDCs, growing at 7 per cent per year, whereas African LDCs and Haiti have been hit by the heightened volatility of primary commodity prices in the aftermath the global financial crisis of 2008/09. Similarly, although their value is dwarfed by goods exports, exports of services also displayed a strong vigour, expanding at 7 per cent per year. Taking account of price effects, LDC merchandise exports volumes increased by 80 per cent between 2000 and 2009 and by another 20 per cent between 2009 and 2017.[10]

Critically, however, merchandise import volumes grew even more rapidly between 2000 and 2017, expanding by a factor of 3.5, with only a marginal slowdown since 2009. This was spurred by: (a) rapidly growing consumption, especially of goods with a relatively high income elasticity of imports; (b) large investment needs requiring imported capital goods; and (c) demand for imported intermediates in the context of global value chain activities.[11] Meanwhile, terms of trade have shown little sign of improvements for the majority of countries, given moderate prices for non-fuel commodities and persistent volatility of oil prices (United Nations, 2019c). Leaving aside cross-country heterogeneity related to the interplay

10 For a more extensive discussion, see UNCTAD (2019b).
11 Perhaps the best case in point is the use of imported fabrics provided by lead firms in the apparel industry, with LDC firms being engaged only in cut, make and trim services (UNCTAD, 2018b; UNCTAD, 2019c).

Figure 1.4

Contribution to gross domestic product growth, by expenditure in the least developed countries



Source: UNCTAD calculations, based on data from the UNCTADstat database.

between trade flow composition and price dynamics, in general, the result of the trends mentioned above has been a broad widening of trade deficits, in relation to both merchandise and services. Angola has been the only LDC with a trade surplus.

At an equally fundamental level, the expansion of trade flows has largely failed to support a rebalancing of LDC specialization patterns, in particular of the heightened reliance on primary commodities exports and on imported manufactures and capital goods. Of 46 LDCs for which data are available, UNCTAD classifies 39 as commodity dependent, with Bangladesh, Bhutan, Cambodia, Haiti, Nepal and Tuvalu the only exceptions (UNCTAD, 2019d).[12] The extent of primary commodity dependence across the LDCs is such that primary commodities accounted for over 57 per cent of the group's total merchandise exports over 2015–2017, and as much as 69 per cent in the median LDC.[13] A complementary account of LDC sluggish progress towards export diversification is depicted in figure 1.5, which reflects a median value across LDCs of the Herfindahl-Hirschmann index of concentration and of the number of exported products.[14] Clearly, in the post-crisis phase, the rise in the number of exported products has largely stalled, with the concentration index also hovering at around 0.4 for most of 2000–2017.

While some visible improvements towards greater export diversification have indeed taken place, especially among East African and South-East Asian LDCs, in general, the pace of structural change remains sluggish, confirming the concerns raised earlier about sectoral contribution to growth. This leaves LDCs dependent on traditional exports with limited income elasticity. The prices of traditional exports are also prone to exogenous fluctuations, with potential adverse effects on macroeconomic policy variables, such as terms of trade, public revenues and GDP. More fundamentally, specialization in

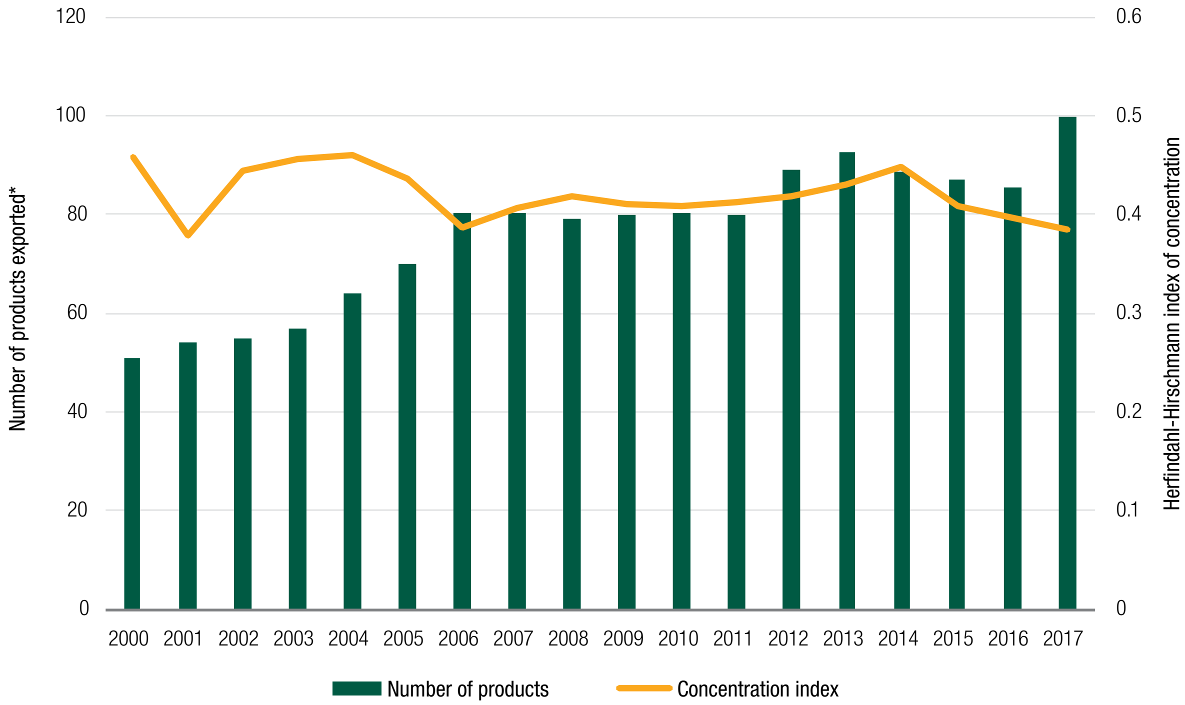
12 No data are available for South Sudan.

13 As smaller LDCs tend to be more heavily dependent on primary commodities, the median value of 69 per cent is also significantly higher than the export-weighted average of LDCs as a group.

14 Of 260 items categorized based on the Standard International Trade Classification, Revision 3, at the three-digit level. The Herfindahl-Hirschmann index of export concentration is a measure of the degree to which countries are dependent on a few products to generate their exports. The index takes values spanning from 0 to 1, where 1 indicates the maximum level of product concentration of exports.

Figure 1.5

Representative concentration and diversification of export products in a median least developed country



Source: UNCTAD calculations, based on data from the UNCTADstat database.
* Standard International Trade Classification, Revision 3, at the three-digit level.

raw materials and poorly transformed products imply lost opportunities for domestic value addition and, therefore, limited employment generation and dampened scope for productivity-increasing structural change (UNCTAD, 2014b; UNCTAD, 2016b; UNCTAD, 2018b).

In the context of global value chains, moreover, concerns about the nature of LDC export products are compounded by the need to consider also their domestic value added content. Regardless of the final product considered, the scope for productivity spillovers, learning and upgrading is largely contingent on the stages of production that take place within a local economy. This is what provides opportunities for backward and forward linkages, technology transfer and developing productive capabilities. In this respect, there is growing evidence that, though LDC participation in global value chains has increased, this has often been limited to the lowest rungs of the chain, with modest ensuing benefits.[15] In the textile and apparel segment, for instance, LDC firms remain typically confined to simple cut, make and trim activities, while investors' location decisions are largely dictated by considerations related to preferential trade regimes and market access in key destination markets.[16]

These trends call for bold industrial policies (Storm, 2015; UNCTAD, 2016b) and a more balanced focus between "international economic integration" and "domestic integration", to borrow Rodrik's phrasing (2018, p. 14). Moreover, they also have direct implications for the balance of payments. For any given exported product, import content and domestic value addition are two sides of the same coin: protracted reliance on imported capital goods, as well as on imported intermediates, essentially weakens the boost in domestic demand deriving from booming exports. This dampens the overall benefit of integrating into a global value chain in terms of balance of payments. From a policy perspective, this means that policymakers need to work with private sector actors along the chain and devise effective ways to harness backward and forward linkages, supporting local embeddedness and enhancing value addition (UNCTAD, 2018b; UNCTAD, 2018c).

15 United Nations, Economic Commission for Africa (2015a); UNCTAD (2016b); UNCTAD (2018b); Rodrik (2018).

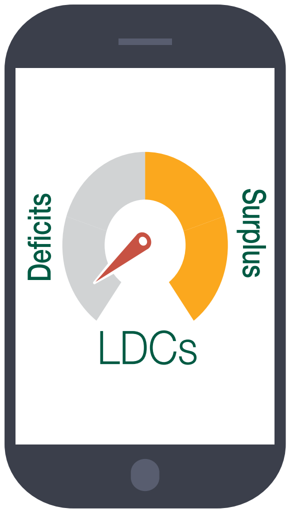
16 N'Diaye (2010); Staritz and Morris (2013); Morris and Staritz (2017); UNCTAD (2018b); UNCTAD, (2019c).

3. Current account trends

As highlighted earlier, LDCs' heightened vulnerabilities and the sluggish progress of their structural transformation are reflected in balance of payments equilibria and largely determine external finance needs (UNCTAD, 2006a; UNCTAD, 2014b; UNCTAD, 2016a).[17] Structural current account deficits have thus been the rule among LDCs, with fuel and mineral exporters or countries receiving transfers and income payments as the main exceptions, as the last 16 years confirm (figure 1.6). LDCs recording a frequent current account surplus included large recipients of workers' remittances (such as Bangladesh, Lesotho and Nepal) and primary commodity exporters (such as Angola, the Democratic Republic of the Congo and Timor-Leste). Several of these countries, however, saw their situation worsen as soon as commodity prices dropped in the aftermath of the global economic crisis. Perhaps more telling in terms of the structural nature of balance of payments constraints is that half of LDCs – including some of the fastest-growing economies, such as Cambodia, Ethiopia and Rwanda – never recorded a current account surplus throughout the period considered.

Beyond the structural nature of current account imbalances, a key issue is that their magnitude has significantly increased in the aftermath of the crisis, to the extent that LDCs' combined deficit rose to nearly $53 billion in 2017. This amount corresponds to over 5 per cent of the group's GDP and is more than 10 times higher than the average deficit in 2000–2005 (figure 1.7). Moreover, unlike commodity exports windfalls – which led to a short-lived overall surplus for LDCs as a group in 2006–2008 but were concentrated in a few resource-rich countries (see the trend for the representative median LDC) – the widening of current account deficits in the post-crisis period is rather generalized. This is reflected in the representative expansion of the deficit for the median LDC, which fluctuated between 6 and 8 per cent of GDP for most of the post-crisis period. With current account deficits projected to deteriorate further in 2018 and 2019, LDCs' needs for external development finance are likely to widen, even in countries where a flexible exchange rate could in principle help the adjustment process (UNCTAD, 2019b). Amid looming downside risks for the global economy and growing calls to "face the challenge" of mobilizing adequate resources for sustainable development,

50% of LDCs recorded **no current account surplus** between **2002** and **2017**



Other LDCs registered mainly **sporadic surpluses**

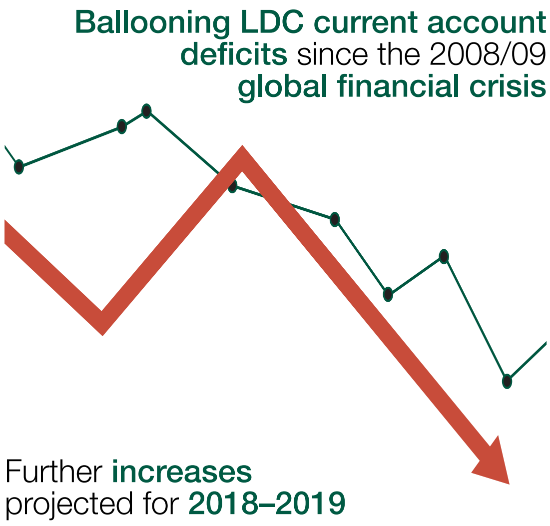
meeting these needs and ensuring the availability of sufficient external finance is thus all the more essential to keep the momentum in much-needed investments for sustainable development, and enhance prospects for LDC structural transformation (UNCTAD, 2018d; UNCTAD, 2019b; OECD, 2018a; United Nations, 2019a).

F. Evolution of least developed country dependence on external finance

In light of LDCs' long-standing quest for external finance, and renewed financial needs linked to achieving the 2030 Agenda for Sustainable Development, it is important to take stock of the evolution of the international development finance landscape, assessing how the role of different financial flows has changed over time. Worldwide, the volume of external financial flows to developing countries expanded significantly since the turn of the millennium, but experienced a decline in recent years (OECD, 2018a; UNCTAD, 2018d). Simultaneously, the array of instruments used – from FDI, debt and traditional ODA, to blended finance, remittances and portfolio investment – have continued to increase the potential availability, and complexity, of the development finance landscape.

In the context of balance of payments, FDI, traditional ODA, official financing stemming from South–South

[17] It should be noted that the current account balance is determined not only from the trade balance (for goods and services), but also by current transfers – such as workers' remittances – and income payments.

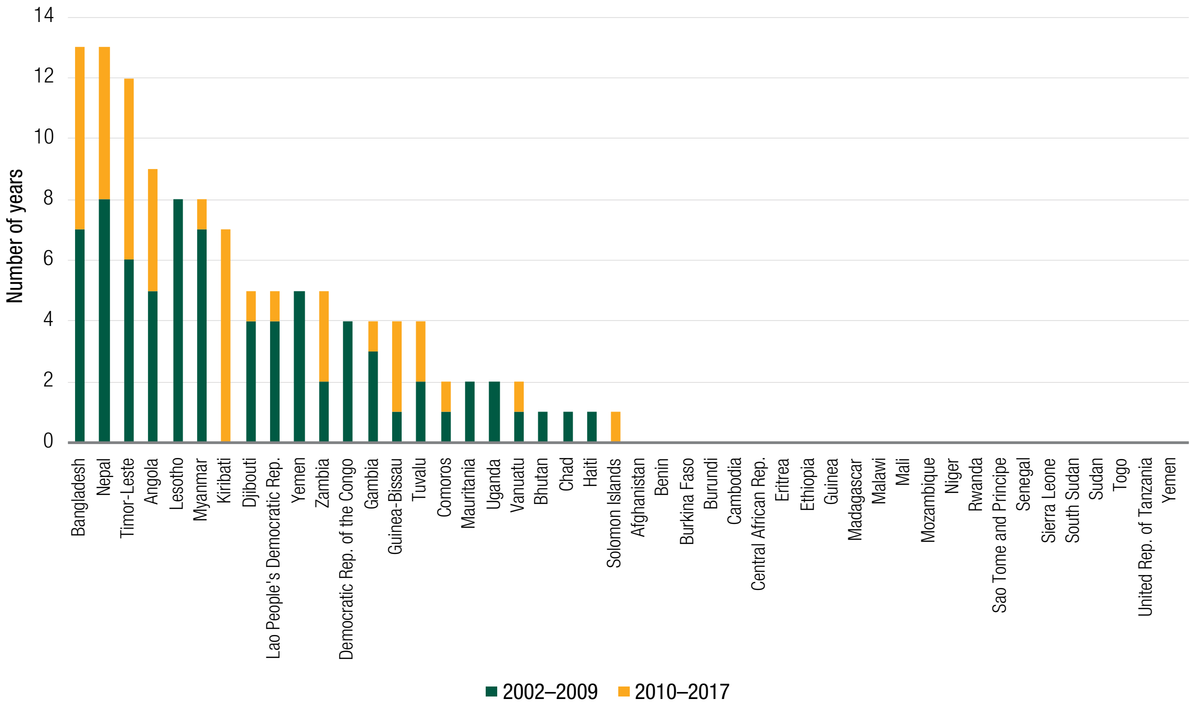


cooperation, remittances, external debt and portfolio investments all represent potential sources of external finance, as do emerging instruments such as the distinct forms of blended finance and public–private partnerships. Globally, FDI and remittances have already exceeded the magnitude of traditional aid resources. Each of these flows, however, has specific characteristics that inevitably shape the extent to which they can contribute to sustainable development, especially in terms of sustainability and degree of alignment with each country's structural transformation and development priorities. These characteristics involve, for example, whether resources are public or private, whether they create debt or not and whether they are used mainly for consumption or investment purposes. Questions such as these are crucial in policymaking, as different types of financial resources for development spending can, at best, be imperfect substitutes, and the shift from one type to another may have wide-ranging implications for alignment with each country's development strategies and external indebtedness.

Aid, for instance, does not cut into the corporate profits and household earnings of recipient countries (as domestic taxes do), and it typically adds less to external debt than international borrowing (depending on the grant/loan composition of ODA, as analysed in chapter 2). Aid can be directly allocated to development priorities, unlike remittances, whose developmental impact is indirect and difficult to bring about (UNCTAD, 2012). Moreover, it can be allocated to areas and sectors that are very unlikely to attract the attention of the private commercial sector (whether foreign or domestic), including public goods such as police, justice, national statistics and research, planning and execution capabilities. These different types of financing flows have varying levels of volatility.

Figure 1.6

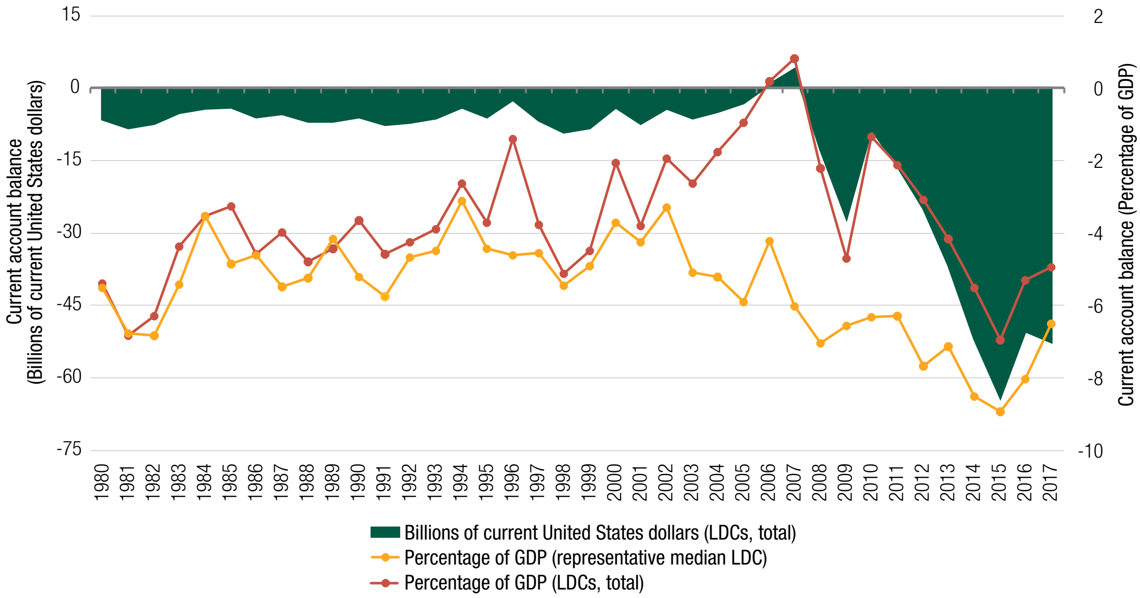
Number of years with current account surplus



Source: UNCTAD calculations, based on data from the UNCTADstat database.

Figure 1.7

Current account balance in the least developed countries



Source: UNCTAD calculations, based on data from the UNCTADstat database.

Aid is, therefore, potentially the most valuable source of external finance for recipient countries (Kharas et al., 2014).

The availability of external finance to LDCs has increased significantly since the beginning of the century, from $24 billion in 2000, to $163 billion in 2017, largely because of the rising weight of remittances, FDI and external debt (figure 1.8).[18] Nonetheless, LDC specificities emerge quite starkly in the composition of external finance. Unlike for other developing countries, ODA remains the most important source of external finance for LDCs, underscoring the challenges in attracting market-based external financial resources.[19] ODA accounted for one third of total external development financing of LDCs in 2014–2017, as compared with just 4.5 per cent for other developing countries. By contrast, the importance of FDI as a source of external finance was the reverse for these two groups of countries. While in LDCs it accounted for one fifth of the total, in other developing countries, it contributed almost half of total external finance. Interestingly, personal remittances had a broadly similar weight for both country groups: approximately one third of total external finance (figure 1.9).

The importance of ODA for LDCs is further highlighted by the fact that ODA primacy has persisted despite the plateauing of net ODA flows since 2010, and notwithstanding the widening shortfall against internationally agreed commitments, with donor members DAC providing aid to LDCs worth 0.09 per cent of their GNI in 2017, compared to a target of 0.15–0.20 per cent (UNCTAD, 2019b).[20]

It can be expected that countries that graduate from the LDC status continue to run current account deficits and, therefore, continue to need to tap into foreign savings to finance their development process. However, the composition of external finance is likely to change along that process. Typically, aid dependence recedes and is replaced by other sources of finance, especially domestic taxation and commercial external finance. There tends to be, however, an intermediate phase in which growth is constrained as domestic taxes and foreign private and market-related public borrowing fail to fill the gap left by the loss of access to concessional assistance such as ODA. This is the so-called "missing middle" of development finance (Kharas et al., 2014). Given the prevailing level of aid dependence of LDCs, however, most of them are still far from the situation of the "missing middle".

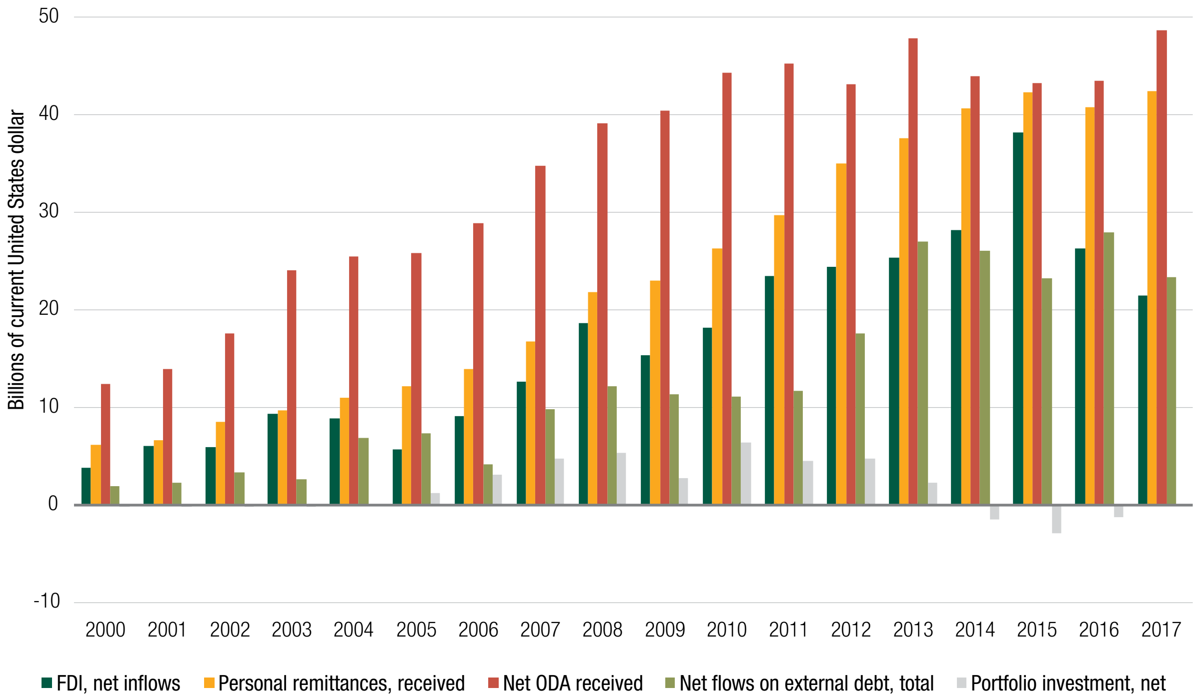
18 It should also be noted that external development finance stemming from South–South cooperation is likely underestimated in these figures, given the difficulties in accessing comparable and reliable data on these financial flows and their attached conditions (e.g. level of concessionality), as discussed in chapter 2.

19 For instance, LDCs receive barely 1.7 per cent of global FDI inflows.

20 This shortfall is analysed in detail in chapter 2.

Figure 1.8

External finance to the least developed countries



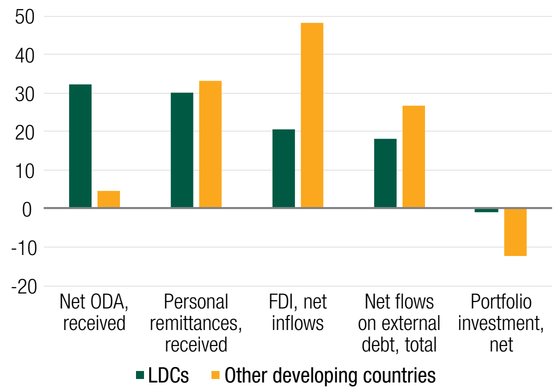
Source: UNCTAD calculations, based on data from the World Development Indicators database.

In line with global upward trends mentioned earlier, remittances have surged to become the second-largest source of external finance for LDCs, reaching a record-high $42.4 billion in 2017, and have continued to increase despite the recent slowdown in the world economy. They remain, however, private financial flows, typically used more for consumption than for investment. This results in challenges in harnessing their full potential for investments related to sustainable development and structural transformation (UNCTAD, 2012).

Figure 1.9

Share of external development financing, 2014–2017

(Percentage)



Source: UNCTAD calculations, based on data from the World Development Indicators database (accessed June 2019).

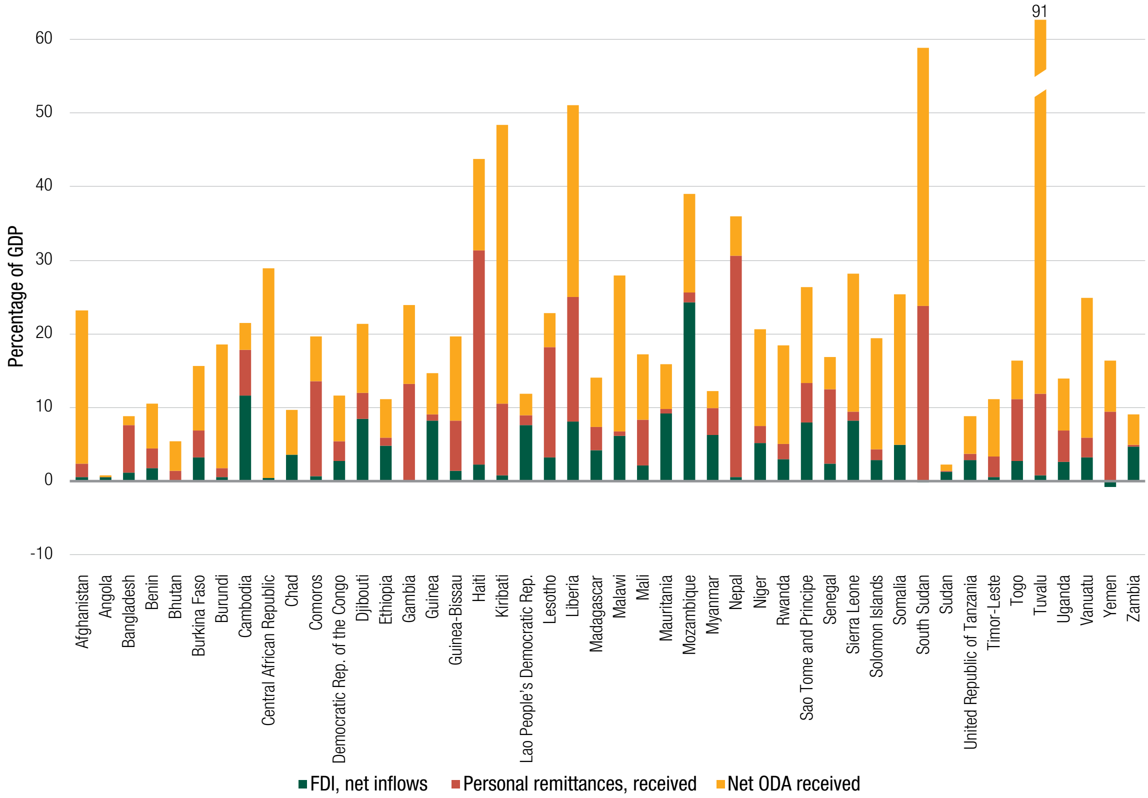
FDI inflows to LDCs also recorded a sharp increase from $3.9 billion in 2000, to $37.6 billion in 2015, and receding somewhat since then to $20.7 billion and $23.8 billion, respectively, in 2017 and 2018 (UNCTAD, 2019a). Despite the recent decline, the amount of FDI inflows is still six times higher than in 2000. Due to this recent decline in FDI, financial inflows related to external debt have become LDCs' third largest source of external finance. Portfolio investment, by contrast, plays a subdued role and has actually resulted in a net outflow of resources for LDCs for much of the last five years.

Among LDCs, the significance of ODA relative to other sources of foreign finance is even starker when assessed at an individual country level. This is evident in figure 1.10, which shows the main flows of external finance to individual LDCs, as a share of the recipient country's GDP, averaging values over 2015–2017 to smooth out sharp year-to-year variations. The figure highlights two main features of ODA.

First, regardless of the predominant source, and other things being equal, smaller economies tend to rely more heavily on external finance, as reflected by

Figure 1.10

Main flows of external financing to the least developed countries (2015–2017)



Source: UNCTAD calculations, based on data from the World Development Indicators database.

the higher magnitude of these flows relative to GDP. This has been identified as a source of vulnerability to external economic shocks, particularly in the case of island LDCs, such as Kiribati, Tuvalu and Vanuatu, but also for other LDCs such as Djibouti, the Gambia, Lesotho, Malawi and Sierra Leone, many of which are actually landlocked (McGillivray et al., 2010). Conversely, some relatively larger economies such as Bangladesh, Ethiopia and Myanmar are large recipients of foreign financing but, overall, the weight of these flows does not exceed 10–15 per cent of GDP.

Second, in terms of relative weight of the different sources of external finance, the significance of ODA across most LDCs emerges starkly, not so much because of its overall larger magnitude, but rather, above all, for being more evenly distributed across countries than either remittances or – to an even greater degree – FDI. In other words, ODA is particularly relevant not only for large recipients and "donor darlings", but also for countries struggling to attract other sources of finance, either due to a small market size that is unappealing to market-seeking FDI, limited resource endowments or the simple fact of not having large migrant stocks abroad.

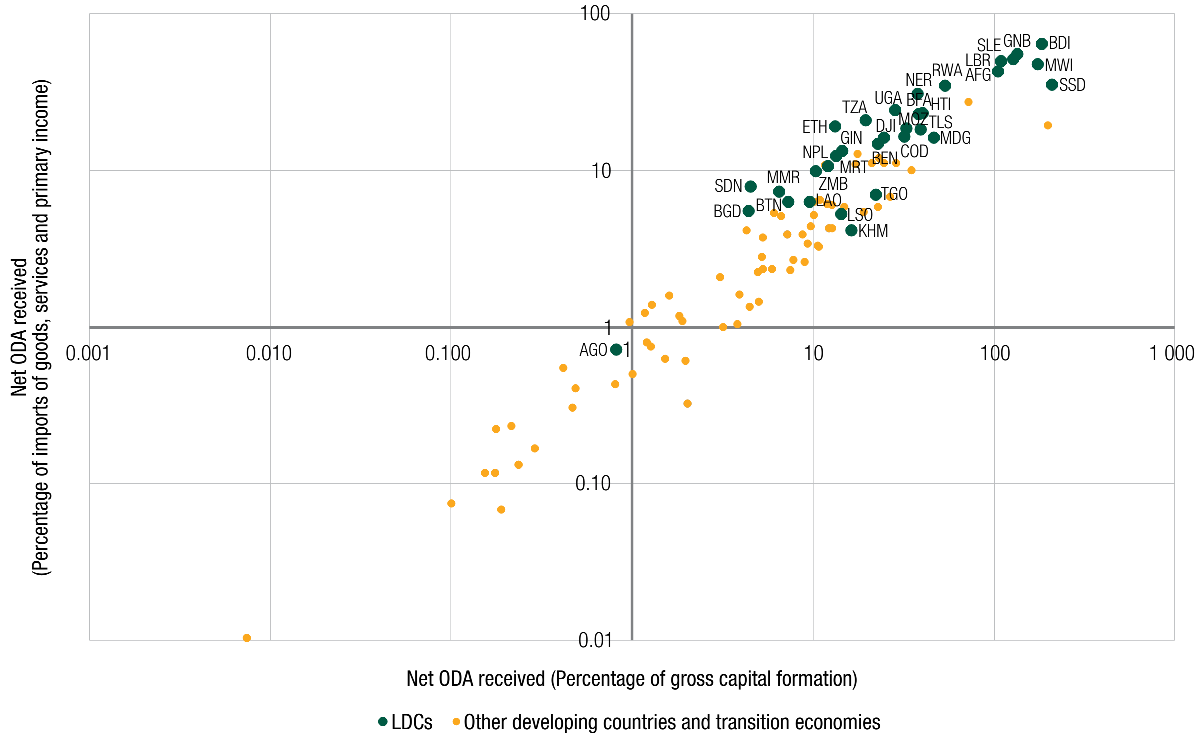
Consistent with the previous discussion on balance of payments constrained growth, further evidence of the specificities of LDCs emerges very clearly from figure 1.11, which juxtaposes the situation of LDCs, other developing countries and transition economies. Averaging over the period 2015–2017, LDCs appear clearly clustered in the top-right corner, with Angola the only exception. This indicates that, by international standards, they are characterized by high net ODA receipts relative to both gross fixed capital formation (horizontal axis) and imports of goods services and primary income (vertical axis).[21] To complement the visual evidence of figure 1.11, it suffices to note that the median value of the two ratios is, respectively, 25 per cent (horizontal axis) and 16 per cent (vertical axis) in the case of LDCs,

[21] If anything, LDCs were even further apart from other developing countries in earlier time periods (2010–2012), pointing to the structural nature of their vulnerabilities. It is also interesting to note that outside the group of LDCs, similar levels of aid dependence are essentially found among SIDS (Cabo Verde and Marshall Islands) and economies such as Kosovo (United Nations Administrative Region, Security Council resolution 1244 (1999)) and the State of Palestine.

Figure 1.11

Aid dependence across least developed countries, other developing countries and transition economies, 2015–2017

(Logarithmic scales)



Source: UNCTAD calculations, based on data from the World Development Indicators database (accessed June 2019).

Notes: Both axes are on a logarithmic scale. The four countries recording negative net ODA inflows over 2015–2017 (Argentina, Belarus, China and Malaysia) were dropped to perform the logarithmic transformation. Country names in figure abbreviated using ISO (International Organization for Standardization) codes.

compared to only 5 and 2 per cent, respectively, for other developing countries and transition economies.

LDCs' reliance on external finance, and the persistence of their relative position in terms of aid dependence, points to a continuous need for support, which is widely acknowledged in the Addis Ababa Action Agenda (United Nations, 2015b, para. 52) and within framework of the 2030 Agenda for Sustainable Development (target 17.2). This need has become more acute in recent years, due to the stark changes the international aid architecture has been undergoing, as the next section shows.

G. The changing architecture of aid

The state of LDC aid dependence depicted so far is worrisome in itself. The situation has become even more challenging for LDCs as the aid landscape has changed considerably in recent years. It has become more complex and less transparent since the early 2000s, which further challenges the already constrained capacities of LDC policymakers to manage the financing of sustainable development in their countries.

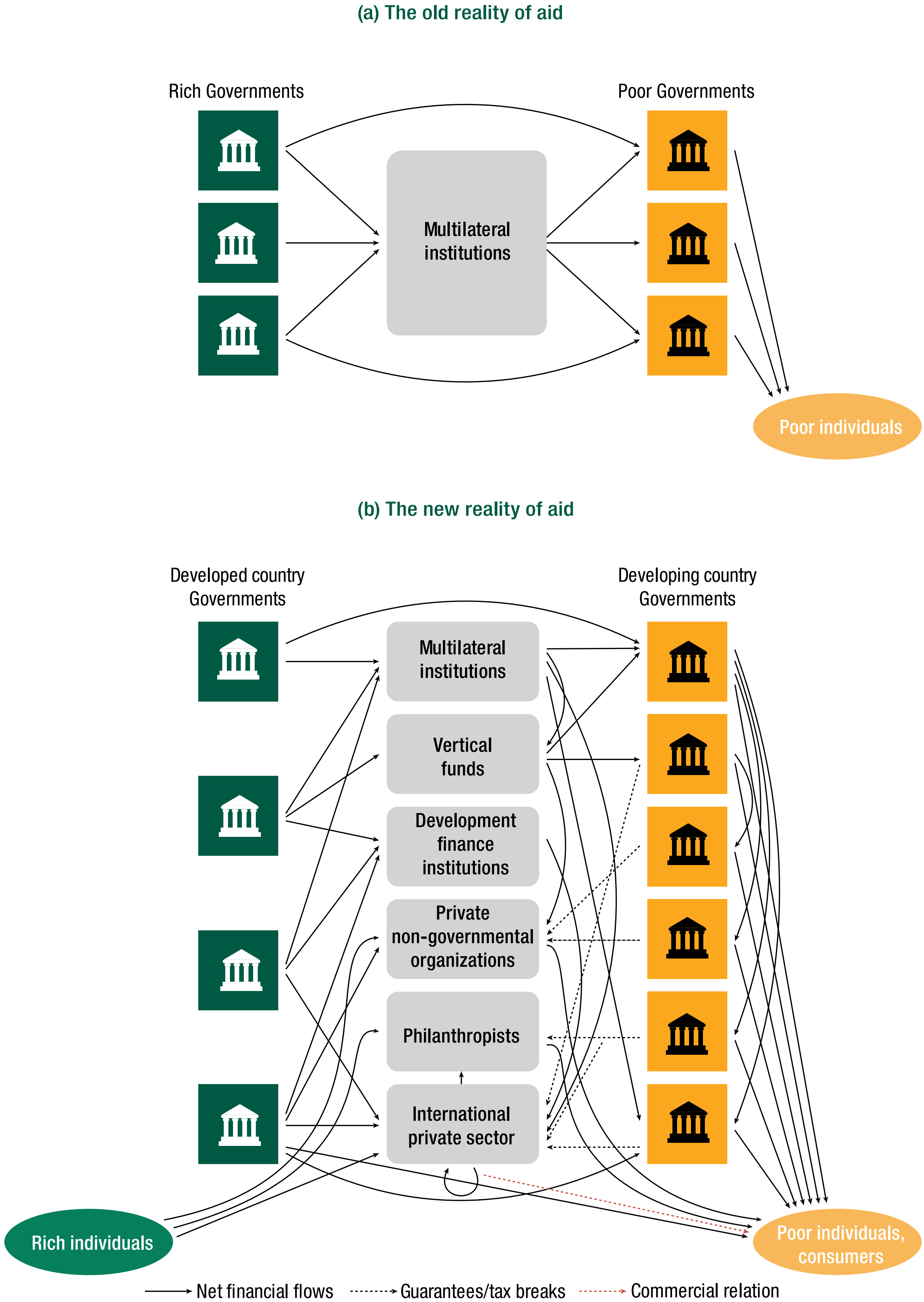
Traditionally, ODA referred to flows of public resources from developed country Governments (donors) to developing country Governments (recipients/beneficiaries) (figure 1.12 (a)). The relationship between donor and beneficiary countries has never been free of controversy, which eventually gave rise to the aid effectiveness agenda (discussed in section B of chapter 5). Nevertheless, the aid architecture was clear, as were the roles of each side.

Over the last 15 years, however, the aid architecture has been transformed, due especially to the following developments:

- Changes in the aid policies of traditional donors that affect their aims, priorities, modes of delivery and partnerships. Among other things, this entails the broadening of goals that traditional donors intend to achieve through their aid policies (Severino and Ray, 2009);

Figure 1.12

The changing aid architecture



Source: UNCTAD, based on Fengler and Kharas (2010).

The global panorama for development financing is becoming more fragmented, complex and opaque

- Shifts in the relative importance of actors, including particularly the changing role of non-governmental organizations and new forms of private sector engagement;
- (Re)emergence of new actors and sources of development finance, especially in relation to the strengthening and broadening of South–South cooperation;
- Entry of philanthropists, who have come to play a major role in some fields (e.g. health);
- Development of new modalities and instruments of raising and delivering aid in the wake of innovations in global financial markets, e.g. blended finance and public–private partnerships.

These crucial developments are transforming the global scene of official development financing, which is becoming far more fragmented, complex and opaque (figure 1.12 (b)). Such changes present challenges to the limited institutional capacities of LDC policymakers and other domestic economic agents. As they strive to mobilize the much higher financing necessary to launch the structural economic transformation required to achieve the Sustainable Development Goals, these changes add to the challenges that LDCs have traditionally faced.

At the same time, these changes provide opportunities, given the possibility of accessing a wider array of sources and modalities of financing. This has been dubbed the "age of choice" for development finance (Prizzon et al., 2016). However, the extent to which the selection of options has widened depends on countries' creditworthiness. If it is low or lacking, access to private funds on commercial terms in international capital markets (e.g. by emitting bonds) is excluded, or at least more difficult and costly, as an option. Moreover, the very existence of more sources requires carefully weighing the pros and cons of alternative sources and modalities, as well as evaluation of their development impact and the consequences for countries' foreign indebtedness.

The Monterrey Consensus and the Addis Ababa Action Agenda have reflected these changes by progressively shifting the focus of the international community away from mainly traditional development cooperation, towards encompassing other increasingly visible types of international financial flows and actors.

H. Rationale and structure of the report

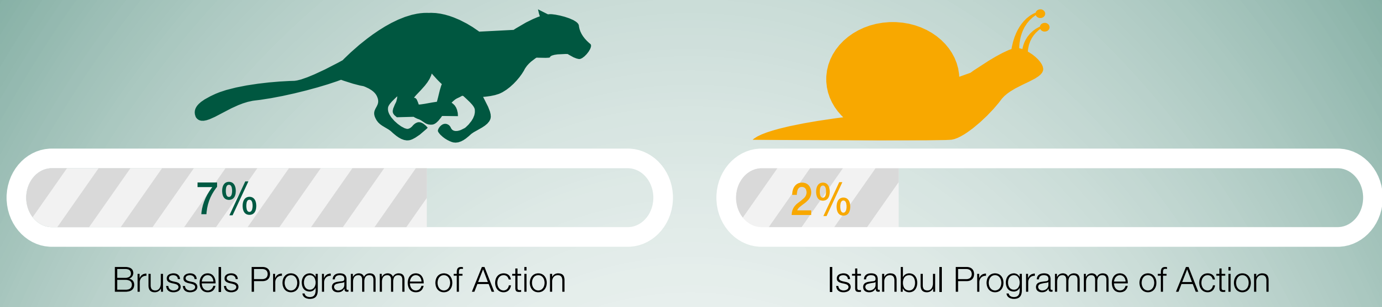
Discussions in *The Least Developed Countries Report 2019* consider whether LDC dependence on external development finance poses new challenges for structural transformation in the present era of the Sustainable Development Goals and the changing aid architecture. The research is motivated by two features of LDC development finance in this context. First, the lingering structural high dependence of LDCs on external finance and, more specifically, on ODA. Second, the changing aid architecture, which brings challenges and opportunities to LDCs.

In the report, the extent to which LDCs have been able to benefit from recent changes in the aid architecture mentioned above is gauged. Critically, there is an attempt to assess whether these shifts have resulted in an increase in external finance for development for LDCs and, if this has been the case, whether this increase matches the financing needs of the LDCs arising from the pursuit of the Sustainable Development Goals, in terms of both volume and sectoral allocation. Related to this issue, in the report, analyses are presented of which actors have most influence on the allocation of available financing for development in LDCs and whether this allocation is aligned with LDCs' development priorities. Ultimately, the research presented in the report is aimed at addressing the question of whether and to what extent available external resources are contributing to the structural economic transformation of LDCs.

The remainder of *The Least Developed Countries Report 2019* is organized around the topics presented here. In chapter 2, the focus is on examining how LDCs' aid dependence has been evolving recently in terms of sectoral allocation, modalities and instruments, and gauges the consequences (including for external debt). In chapter 3, analyses are presented of how the aid-related elements of the Addis Ababa Action Agenda are being interpreted and implemented in the case of LDCs, and how this has an impact on the changing relationship between the public and private actors in external development finance. In chapter 4, the issues studied are the interaction between dependence on external finance and fiscal policy and how LDC Governments are reacting to the changing circumstances in the international landscape of financing for development. In chapter 5, the policy implications drawn from the preceding chapters are presented. Options are also presented for LDCs to enhance the contribution of aid to structural transformation and, consequently, to sustainable development.

ODA FLOWS TO LDCs

AVERAGE DISBURSEMENTS GROWTH RATE

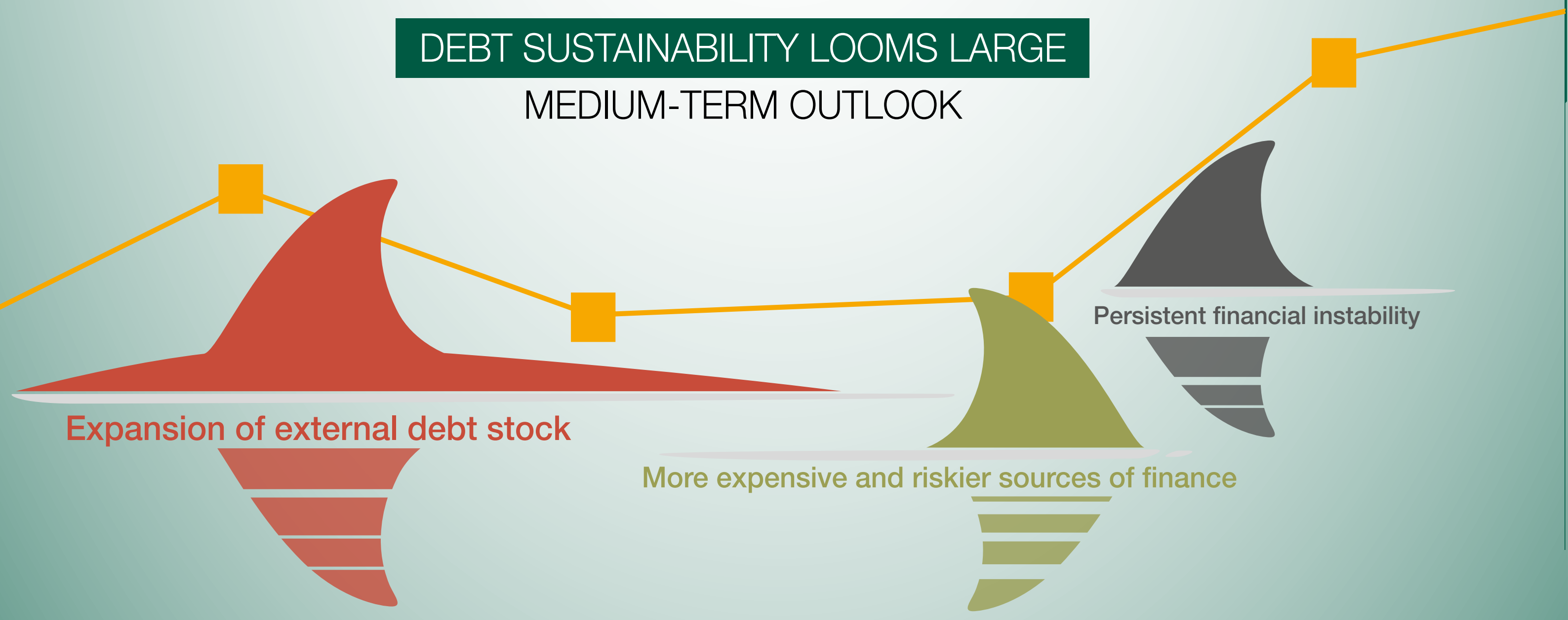


SOUTH–SOUTH COOPERATION CONTINUES GAINING MOMENTUM

NEW PARTNERSHIPS FOR:

DEBT SUSTAINABILITY LOOMS LARGE

MEDIUM-TERM OUTLOOK



CHAPTER 2

Official flows and the evolving terms of aid dependence

CHAPTER 2

Official flows and the evolving terms of aid dependence

A. Introduction

LDC specificities and long-standing challenges in financing investments for sustainable development have been extensively documented and are widely acknowledged, at least in principle, by the international community. Nonetheless, concrete responses have so far fallen short of the needs of LDCs, as well as of the internationally agreed commitments enshrined in the Sustainable Development Goals and, previously, in the Millennium Development Goals. Chapter 1 explained how sluggish economic diversification and weak development of domestic productive capacities in most LDCs converge, creating a structural deficit in a country's current account and, consequently, little ability to attract market-based forms of sustainable long-term financing. Notwithstanding some incipient signs of improvement, the interplay of these factors leaves many LDCs with limited alternatives to ODA as a source of external finance, leading to heightened levels of aid dependence.

The terms of such aid dependence and how they have evolved are the main topic of chapter 2. In this chapter, ultimately stock is taken of these facets in the context of the 2030 Agenda for Sustainable Development. Section B of the chapter contains a review of the evolution of aid dependence, pointing to the moderate improvements that ushered in the post-2015 era, as well as some of the outstanding challenges. In section C, official development finance flows to LDCs are assessed, analysing the key trends in magnitude, sectoral allocation and concessionality and other modalities. In section D, South–South cooperation and triangular cooperation are discussed, trying to unpack how continued strengthening of such cooperation may change the development finance landscape for LDCs and contribute to achieving the 2030 Agenda. In section E, debt sustainability is addressed, highlighting the stakes LDCs have in the ongoing debate on this systemic financial issue, while section F contains a summary and conclusions.

B. The evolution of aid dependence over time

As seen in chapter 1, the heightened reliance on foreign savings and prominence of ODA as a source of external finance are two defining features of the specific vulnerabilities of LDCs. The wide-ranging consequences of this are closely related to these countries' weak productive capacity development. The situation translates into greater aid dependence of LDCs, as widely acknowledged by the international community and mentioned in the Addis Ababa Action Agenda (para. 52) and in Sustainable Development Goal target 17.2.

ODA receipts plateaued in 2010, staying at $60 per LDC inhabitant since then

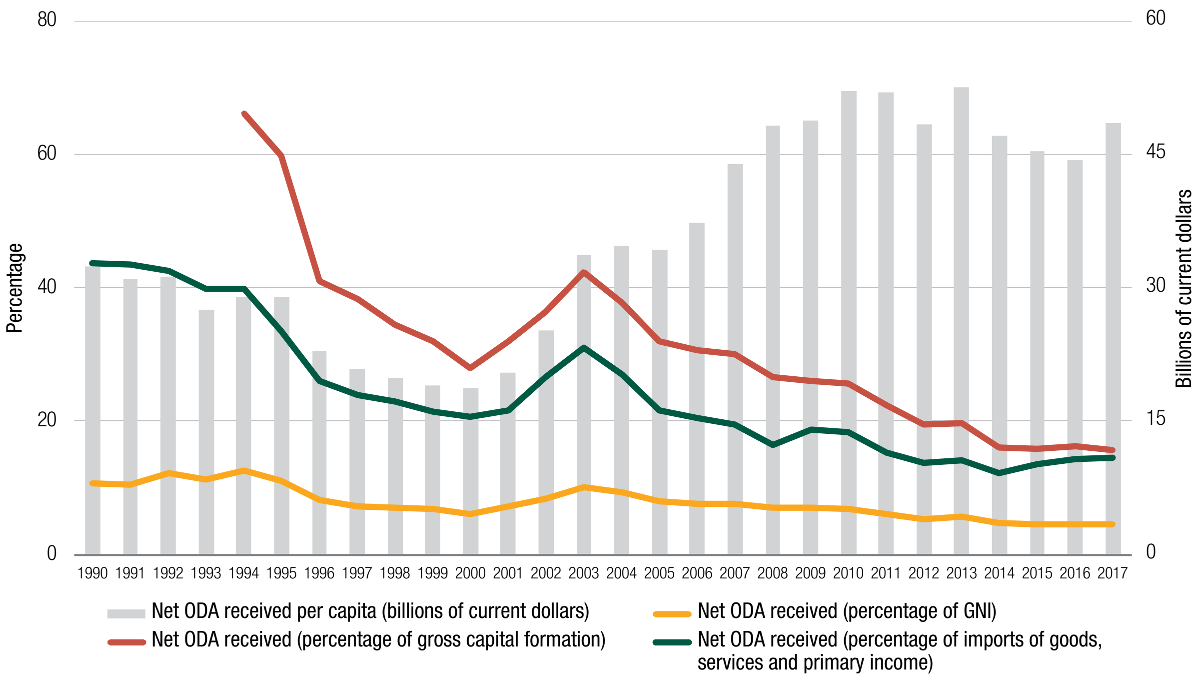
Comparisons with other developing countries should not hide, however, the fact that the last few years of sustained economic growth in LDCs have lessened their economic dependence on aid resources (figure 2.1). For LDCs as a group, the importance of aid flows relative to economic variables has been on a steady decline since 2003. This holds true regardless of whether the measure used is the weight of ODA relative to GNI, gross fixed capital formation or imports of goods and services and primary income payments.[1] The ratio between net ODA receipt and central government expenditures has also declined compared to a decade earlier, in 10 of the 11 LDCs for which data are available. Despite sluggish progress towards structural transformation, the period of relatively strong economic dynamism seems to have likewise contributed to alleviating aid dependence in most LDCs. Similarly, when measured in per capita terms, ODA receipts of LDCs increased significantly during the first decade of the 2000s, plateauing then at an average of $60 per LDC inhabitant since 2010.

While large and rapidly growing LDCs have been the main drivers of the downward tendency in aid dependence described above, the trend is rather broad-based and also encompasses some relatively large LDC recipients (such as Cambodia, Ethiopia and the United Republic of Tanzania). Across today's LDCs, the median value of net ODA relative to GNI declined sharply in the second half of the 1990s – from 19 per cent in 1994, to less than 10 per cent in the year 2000 – and picked up again in the early 2000s (reaching 13 per cent in 2003). It then continued its steady downward trend, reaching the current 7 per cent (figure 2.2). Against this backdrop, the decline in the median value of the ODA-to-GNI ratio has been accompanied by the persistent presence of several LDCs with relatively higher values, as evidenced by the upward broadening of the interquartile range (encompassing the middle 50 per cent of the distribution). This points to the existence of a group of LDCs where sluggish transition away from aid dependence, or recurrent crises (as is often the case

1 Primary income payments refer to employee compensation paid to non-resident workers and investment income (payments on direct investment, portfolio investment and other investments).

Figure 2.1

Evolution of aid dependence of the least developed countries, by four measures



Source: UNCTAD calculations, based on data from the World Development Indicators database.

of island LDCs), are associated with a more prominent role of ODA receipts relative to GNI.

In this context, it is also instructing to reflect on the heterogeneity across individual LDCs as it pertains to the distinct channels through which aid dependence manifests itself. Admittedly, standard measures of aid dependence are positively correlated, but some revealing pattern emerge when analysing them separately across LDCs, pointing to critical considerations on the exposure to potential shocks or adverse policy effects (figure 2.3). First, while island LDCs stand out in terms of net ODA receipts per capita, their ODA receipts are not necessarily uncommon when assessed relative to GDP; in particular, LDCs in conflict or post-conflict situations display similar levels of the ratio. Secondly, while the impact of aid dependence on fiscal policies is likely to be mediated by GDP size, differences in terms of viable strategies for public revenue mobilization may entail distinct manifestations of aid dependence, as will be discussed in greater detail in chapter 3.

C. Taking stock of official development finance

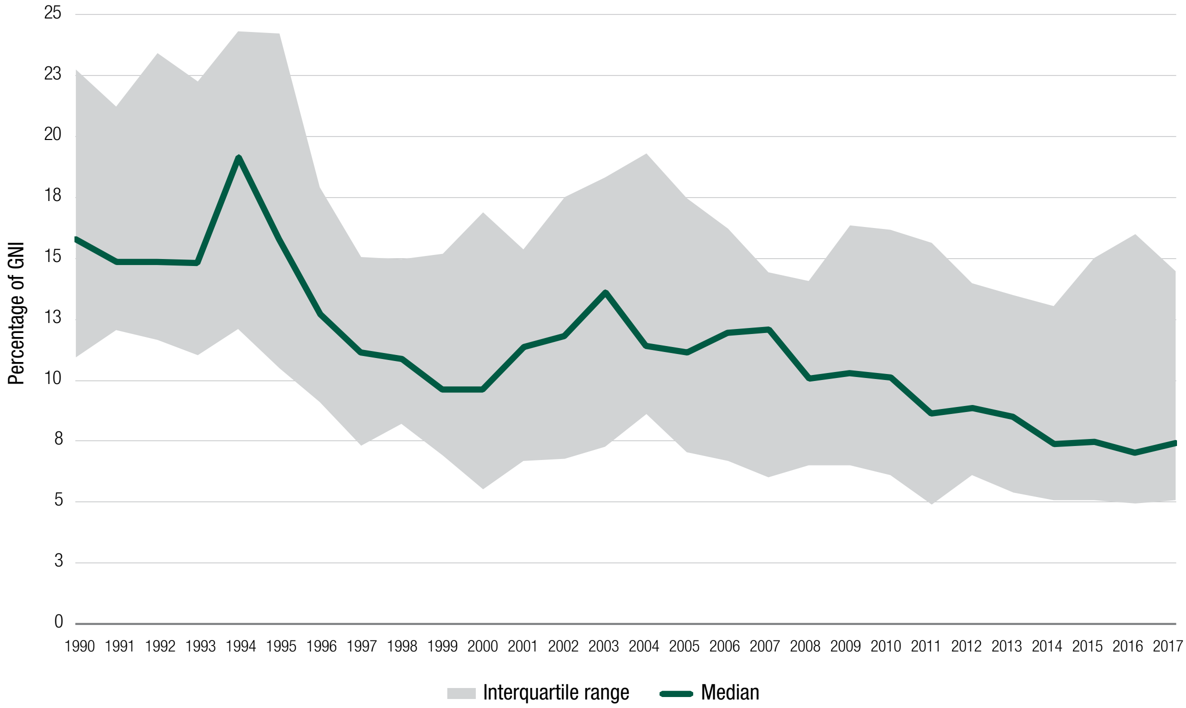
The previous section documented LDCs' specificities pertaining to patterns of dependence on external resources and discussed the critical role official development finance[2] continues to play for LDCs' development prospects, both in relation to their current account balance and to the concrete support of critical interventions, whether humanitarian, social, institutional or productive in nature. The present section takes this discussion a step further, taking stock of recent trends in official flows and their evolving features, with a view to identifying key characteristics impinging on LDCs' quest for sustainable development finance.

Before analysing the key features of official flows to LDCs in greater detail, it is important to acknowledge from the outset data limitations related to both measurement and coverage, which hamper systematic and comprehensive monitoring at a global level. The DAC is one of the most widely used sources of data on the matter and, accordingly, the present section relies mainly on it unless otherwise stated. While the statistical guidelines developed and utilized by DAC ensure the consistency and comparability of data, they inevitably stem from historical and political realities and have not been free from criticism (Hynes and Scott, 2013; Colin, 2014; Atwood et al., 2018).

2 Official development finance, as used in this report, refers to a financial transaction from Government to Government, encompassing concessional finance (i.e. ODA) and non-concessional finance by DAC bilateral and multilateral donors; some non-DAC countries report their development assistance to OECD, and the corresponding flows are also taken into account (see section D for more details).

Figure 2.2

Net official development assistance among the least developed countries

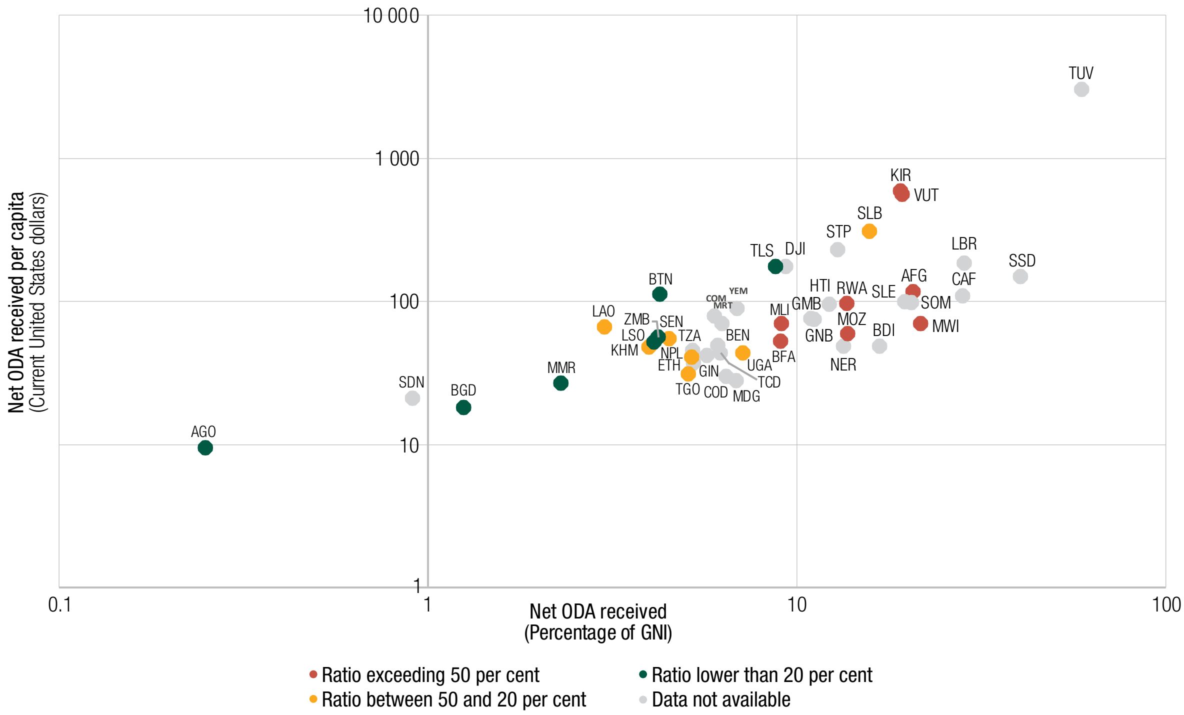


Source: UNCTAD calculations, based on data from the World Development Indicators database.

Figure 2.3

Aid dependence across the least developed countries, 2015–2017

(Logarithmic scales)



Source: UNCTAD calculations, based on data from the World Development Indicators database.

Notes: Ratios indicate ratio between net ODA received on central government expenditures. Country names in figure abbreviated using ISO codes.

Box 2.1 A glance at the evolving notion of official development assistance

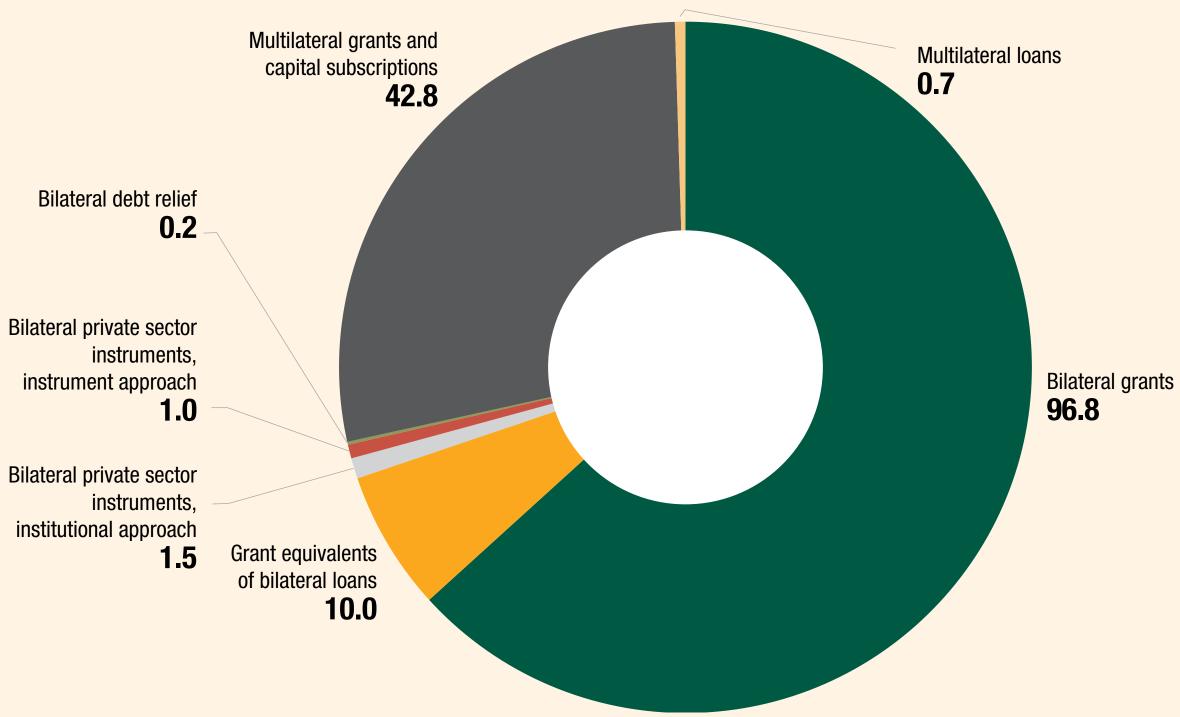
The DAC has long established itself as one of the key institutions monitoring ODA flows and providing related data; accordingly, commonly used aid figures have tended to follow the corresponding statistical and reporting standards. The DAC first defined ODA in 1969 and tightened its definition in 1972, and the evolving historical and political realities underpinning these decisions are implicitly reflected by the collected ODA series (Hynes and Scott, 2013).

Until recently, consideration of official flows as ODA depended on three main criteria: funds had to be provided by official agencies including state and local governments; their principal objective had to be the promotion of economic development and welfare of developing countries; and they had to be concessional in character, with a degree of concessionality of at least 25 per cent (calculated at a discount rate of 10 per cent). In this respect, funds qualifying as ODA but taking the form of loans would be reported at a face value regardless of their degree of concessionality, with other official flows as the residual group encompassing other state-to-state transactions. Arguably, this so-called "cash basis" definition of ODA poses two main methodological challenges in relation to the treatment of concessional loans: the reference discount rate is poorly reflective of the post-2009 context of low interest rates; and the reporting of ODA loans for their entire face value inflates aid figures and creates perverse incentives for donors, which might have the incentive to report as ODA also loans whose degree of concessionality is questionable (Colin, 2014; Atwood et al., 2018).

In the context of the post-2015 development agenda, the DAC decided to "modernize" its ODA measurement framework, with a view to better reflect donor efforts as well as the evolving realities, most notably the growing emphasis on mobilizing private sector resources. This has led to the application of a "grant equivalent measure" to non-grant instruments, namely ODA loans – for which an agreed methodology has been adopted – as well as equities and other private sector instruments – which are captured according to a provisional methodology since a corresponding agreement has yet to be reached among DAC members.

Breakdown of official development assistance of Development Assistance Committee members, 2018*

(Billions of Dollars)



Source: UNCTAD calculations, based on data from OECD.
* On the basis of a grant equivalent.

In relation to ODA loans, the "modernized" criteria to assess the concessional character of official transactions imply a grant element of at least:

- 45 per cent in the case of bilateral loans to the official sector of LDCs and other low-income countries (calculated at a rate of discount of 9 per cent);
- 15 per cent in the case of bilateral loans to the official sector of lower-middle income countries (calculated at a rate of discount of 7 per cent);

Box 2.1 (continued)

- 10 per cent in the case of bilateral loans to the official sector of upper-middle income countries (calculated at a rate of discount of 6 per cent);
- 10 per cent in the case of loans to multilateral institutions (calculated at a rate of discount of 5 per cent for global institutions and multilateral development banks, and 6 per cent for other organizations).

For loans qualifying as ODA, the grant equivalent measure is then obtained by multiplying the annual disbursements on the loan by the loan's grant element at the time of the commitment; hence this metric provides stronger incentives to use grants and highly concessional loans. The use of differentiated thresholds and discount rates implies that the resulting flows according to the grant equivalent metrics have little relation to the actual amounts disbursed; they represent a measure of "donor effort". Data on actual flows i.e. on a cash-basis continue to be collected and published to ensure continuity in ODA statistics from a "recipient perspective".

Precisely to ensure comparability over time, all figures for ODA provided in the present chapter, with the exception of this box, follow the cash-basis definition and metrics.

Based on the preliminary data provided for 2018, the shift from a "cash basis" metrics to the grant equivalent methodology has only modest effect on global ODA levels to all developing countries (OECD, 2019a). Across all DAC donors, it entails a slight expansion of 2.5 percentage point in ODA flows to developing countries, albeit variations can be as large as 40 per cent for individual donors. Besides, the breakdown of total ODA to developing countries by flow suggests that private sector instruments – as captured through the provisional methodology – so far only plays a marginal role, accounting for barely 2 per cent of total ODA in grant equivalent basis. Yet, as the methodology for its inclusion still needs to be finalized, this may well change. It should also be borne in mind, as will be discussed in chapter 3, that the way in which the private sector instruments is operationalized may have serious consequences on the development finance landscape, and its inclusion in ODA headline figures is not free from concerns, particularly in relation to its concessional character (Atwood et al., 2018).

Deliberations on the post-2015 development agenda sparked an intense debate on the definition and measurement of official development finance. Despite some criticism, OECD spearheaded the exercise which touched on two broad issues.[3] First, growing emphasis has been paid to the monitoring not just of aid, but also of other official flows, defined as "transactions by the official sector which do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development or because they are not sufficiently concessional" (Klein et al., 2014, p. 68). Second, lengthy discussions focused on addressing controversial issues such as concessional loans (see below), in-donor refugee costs, peace and security-related expenditures, as well as private sector instruments (Colin, 2014; OECD, 2018b). This has led to the ongoing process of ODA modernization, whereby the statistical system for the measurement of development finance is being updated. The details of these measurement changes and their implications are discussed in box 2.1, which presents evidence from 2018 preliminary data (a more detailed discussion of private sector instruments is presented in chapter 3).

A related issue attains to the country coverage of DAC statistics. Although the majority of bilateral and multilateral donors report to DAC and abide by its measurement standards, this is not the case for several Southern partners whose development cooperation activities have become increasingly relevant (see section D). While this situation is understandable from an historical and policy perspective, the lack of common understanding and measurement frameworks for development cooperation and related resource flows complicates the monitoring of the global partnership for sustainable development. To circumvent these issues, much of the data presented here derive from the DAC database, with the understanding that they cannot but underestimate the official support received by LDC economies. Wherever possible, the contribution of Southern donors will be emphasized and discussed separately, with a view to highlighting its specificities but also with the caution of avoiding spurious conflation of financial flows which are not entirely comparable.

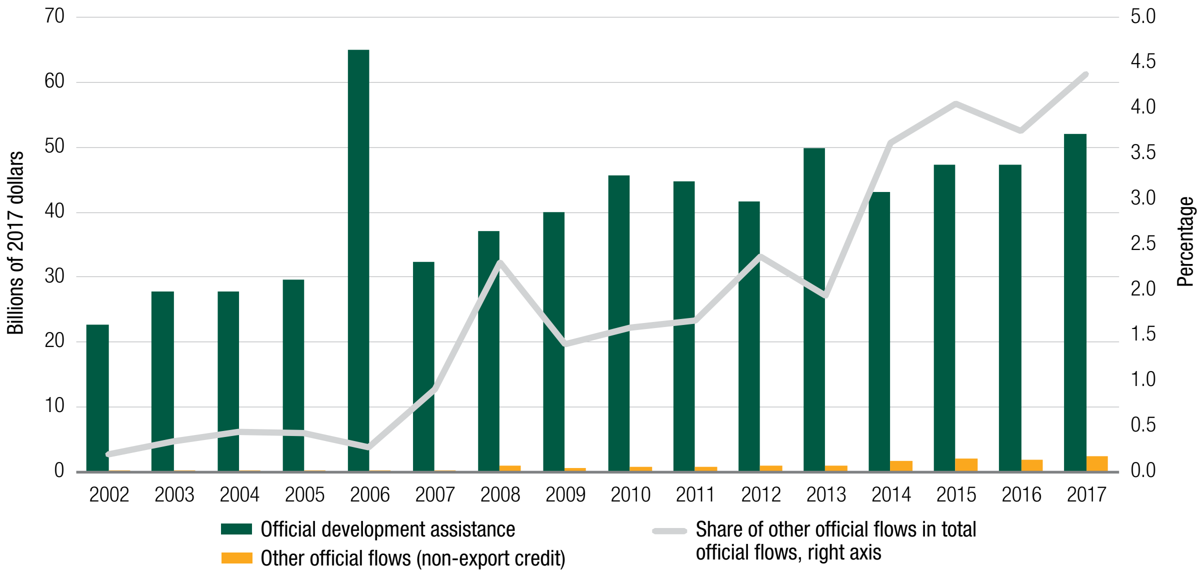
1. The size of official flows to the least developed countries

With a population of over 1 billion people in 2017, the 47 LDCs received $54.4 billion worth gross

[3] Additional issues discussed extensively in the context of various high-level meetings of DAC include the monitoring of private development finance (i.e. contributions from private philanthropic foundations) and of private sector instruments. For the sake of conceptual clarity, these issues are discussed in chapter 3, as they fall outside the scope of the official sector.

Figure 2.4

Gross disbursements of total official flows to the least developed countries



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

disbursements of total official flows as recorded by DAC; that is a larger amount of money than either FDI or remittances.[4] Although in real terms, total official flows remained well below the 2006 peak, corresponding to the largest amount of debt relief disbursed under the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative, the above figure implies a continuation of the mildly upward trend recorded since 2014, and a 10 per cent increase in real terms compared to 2016.

As shown in figure 2.4, ODA represented the overwhelming majority of these flows ($52 billion), while, other official flows accounted for roughly 4.4 per cent of gross disbursements to LDCs (or $2.4 billion). Even though the bulk of worldwide other official flows is directed to middle income developing countries such as Brazil, China, India, Mexico and Turkey, over the last decade LDCs have also witnessed an incipient penetration of such instruments, mainly to finance economic infrastructures. Multilateral donors have been the driving force behind this development, accounting for approximately 75 per cent of all disbursements of other official flows to LDCs; some DAC bilateral donors have also utilized these instruments, though to a far lesser extent (figure 2.5).

To put this picture in a global perspective, with 13.4 per cent of the world's total population the 47 LDCs received roughly 22 per cent of total official support. While they accounted for a slightly declining share of worldwide gross disbursements of ODA – 27 per cent in 2017, down from 30 per cent 10 years earlier – their share of global other official flows has been mildly on the rise but remains marginal by global standards, at some 4 per cent of the worldwide figure. Similar figures, coupled with LDC long-standing challenges to mobilize adequate financing from other sources, suggest that talks about "transition finance" – namely a gradual shift away from aid and towards financing on near-market conditions – may be premature for most LDCs (Prizzon et al., 2016; Piemonte et al., 2019). Indeed, other official flows tend to be concentrated on a handful of them: during 2015–2017, Bangladesh, Angola, Senegal, Liberia, Cambodia and Afghanistan, in decreasing order of importance, accounted for two thirds of all other official flows disbursed to LDCs.

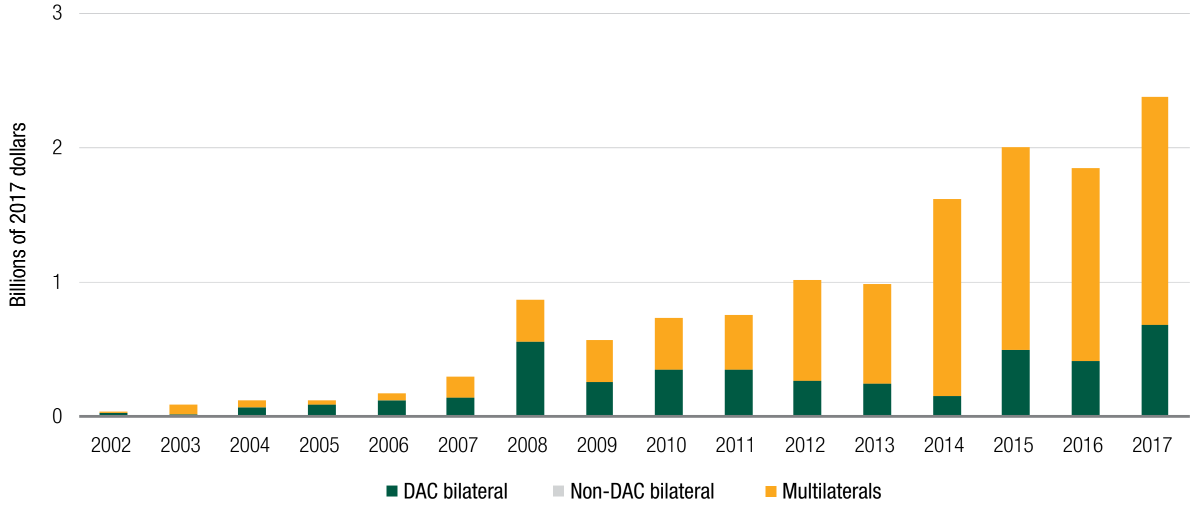
Against this background, ODA flows have continued to be distributed more evenly across individual LDCs than other official flows or other sources of external finance, such as FDI and remittances (figure 2.6). This holds true, despite the fact that donors' aid allocation is not only affected by country needs, but also by additional factors ranging from geopolitical considerations to historical and cultural links, especially in the case of bilateral flows (Alesina and Dollar, 2000; Anderson, 2008; Bermeo, 2017).

The pre-eminence of ODA for vulnerable countries has long been acknowledged by the international community, and is enshrined in Sustainable

4 Total official flows refer to the sum of ODA and other official flows.

Figure 2.5

Gross disbursements of other official flows to the least developed countries*

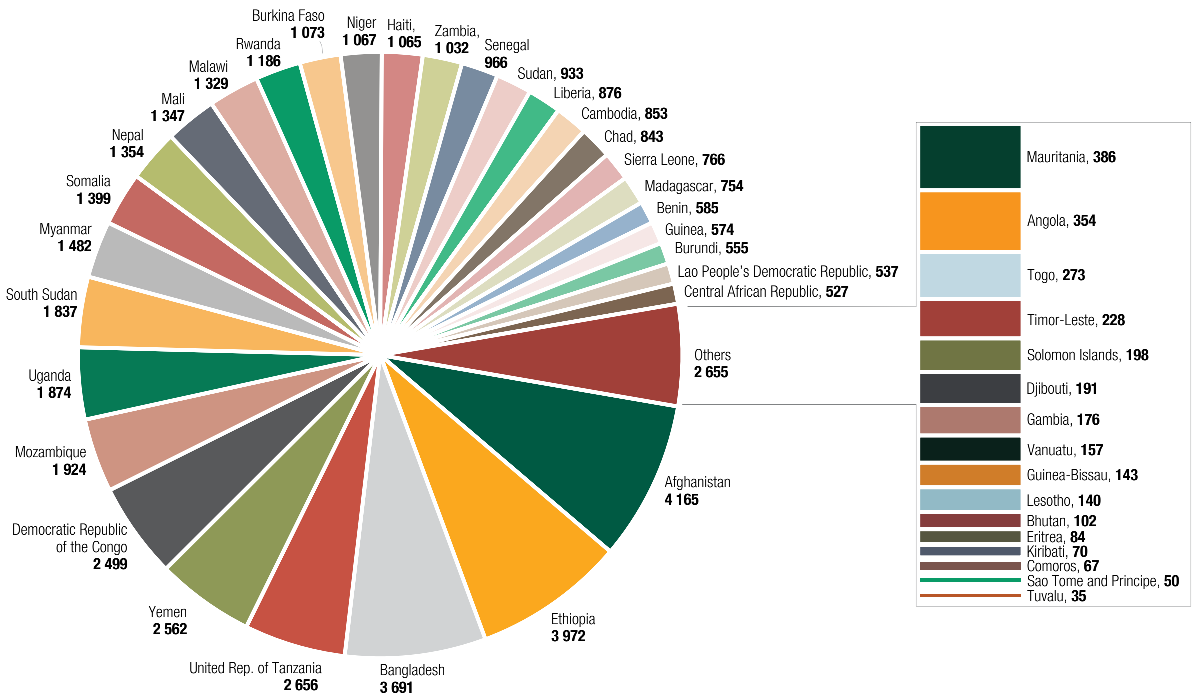


Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.
* Excludes export credit.

Development Goal target 17.2, which sets a specific target for aid allocation to LDCs equivalent to 0.15–0.20 per cent of DAC countries' GNI. Notwithstanding the rhetoric on the need to focus aid to the world poorest countries, as shown in box 2.2 much remains to be done in order to meet this internationally agreed target (UNCTAD, 2010; UNCTAD, 2016a; UNCTAD, 2018a; UNCTAD, 2019b). If anything, at a time when the Sustainable Development Goals have arguably broadened the array of development objectives LDCs' share of global ODA disbursements remains lower than in the previous decade.

Figure 2.6

Distribution of gross disbursements of official development assistance, 2015–2017

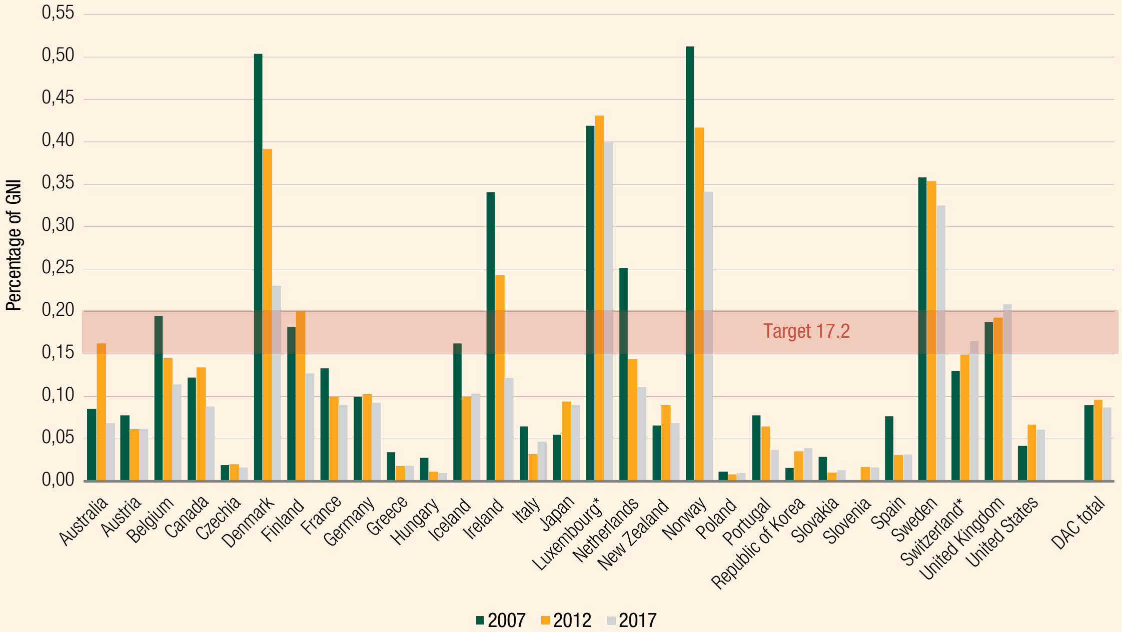


Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

Box 2.2 The elusive progress in meeting official development assistance commitments to the least developed countries

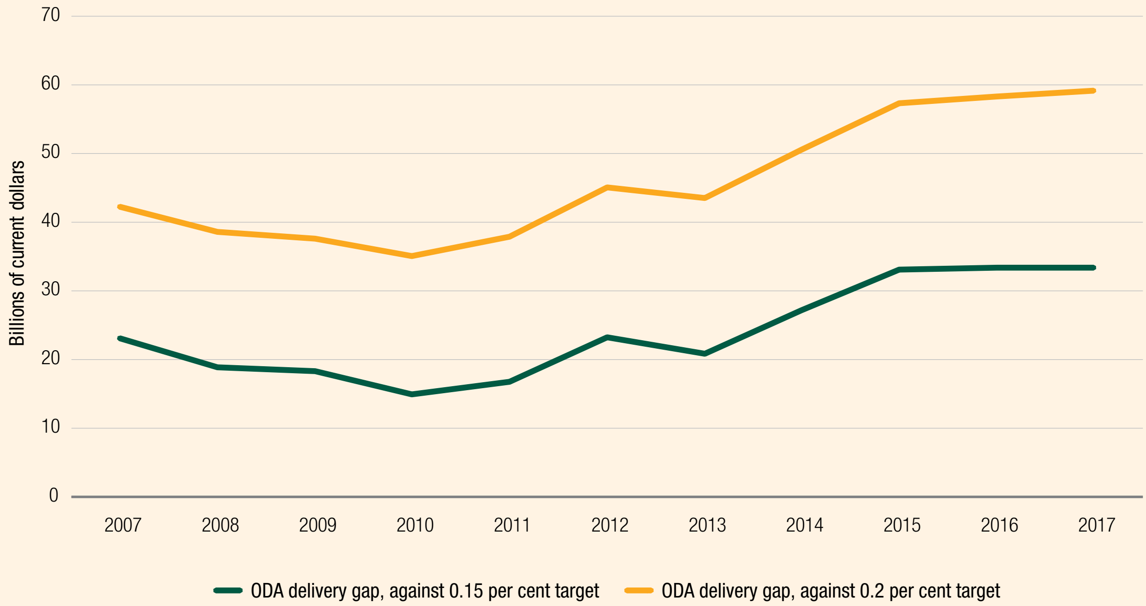
The origin of the LDC-specific target for aid allocation dates back to the Substantial New Programme of Action for LDCs of 1981, when donor countries committed to provide ODA equivalent to 0.15–0.20 per cent of their own GNI (UNCTAD, 2016a). Such a target has been reaffirmed in every Programme of Action since, as well as in the Millennium Development Goals and in the 2030 agenda for Sustainable Development in the context of the global partnership for development. Sustainable Development Goal target 17.2 indeed calls on developed countries to:

(a) Net official development assistance to the least developed countries from individual Development Assistance Committee member countries



Source: UNCTAD calculations, based on data from the OECD International Development Statistics database.
* The data reported refer to 2016, rather than 2017, due to missing values for Luxembourg and Switzerland.

(b) Net official development assistance to the least developed countries: Annual delivery gap*



Source: UNCTAD calculations, based on data from the OECD International Development Statistics database.
* In relation to United Nations targets for DAC donors.

Box 2.2 (continued)

> Implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries.

Despite long-standing commitments, aid provided to LDCs by DAC countries only represented 0.09 per cent of the latter's GNI in 2017, considering both bilateral net ODA disbursements and net disbursements through imputed multilateral channels. Regardless of the rhetoric about mutual accountability, this implies only marginal improvements compared to previous years. As a matter of fact, as shown in figure (a), only a handful of donors – namely Denmark, Luxembourg, Norway, Sweden, Switzerland and the United Kingdom of Great Britain and Northern Ireland – have met the on Sustainable Development Goal 17.2 target related to LDCs. (With the exception of Switzerland, these very countries are also the ones which provided aid equivalent to at least 0.7 per cent of their GNI to all developing countries.) Others, including some of the world's largest donors, remain far from the internationally agreed targets.

From the point of view of recipient countries, the lack of decisive progress towards meeting Sustainable Development Goal 17.2 targets implies a considerable shortfall of external development finance, as repeatedly lamented by UNCTAD (UNCTAD, 2016a; UNCTAD, 2018a; UNCTAD, 2010). In the aftermath of the global financial and economic crisis such an annual delivery gap has increased significantly at least until 2015, levelling off since (figure (b)). The sheer scale of this shortfall can be gauged from the following consideration. Had DAC donors met the 0.15 per cent target in 2017, net ODA disbursements to LDCs would have increased by an additional $32.5 billion, while if DAC donors has met the more ambitious 0.20 per cent target, they would have expanded by as much as $58.3 billion.

Even in absolute terms, after a substantial expansion for most of the 2000s, in the aftermath of global financial crisis of 2008/09, the real value of ODA flows to the LDCs has witnessed only modest and erratic increases (figure 2.7). ODA commitments have been particularly volatile in the recent period, peaking in 2015 at $58.5 billion, then falling to $50.2 billion in 2016, and rebounding to $58.5 billion in 2017 (all values being measured at constant 2017 prices). Gross ODA disbursements have been slightly more stable, as the disbursements-to-commitment ratio hovered between 80 and 90 per cent; yet, they also witnessed a visible slowdown since the turn of the decade (UNCTAD, 2016a; UNCTAD, 2018a; UNCTAD, 2019b). In 2017, gross ODA disbursements to LDCs totalled $52 billion, up 10 per cent in real terms from the previous year but only slightly larger than in 2013 (when they amounted to $50 billion).

Notwithstanding idiosyncratic factors affecting the variability of year-to-year growth, the extent of the slowdown in ODA flows to LDCs is hard to overestimate over the medium term. Regardless of whether one considers commitments or gross disbursements, under the span of the Istanbul Programme of Action for which data are available, the average growth rates of ODA flows to LDCs have been less than half those recorded under the Brussels Programme of Action (figure 2.8). In relation to commitments, the average annual growth rate was 8 per cent in 2001–2011, compared to 3 per cent in 2012–2017; in the case of gross disbursements, the two rates were respectively 7 and 2 per cent. Additionally, the signs of rebound since 2016 mainly stem from a step-up in humanitarian assistance to a handful of countries, namely Bangladesh, Somalia, South Sudan, Uganda and Yemen (United Nations, 2019a). Apart from this, there is little evidence to suggest that the adoption of the 2030 Agenda for Sustainable Development has reversed this trend. If anything, preliminary data from the OECD for 2018 suggest a further deterioration in ODA flows to LDCs, with bilateral ODA falling by 3 per cent in real terms from 2017 levels (OECD, 2019b).

Despite some cross-country variability, the above narrative is relatively broad-based: ODA (gross)

If donors had met **target 17.2** in 2017, LDCs would have received an additional **$33–58 billion**

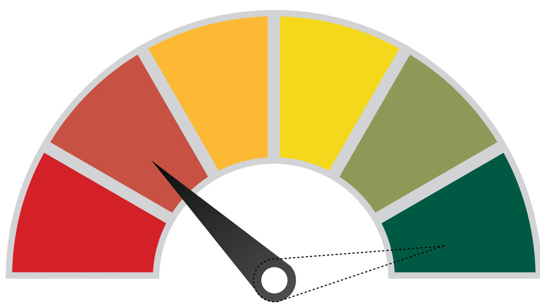
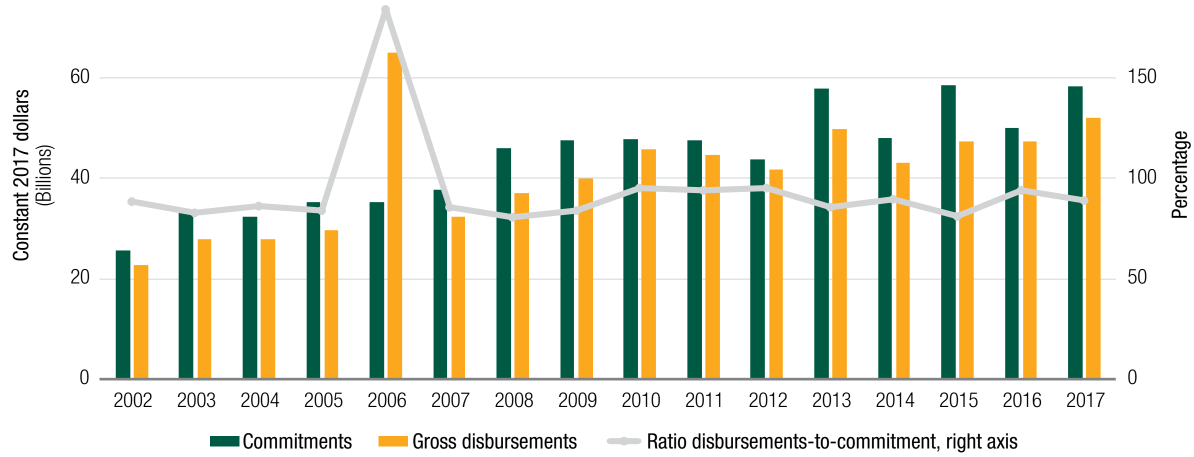


Figure 2.7

Official development assistance flows to the least developed countries



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

disbursements have increased more slowly under the Istanbul Programme of Action, compared to the Brussels Programme of Action period, in 28 of the 46 LDCs for which data are available. This includes most of the largest LDC recipients, such as Afghanistan, the Democratic Republic of the Congo, Ethiopia, Mali, Mozambique, Nepal and the United Republic of Tanzania. It is equally sobering to observe that in several LDCs the faster expansion of ODA flows recorded during the present decade is largely due to the advent of conflicts situations (for example, in Central Africa, South Sudan and Yemen) and/or other humanitarian emergencies (as in Guinea and Sierra Leone with the Ebola outbreak).

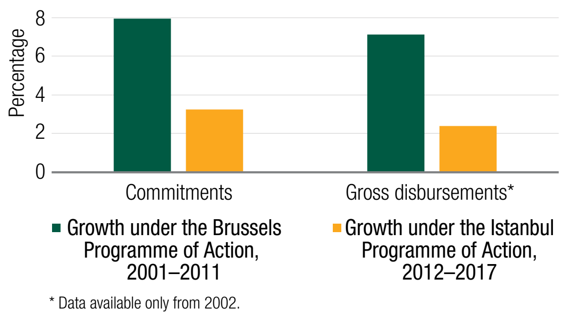
2. Sectoral allocation

In addition to the overall magnitude of ODA flows, the pattern of sectoral allocation of resources plays an important role in shaping the outcome of international development cooperation, as do the institutional quality and absorptive capacities of recipient countries (Feeny and McGillivray, 2009; Presbitero, 2016; UNCTAD, 2010). Hopes of a "big push" – that is of lifting an economy on a sustainable development path through concerted investment efforts – as those envisaged in the renewed conversation on a "Marshall plan for Africa", cannot but hinge on the idea that aid be primarily utilized to finance capital accumulation. In particular, economic theory has long emphasized the importance in the development process of attaining adequate levels of social overhead capital, meaning hard and soft infrastructures that represent inputs to the production process and exert significant spillovers across sectors, but whose provision is typically insufficient in an LDC context, because of market failures such as large fixed costs, credit rationing, information asymmetries and broader agency problems (Rosenstein-Rodan, 1943; Skott and Ros, 1997; UNCTAD, 2006a; UNCTAD, 2018e). Notwithstanding some voices questioning the overall usefulness of the aid paradigm (see, for example, Easterly, 2006 and Moyo, 2009), there has been a broad international consensus – at least in terms of aspirations – on the need to support LDCs in addressing supply-side constraints, which hamper their inclusive integration into the global economy.[5]

Cognizant of LDC challenges in mobilizing public revenues to this end, UNCTAD has repeatedly called

Figure 2.8

Average growth rates of official development assistance flows to the least developed countries



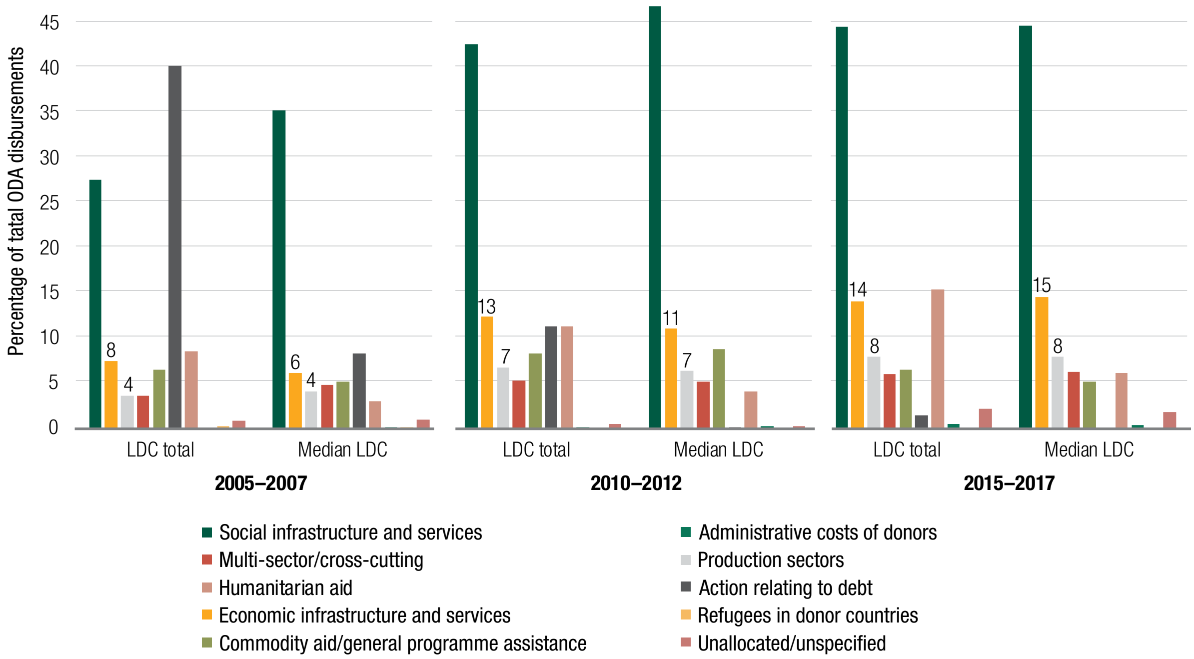
Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

[5] UNCTAD, 2006a; UNCTAD, 2010; UNCTAD, 2014d; United Nations, Economic Commission for Africa, 2013; OECD and World Trade Organization, 2013; OECD and World Trade Organization, 2017.

Figure 2.9

Composition of official development assistance disbursements

(Percentage)



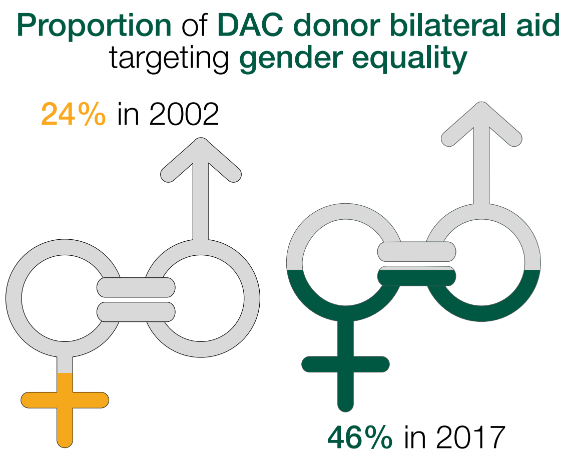
Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

for development cooperation to help redressing infrastructural gaps and supporting productive sectors, as appropriate in light of each country's specificities (UNCTAD, 2006b; UNCTAD, 2010; UNCTAD, 2016a). In an LDC context, this strategy could go a long way in bringing about the "concerted fiscal push" (UNCTAD, 2017b), which could spur structural transformation and a sustainable development path. Unless this process is set in motion, it remains difficult for much-needed social spending to unleash its utility in full, as improvements to the standards of living and enhancements of human capital retain limited sustainability without a commensurate creation of productive employment, which can only take place with adequate levels of investment and aggregate demand. Whether or not sectoral aid allocation reflects the above considerations on the catalytic role of public sustainable development investment is debatable, and largely depends on how the recipient country and its development partners agree to trade off competing priorities.

As in other developing countries, social infrastructures (mainly health and education) have continued to absorb by far the largest amount of ODA disbursements to LDCs, some 45 per cent of the total, with humanitarian aid accounting for another 15 per cent (figure 2.9). While these interventions are important in themselves and in relation to human capital accumulation, the central question from a sustainability perspective is the extent to which they are consistent with the structural transformation agenda and mutually supportive. In this respect, several emerging practices – notably under the education partnership to achieve Sustainable Development Goal 4 – promise to enhance the synergies between such social sector spending, humanitarian assistance and longer-term development goals. In particular, there is a growing recognition "development is the most effective way to build resilience" leading donors to increasingly adopt multiyear humanitarian response plans and integrate climate resilience into their infrastructural programmes (United Nations, 2019a, p. 84).[6]

This said, the fact remains that infrastructures and productive sectors remain chronically underfunded in most LDCs; nor is there a strong indication that the recent focus on private funding will decisively reverse this situation, especially in relation to the huge financing requirements for bolstering

[6] In 2019, multi-year humanitarian response plans and financing will be rolled out in seven LDCs, namely Afghanistan, the Central African Republic, Chad, the Democratic Republic of the Congo, Haiti, Somalia and the Sudan (United Nations, 2019a).



electricity provision, modernizing agriculture and strengthening manufacturing (UNCTAD, 2010; UNCTAD, 2015a; UNCTAD, 2017a; United Nations, Economic Commission for Africa, 2013). Disbursements for economic infrastructure and productive sectors barely reached 15 and 8 per cent of the total respectively, with only a minor increase in their share since the 2009 financial and economic crisis. The picture is not very different for bilateral and multilateral donors. However, if in both cases social infrastructures and services represent the primary target sector, multilateral donors appear to be significantly more involved than bilateral ones in financing economic infrastructures and services, mainly for transport and energy provision. The features above appear to be fairly general across LDCs and persistent (figure 2.9), while over time the most important shift occurred in relation to:

- Debt relief, which peaked in 2006 with the culmination of HIPC Initiative and Multilateral Debt Relief Initiative and declined since;
- Humanitarian activities which witnessed a sharp increase in recent years.

If the broad tendencies mentioned above apply to the majority of LDCs, individual country's specificities remain a major determinant of sectoral ODA allocation, whether in terms of actual needs, distinct policy priorities or simply different exogenous shocks (such as humanitarian emergencies and natural disasters). Accordingly, the weight of productive capacity development in the overall composition of ODA flows to individual LDCs varies widely from country to country, not to mention the breakdown of such flows across distinct subsectors. Taking Aid for Trade as a broad proxy for this dimension, figure 2.10 reveals the wide differences, across individual LDCs, in the overall significance of productive capacities in total ODA disbursements, as well as the even broader variability across specific sub-components.[7] In this respect, it is also worth observing that in most LDCs the bulk of Aid for Trade funding appears to be rather concentrated on transport and storage infrastructures, agriculture, forestry and fishing, and to a lesser extent energy generation and distribution. Despite their importance in the process of structural transformation, industrial sectors remain, somewhat surprisingly, largely underfunded, to the extent that they account for barely 1 per cent of total ODA gross disbursements to LDCs.

3. Concessionality

Globally, the degree of concessionality of ODA flows has declined significantly since the aftermath of the 2009 crisis, reflecting a generalized trend towards a growing reliance on loan instruments, both in relation to ODA and other official flows (see earlier sections). This evolution has not spared the LDCs, despite recommendations dating from 1978 that aid to these vulnerable economies "should be essentially in the form of grants" (OECD, n/d, para. 8). When distinguishing the various types of ODA flows, evidence shows that the modest expansion in total gross disbursements to LDCs recorded between 2011 and 2017 has been due to the increase in ODA loans (expanding at a rate of 14 per cent per year), while ODA grants have remained virtually stagnant and equity investments declined, albeit from an already low basis (figure 2.11). Recourse to equity investment, conversely, remains marginal and sporadic: these instruments have never accounted for more than 0.2 per cent of ODA disbursements to LDCs, and were largely concentrated in a few countries

---

[7] Aid for Trade can be defined as a subset of ODA provided for programmes and projects that are identified as trade-related priorities in recipient countries' development strategies (OECD and World Trade Organization, 2017). It should also be noted that the breakdown of Aid for Trade flows in figure 2.10 goes beyond the disaggregation routinely adopted in the monitoring of Aid for Trade flows, in which:

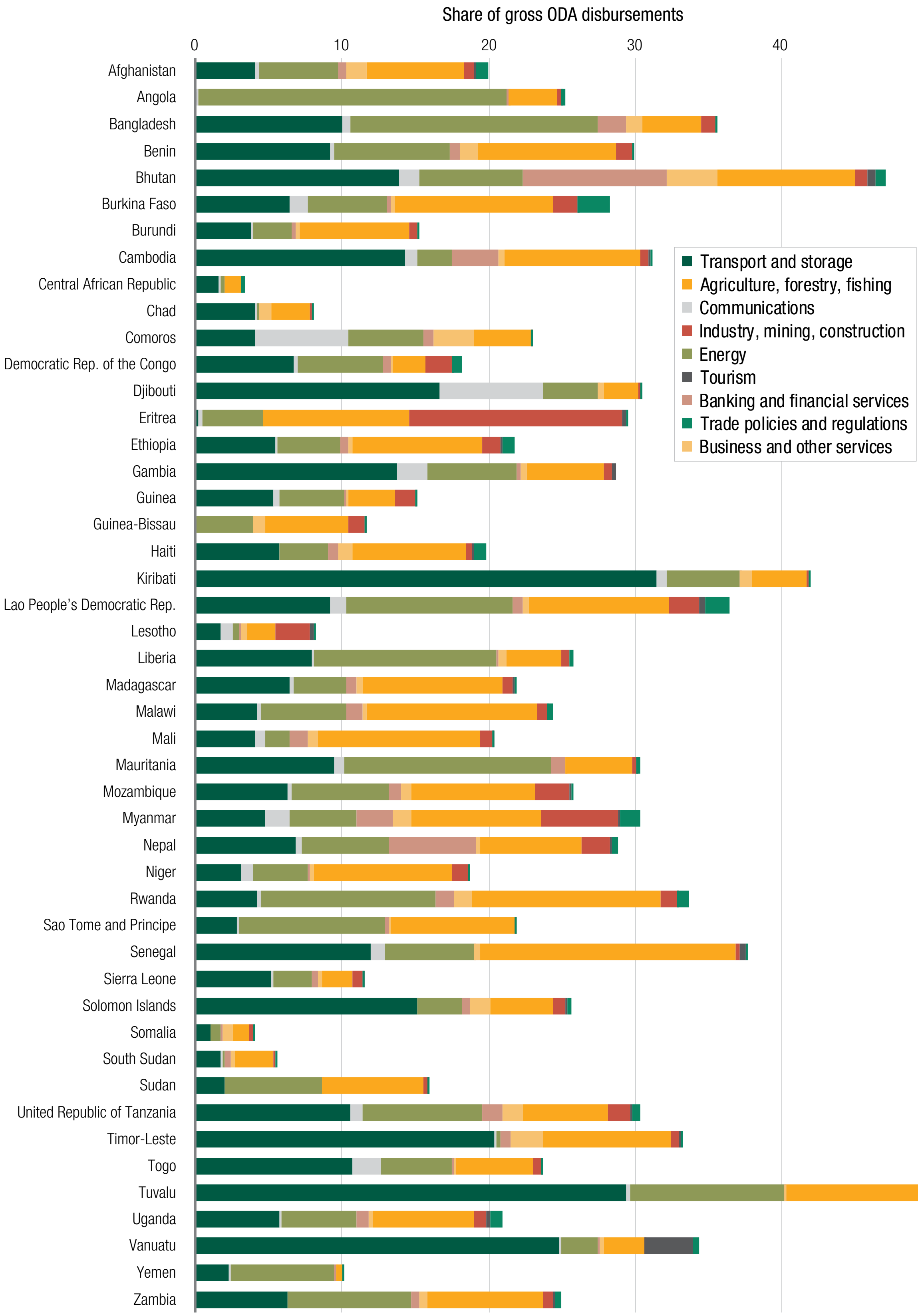
- Transport and storage; communication; and energy are typically grouped together under the label "economic infrastructures";
- Banking and financial services; business and other services; agriculture, forestry and fishing; industry, mining and construction; as well as tourism are typically reported together under the label "building productive capacities";
- Trade policy and regulation is typically split into two distinct labels, namely "trade policy and regulations" and "trade-related adjustment".

Beyond the importance of building trade capacities, UNCTAD (2006b) discussed the role of ODA for productive capacity development, emphasizing the relevance of productive sectors, and proposed a slightly different definition and sectoral breakdown.

Figure 2.10

Weight of Aid for Trade subcomponents in official development assistance flows, 2015–2017

(Percentage)

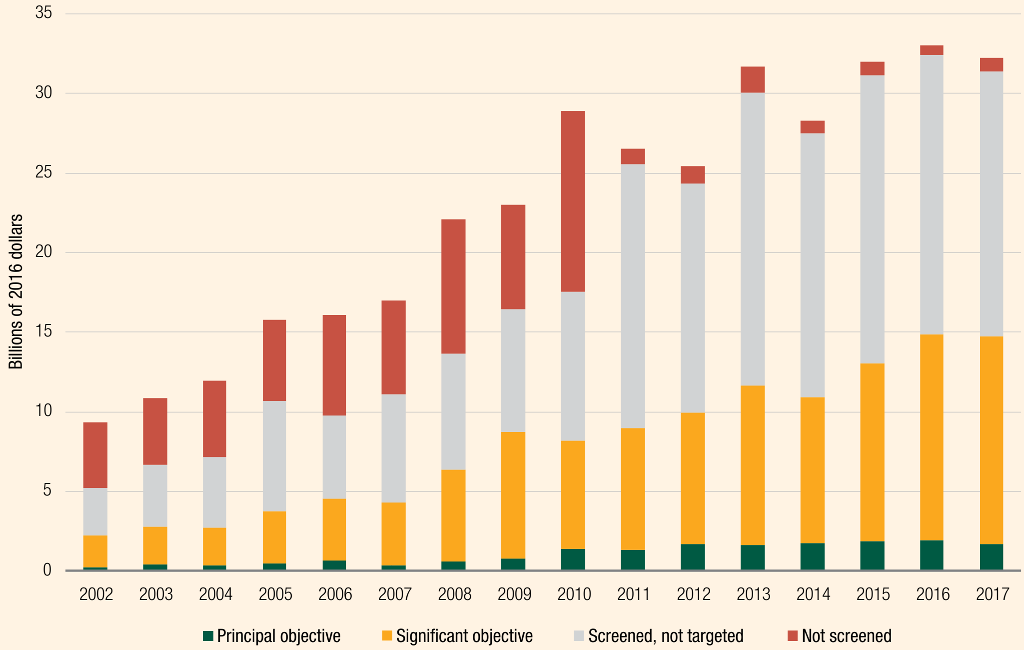


Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

Box 2.3 Gender equality and women's empowerment in Development Assistance Committee donors' aid allocation

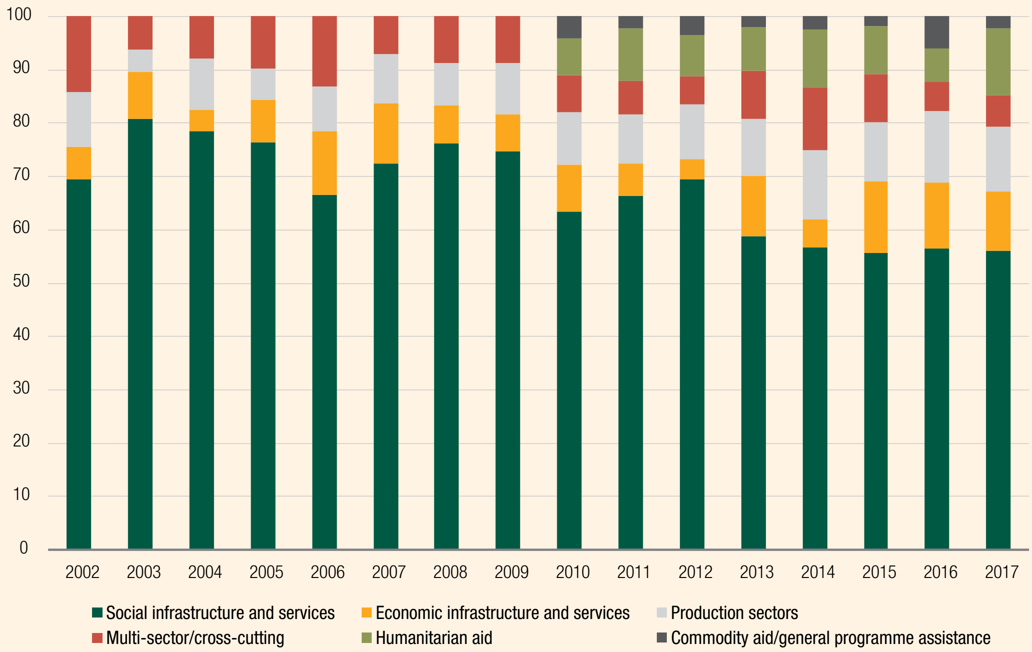
With a view to track support for gender equality, the OECD requests DAC donors to indicate, for each activity reported to the Creditor Reporting System among their bilateral ODA commitments, whether it targets gender equality as one of its policy objectives. To meet the criteria of "gender equality focused", an activity must explicitly promote gender equality and women's empowerment, either as its "principal objective" or as a "significant objective". Efforts to track gender focus through the above framework have been scaled up over time, with the share of bilateral commitments screened expanding from roughly 50 per cent in 2002, to 97 per cent since 2014.

(a) Gender-targeted bilateral allocable aid to the least developed countries



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

(b) Sectoral breakdown of gender-targeted aid to the least developed countries*



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.
* Bilateral allocable aid.

Box 2.3 (continued)

In the period reviewed, the proportion of DAC donors' bilateral commitments to LDCs targeting gender equality, either as the principal or as a significant objective, has risen consistently from 24 per cent in 2002 to 46 per cent in 2017. Coupled with the overall expansion in DAC donors' bilateral commitments and with more systematic screening, this trend has implied a seven-fold expansion in aid volumes reported as targeting gender equality: from $2.2 billion in 2002 to $14.7 billion in 2017 (figure (a)). Most of this rise has been accounted for by activities targeting gender equality as a significant (but not as the principal) objective.

Interestingly, more than half of the aid focusing on gender equality – either as a significant or principal objective – is concentrated on social infrastructures and services sector, mainly health and education (figure (b)). Yet the focus on gender concerns has gradually made inroad also into other sectors of intervention, including economic infrastructures, productive sectors and humanitarian aid. This appears to suggest that a gender-sensitive perspective is gradually been mainstreamed beyond social services, into areas of development cooperation contributing to women entrepreneurship and economic empowerment. Considerable heterogeneity emerges when analysing the prominence of gender equality interventions at an individual country level, reflecting a combination of country-specific factors, both related to aid sectoral allocation, as well as different social and cultural constructs, expectations and sensitivities.

(mainly in Bangladesh, Cambodia, Mozambique, the United Republic of Tanzania and Zambia). As a result, the weight of loans in total ODA disbursements to LDCs has increased by more than 10 percentage points since 2011, surpassing 25 per cent in 2017, hence climbing back to levels comparable to those of the early 2000s. Meanwhile, the average grant element on new official external debt commitments has remained relatively stable, hovering around 60 to 65 per cent for the median LDC.

The above developments reflect above all an expansion in the portfolio of concessional loans held by multilateral donors (mainly the World Bank and regional development banks), for whom soft loans are the main financial instrument (figure 2.12). For example, the World Bank's portfolio of concessional ODA loans disbursed to LDCs more than tripled between 2011 and 2017, climbing from $4 billion to $14 billion – roughly half of all ODA loans disbursed to LDCs. Grants continue to be preferred by bilateral donors, which disburse in this form over 90 per cent of their ODA flows to LDCs. Yet the weight of ODA loans has expanded recently also at a bilateral level.[8]

Concessional loans are particularly prevalent in relation to disbursements for the infrastructural sector – chiefly transport and energy provision and distribution – where they account for close to 60 per cent of total ODA disbursements (figure 2.13). Although to a lesser extent, concessional loans are also utilized as a form of ODA disbursements for productive sectors or for commodity and general programme assistance, where they account for roughly 25 per cent of the total. This reflects the prospects to generate a future income stream for repaying the debts and ensuring the financial sustainability of the operation, provided that maturity and/or currency mismatch are not an issue.[9] Perhaps more surprisingly, loans also account for significant percentages of ODA disbursements for social infrastructures and multi-sector/cross-cutting purposes, such as water and sanitation projects, and interventions related to education, health and public finance management, where prospects to generate a future income stream are less clear. In fact, given the magnitude of ODA flows channelled to social sectors, even if the incidence of loans in relative terms is fairly low (i.e. less than 20 per cent of total ODA disbursements), the overall size of concessional loans to social sectors in LDCs is nearly as large as those to infrastructure (figure 2.14).

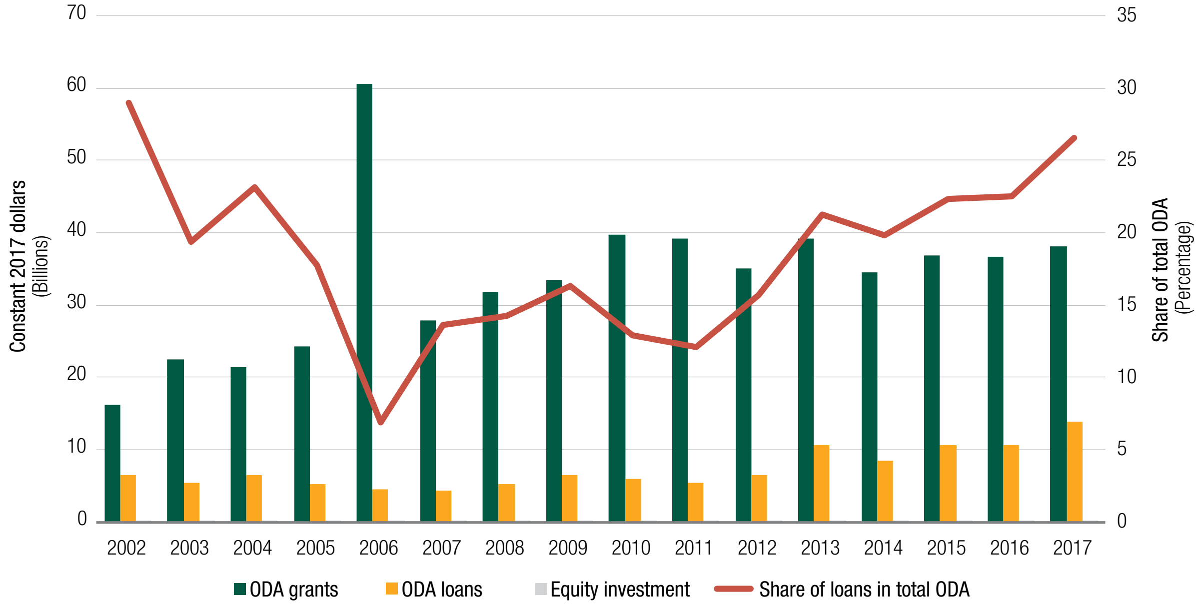
The "grants versus loans debate" is less clear-cut than it would at first appear, since the choice of the instruments has a bearing on both the overall availability of funds, as well as the underlying incentive structure (Panizza, 2015). In the aftermath of the crisis, the increasing use of concessional finance was facilitated by the prevailing international conditions, with expansionary monetary policies in developed countries reducing the costs of international capital, and multilateral lenders (and to a lesser extent bilateral agencies) tapping some of this liquidity to finance much-needed investments

8 For DAC donors, the weight of ODA loans in total ODA disbursement reached 8 per cent in 2015–2017, up from an average of 3 per cent in 2010–2012. The corresponding comparison is largely irrelevant in the case of non-DAC donors, since many of them only began reporting their ODA disbursements in recent years.

9 A similar reasoning explains why ODA equity investments are concentrated in the economic infrastructures and productive sectors (figure 2.13), though their role remains insignificant even in these two sectors.

Figure 2.11

Official development assistance: Gross disbursements to the least developed countries, by flows



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

in critical areas.[10] In this sense, it can be argued that, with ODA grants being largely stagnant, concessional loans represented an additional funding opportunity for LDCs, which may not have materialized or would have been more expensive without the intermediation and subsidization of multilateral lenders.

Despite this, the scale of development financing – both globally and for LDCs – falls short of the level of ambition required to meet the 2030 Agenda for Sustainable Development. Moreover, in a global context of heightened uncertainty and financial instability, the growing recourse to ODA loans raises concerns about the sustainability of development financing for LDCs. It also appears to be at odds with the calls to focus "the most concessional resources on those with the greatest needs" (see United Nations (2015b), para. 52), especially when read in combination with the increase in borrowing from non-concessional channels. In this sense, a call for bold action to strengthen the sustainable development financing architecture cannot overlook the issue of concessionality for vulnerable and structurally weak countries.

Equally, if strengthening national control mechanisms, especially on the budgeting process, remains a priority (United Nations (2015b), para. 30), mounting debt sustainability concerns call for reassessing the appropriateness of concessionality levels in the face of the developmental needs of LDCs. In the last few years, the decline in the levels of concessionality has affected the majority of LDCs, without necessarily sparing those with significant debt-related challenges (figure 2.15). For example, in the Gambia and the Lao People's Democratic Republic – two countries which are respectively in debt distress and at high risk of debt distress, according to the January 2019 assessment by the World Bank and International Monetary Fund – the weight of ODA loans in total ODA disbursements has increased by more than 15 percentage points, with grants expanding in real terms only by 1 or 2 percentage points per year. While concessional funds may have to some extent substituted for commercial loans, the developmental cost of these operations, as well as their overall sustainability, remains to be fully investigated.

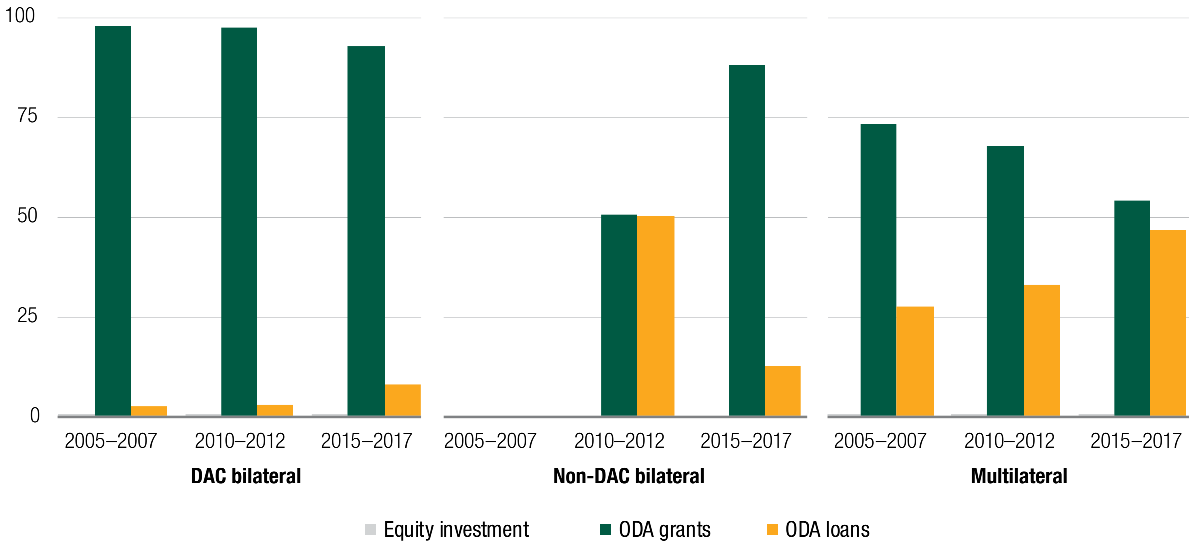
In this context, the growing reliance on debt-generating official flows makes the call for greater transparency and improved public data availability on development cooperation (United Nations (2015b), paras. 50, 58 and 60) all the more imperative. Progress in the modernization of ODA

10 A notable example of this trend is the World Bank's eighteenth replenishment of the International Development Association, which was the largest in the institution's history, and introduced a hybrid financing model blending partners' grant contributions with capital market debt. In the same vein, several LDCs have tried directly to take advantage of liquid capital markets by issuing Eurobonds, though with mixed fortunes (Kharas et al., 2014; UNCTAD, 2016c).

Figure 2.12

Gross official development assistance disbursements to the least developed countries, by flow and donor group

(Percentage)

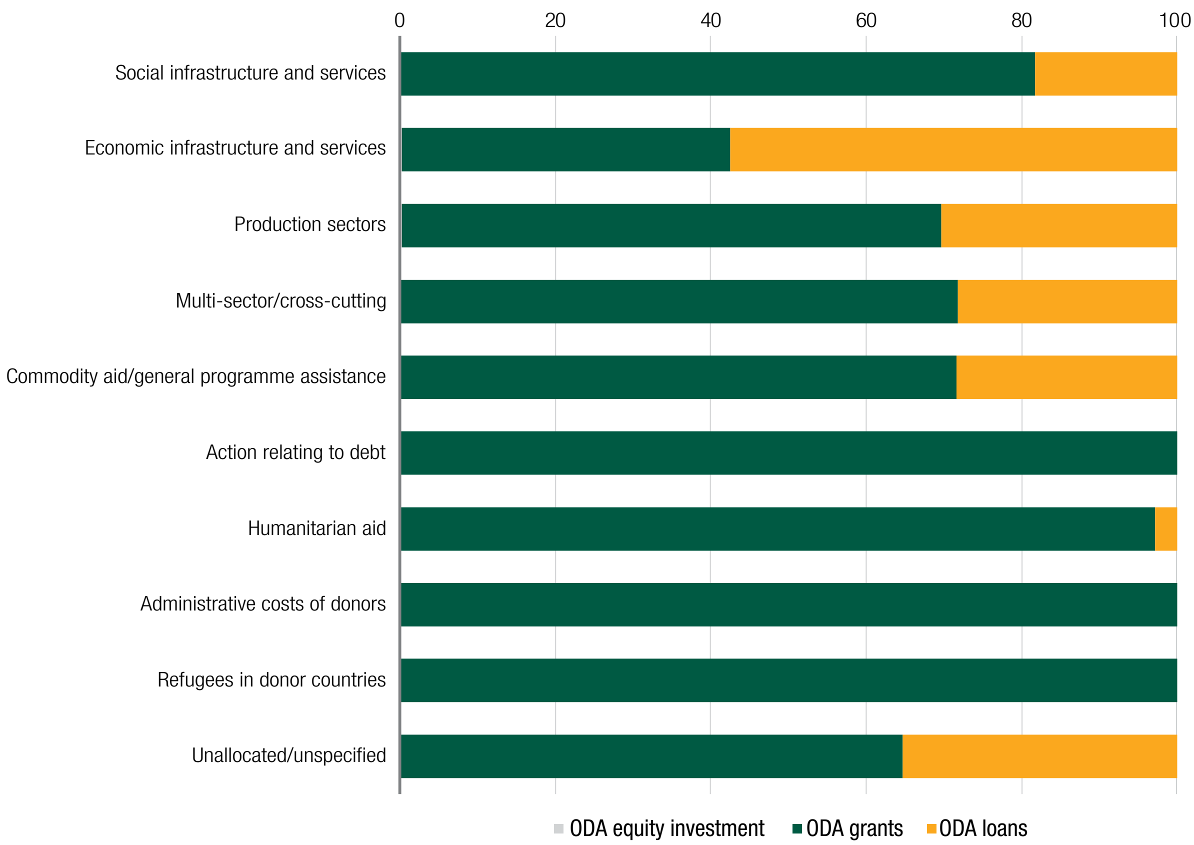


Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

Figure 2.13

Incidence of distinct flows in ODA disbursements, 2015–2017

(Percentage)

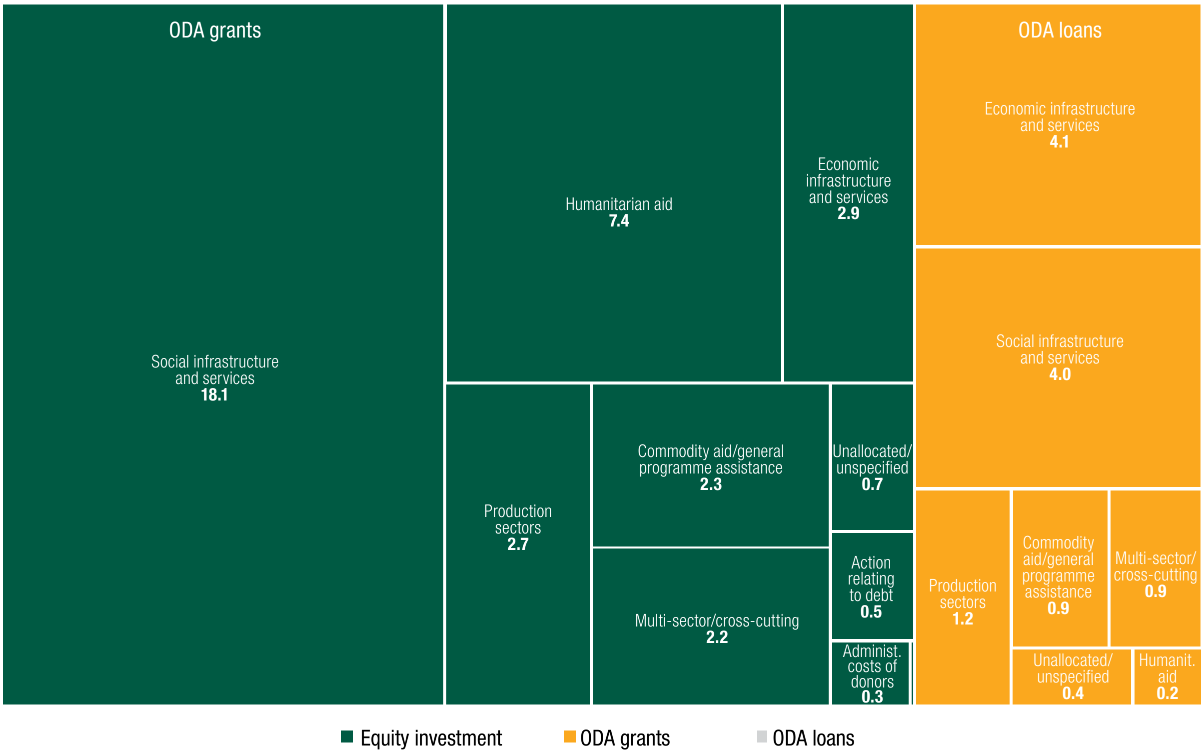


Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

Figure 2.14

Distribution of official development assistance gross disbursements to the least developed countries, 2015–2017

(Billions of 2017 dollars)



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

measurement (see box 2.2), initiated by DAC in 2014, might partly address some related concerns, even though a number of areas remain contentious and not free from criticism (OECD, 2018a; United Nations, 2019a). In particular, since more than 25 per cent of ODA disbursements to LDCs are in the form of loans, the decision to start reporting the latter on a grant-equivalent basis (rather than at face value) is an important step of immediate relevance, and responds to long-standing concerns regarding inflated ODA figures and distorted incentives not conducive to the use of grants and highly concessional loans (Colin, 2014).

4. Additionality and aid modalities

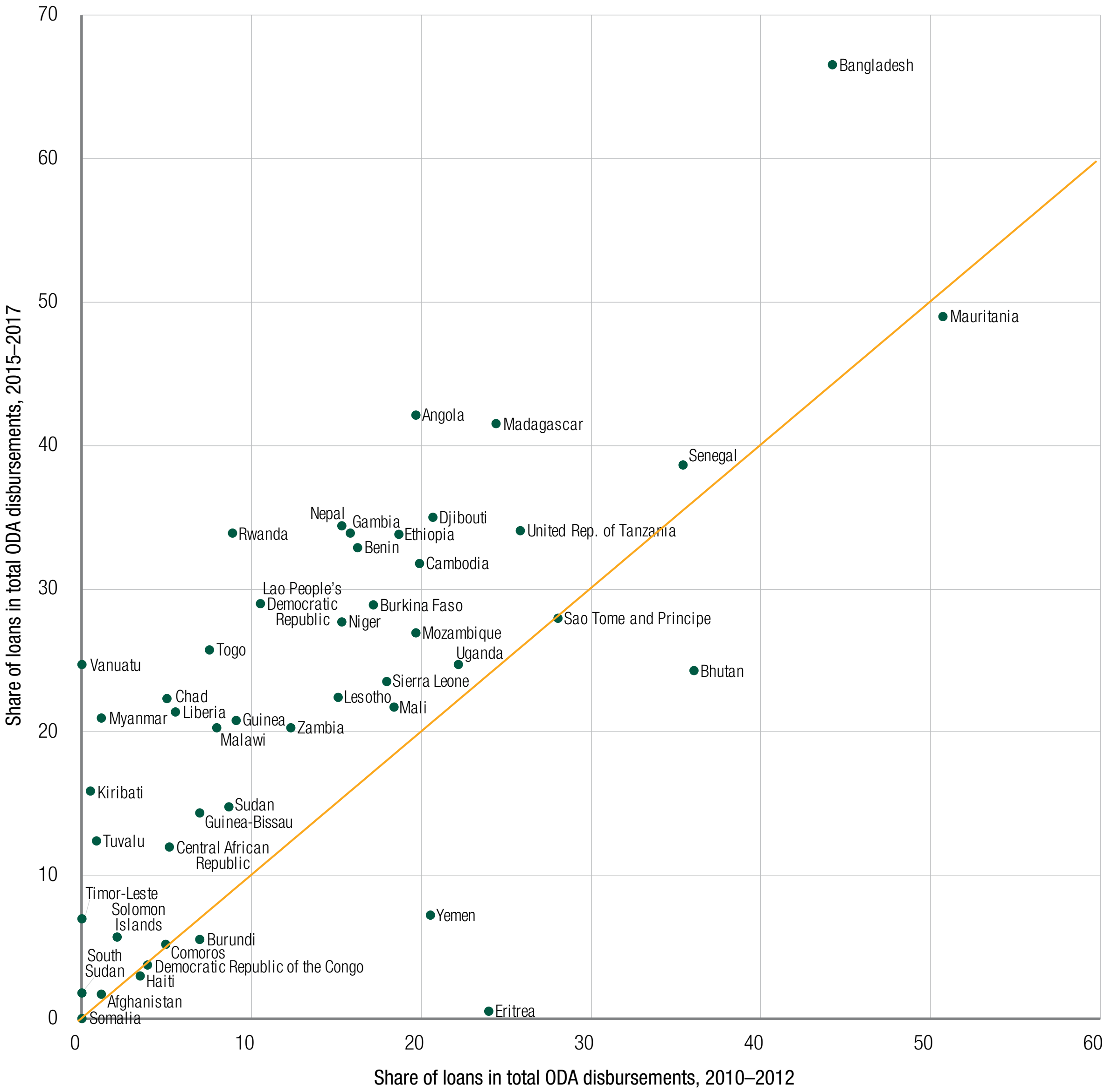
With the mushrooming of dedicated funds in favour of LDCs and other developing countries – from Aid for Trade to climate finance – a long unresolved issue is the degree of additionality: that is, the extent to which new initiatives represent an additional injection of money or rather "old wine in a new bottle". Additionality has been hotly discussed in relation to developed countries commitment enshrined in the Paris Agreement of mobilizing $100 billion per year in climate finance (UNCTAD, 2010; UNCTAD, 2016c). Access to sustainable financing for climate change mitigation and adaptation, buttressed with effective technology transfer, is critical for developing countries and LDCs more specifically, as the escalating risks of climate change are likely to exacerbate global inequality and disproportionally affect poor people and countries (UNCTAD, 2010; UNCTAD, 2016c; United Nations, 2019b; Intergovernmental Panel on Climate Change, 2014).

Conceptual challenges combined with vague reporting practices make it extremely challenging to rigorously assess the additionality of climate finance resources, as well as the "climate-relevance" of the funds being declared. Serious concerns, however, have been raised in this respect in the past (UNCTAD, 2016c; Oxfam International, 2016; Oxfam International, 2018). What is certain is that funds mobilized so far remain below the $100 billion per year objective, and largely insufficient compared to LDC needs (United Nations, 2019b). Nonetheless, donors have reported a modest but steady increase in the share of their ODA commitments targeting environmental objectives (see box 2.4).

Figure 2.15

Share of loans in total official development assistance gross disbursements in the least developed countries

(Percentage)



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

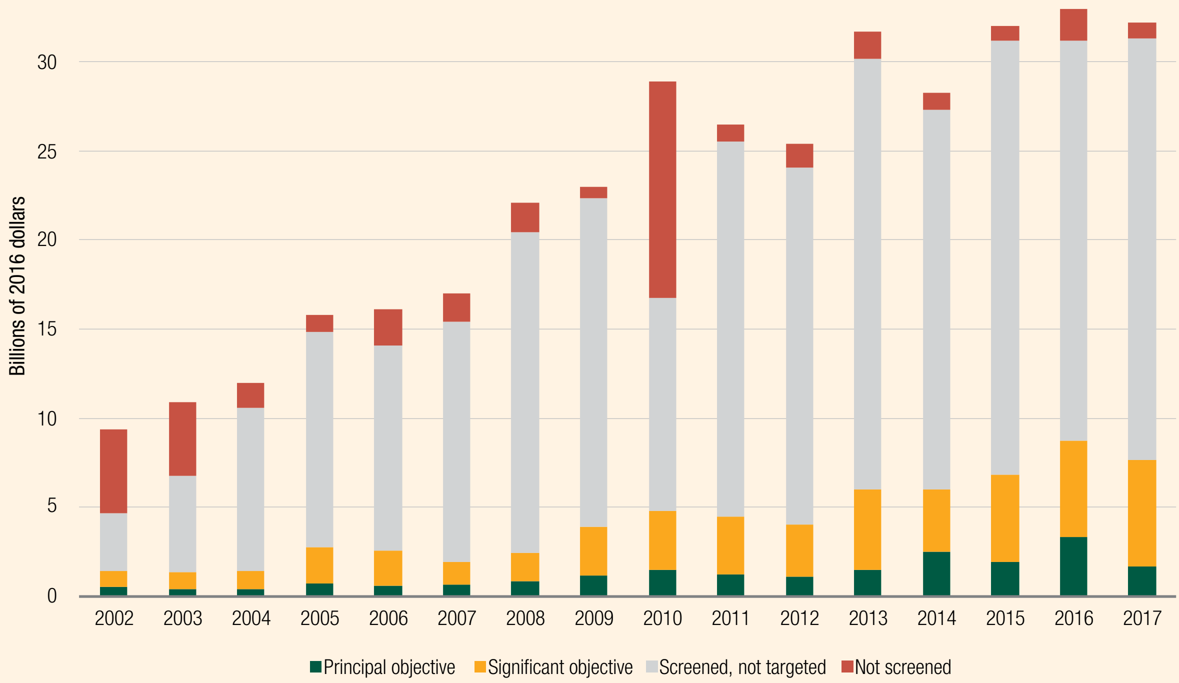
Beyond the magnitude of ODA and related concessionality levels, the modalities of disbursement have an important bearing on the associated development footprint. In this respect, a number of key features of aid systems have been discussed in the context of the aid effectiveness agenda, including under the five principles underpinning the Paris Declaration, namely ownership, alignment, harmonization, managing for results and mutual accountability. Other studies and monitoring exercises have been devoted to thorough assessments of international progress towards effective development cooperation (OECD and United Nations Development Programme, 2016; UNCTAD, 2016a). This section hence focuses only on a few selected dimensions, which are particularly relevant in the LDC context and exert wide-ranging implications for recipient country's macroeconomic policy.

One such critical issue is the extent to which aid is "tied", meaning that it must be used to purchase goods and services from the donor country's own domestic businesses. Tied aid undermines its ultimate development objective by potentially

Box 2.4 Aid targeting global environmental objectives

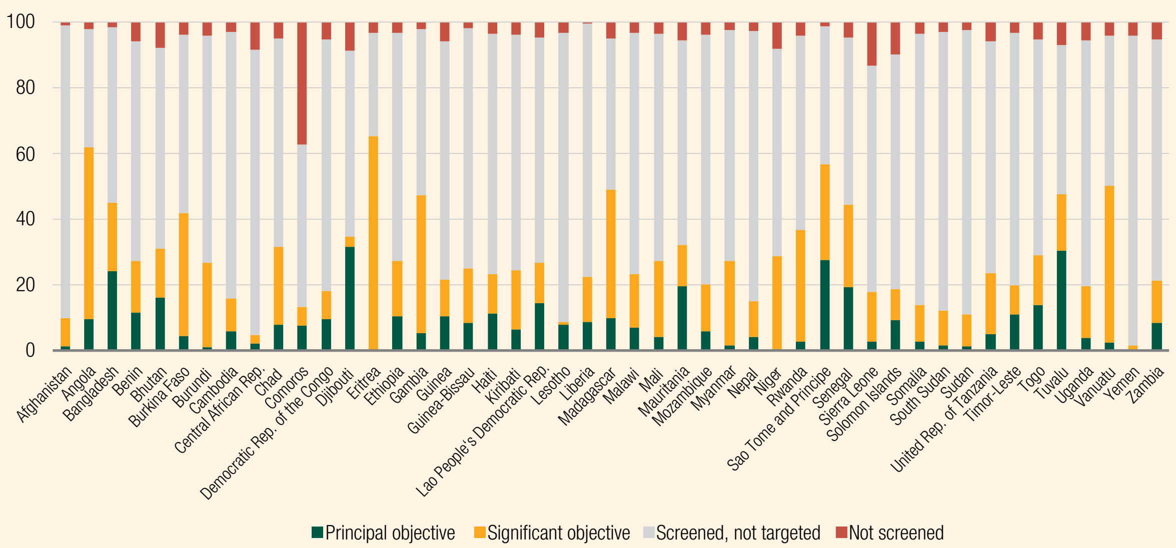
The OECD Creditor Reporting System database contains data on bilateral aid commitments from DAC donors in support of environmental sustainability. In this context, donors are requested to indicate for each activity, whether it produces "an improvement in the physical and/or biological environment of the recipient country", or it includes "specific action to integrate environmental concerns". A scoring system is used, in which aid activities are "marked" as targeting environment as the "principal objective" or a "significant objective", or as not targeting the objective. (A similar framework is also applied to mark activities in relation to the Rio Conventions on biodiversity, climate change mitigation, climate change adaptation and desertification, and most of related activities indeed fall under the definition of "aid to environment").

(a) Environment-targeted aid to the least developed countries*



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.
* Bilateral allocable aid.

(b) Environment-targeted aid to individual least developed countries,* 2015–2017



Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.
* Bilateral allocable aid.

Box 2.4 (continued)

Over time, there has been a clear trend towards progressively broader screening of bilateral commitments to LDCs, with as much as 97 per cent of activities reviewed in 2017, up from 50 per cent in 2002. In absolute terms, the data also reveals a steady expansion of ODA marked as having the environment as either a significant or principal objective, from $1.42 billion in 2002 to $7.66 billion in 2017 (figure (a)). Such a rise, however, is mainly underpinned by the increase in total bilateral commitments to LDCs: the quota of the total marked as having the environment as a principal objective has remained stuck at five per cent throughout the period. Simultaneously, the proportion of activities marked as having environmental goals as significant objectives has climbed only from 10 to 19 per cent in 15 years.

Leaving aside cross-country heterogeneity, roughly one third of the commitments targeting global environmental objectives, either as a significant or principal objective, are accounted for by social infrastructure and services sectors. Such weight, however, has been declining, as economic infrastructures and productive sectors have become more prominent in the allocation of environmentally targeted aid, especially since 2010. Currently, economic infrastructures and productive sectors represent over 32 and 17 per cent, respectively, of the aid commitments targeting environmental objectives.

Individual LDCs display however a wide heterogeneity not just in relation to the overall amount of aid received, but also of in the proportion of this ODA targeting environmental objectives (figure (b)). In general, less than one quarter of DAC donors' bilateral ODA commitments to LDCs appears to target environmental objectives, but this share is larger in island LDCs and in some Sahelian countries facing desertification.

Given the above, it is clear that support for environmental objectives continues to fall short of LDC needs, particularly in view of their proneness to climate-related natural disasters and their heightened pressure on fragile ecosystems (UNCTAD, 2010; UNCTAD, 2016b; United Nations, 2019c). What is more, according to some analyses even the above picture could be overly rosy, since the underlying scoring and reporting framework might result in inflated estimates, due to the inclusion of ODA loans at face value, and to the reporting of projects that only partially cover climate action (Oxfam International, 2016; Oxfam International, 2018).

entailing lower value for money; imposing suppliers of goods and services that might be ill-suited to the local context; and reducing aid multipliers by constraining the scope for local procurement and for engaging local producers and service providers. Implicitly acknowledging these flaws, in 2001 a DAC recommendation explicitly called for untying ODA to the LDCs to the greatest extent possible; promoting and ensuring adequate ODA flows; and achieving balanced efforts among DAC members in untying aid (OECD, 2019c).[11] In spite of these clear commitments and of some gradual improvements, progress remains incomplete and uneven across donor countries (UNCTAD, 2016a; OECD, 2018c; Meeks, 2018). In 2016–2017, close to 15 per cent of DAC donors' total bilateral commitments was reported as tied, with certain donors reporting up to 40 per cent of their aid as tied.[12] Moreover, as much as 65 per cent of contracts were awarded to companies in the donor country according to a DAC 2018 report, vindicating concerns that so-called "informally tied aid" could be an even more widespread practice (OECD, 2018c; Meeks, 2018). Furthermore, as discussed in greater detail in chapter 3, there is a risk that recent shifts towards incentivizing the use of ODA to mobilize private resources – through so-called private sector instruments – could open the door for more informal tying of aid resources.

Given LDCs' comparatively high aid dependence, other critical modalities for their macroeconomic fundamentals are the predictability, volatility and cyclicality of ODA. From the outset it is important to recognize that these features can be rooted in both "demand and supply factors"; that is, they can stem from factors pertaining to the recipient country – such as lack of capacity to submit bankable projects and delays in the implementation schedule – the donor, such as limited forward planning, and even exogenous influences, such as exchange rate fluctuations (United Nations, Economic Commission for Africa, 2013). Albeit with some heterogeneity across individual countries, available measures suggest a reasonably good level of predictability in ODA disbursements to LDCs, with country programmable aid – that is aid that is subjected to multi-year planning at country level – representing on average 75 per cent

11 Subsequent revisions of the recommendation extended country coverage also to non-LDC HIPCs, other low-income countries and International Development Association-only countries and territories, as well as invited "non-DAC donors to untie their aid in parallel with DAC members" (OECD, 2019c, p. 3).

12 Figures are based on data from the OECDstat database, DAC table 7 (b), Aid (ODA) tying status, available at https://stats.oecd.org/Index.aspx?DataSetCode=TABLE7B (accessed 14 October 2019).

Increasing complexity, difficult coordination

of total disbursements.[13] In the same vein, the ratio of disbursements to commitments averaged close to 90 per cent, again with wide variations across recipient countries. Although part of this variability is explained by conflict situations and humanitarian emergencies, the large variation in predictability may deserve a closer scrutiny at specific country-level, in the context of donors' coordination and aid management efforts (UNCTAD, 2009; UNCTAD, 2010).

Concerning volatility, the following analysis builds upon the methodologies proposed by Bulíř and Hamann (2008) and Markandya et al. (2010) and looks at the volatility of net ODA disbursements since the year 2000 (or as available, to enhance country coverage). Since the main interest lies in the macroeconomic impact of aid volatility on recipient countries' macroeconomic fundamentals, two alternative measures of volatility are considered: (a) the coefficient of variation of the nominal series and (b) the standard deviation of the de-trended series as a share of GDP, where the de-trending is obtained by using the Hodrick–Prescott filter. Leaving aside some sensitivity to the precise measure of volatility considered, net ODA disbursements appear characterized by moderate levels of volatility in comparison with other external flows (figure 2.16).[14] For the median LDC, when taking the first measure of volatility, net ODA disbursements are the least volatile source of external funding (followed by remittances); when using the second measure, their volatility slightly exceeds both that of remittances and that of FDI (the latter by a very small margin), but this finding is consistent with LDCs' heightened aid dependence (see chapter 1).

Country-level results confirm the above and suggest that fluctuations in ODA disbursements can be fairly ample relative to the size of the recipient economy, especially in the case of smaller economies: the standard deviations of the cyclical (i.e. de-trended) component at times exceeding 0.1 percentage points of GDP (figure 2.17). As expected, volatility appears to be larger in relatively smaller economies, and in countries affected by conflict situations, natural disasters or humanitarian emergencies.[15] Moreover, the de-trended component of net ODA disbursements appears to be, in the majority of LDCs, positively correlated with the cyclical component of GDP and of government revenues. This implies that net ODA were characterized by a tendency to procyclicality, which could exacerbate the impact of business cycles, the few cases of countercyclical trends mainly due to debt relief and humanitarian aid, intrinsically geared towards responding to adverse shocks.

To assess the evolution of the cyclical component of volatility over time, the same methodology is adapted by computing the standard deviation of the de-trended ODA-to-GDP series over a moving five-year window, centred on the year for which volatility is reported (thus the level of volatility reported for 2015, covers the time span 2013–2017). Results reported in figure 2.18, shows that the cyclical component of aid-to-GDP series remains remarkably more volatile for the median LDCs than for the median non-LDC developing countries, even though the gap is gradually shrinking.

D. South–South cooperation

Beyond traditional donors, the growing relevance of South–South cooperation is another key driver underpinning the evolution of LDCs development finance landscape and the broadening of their array

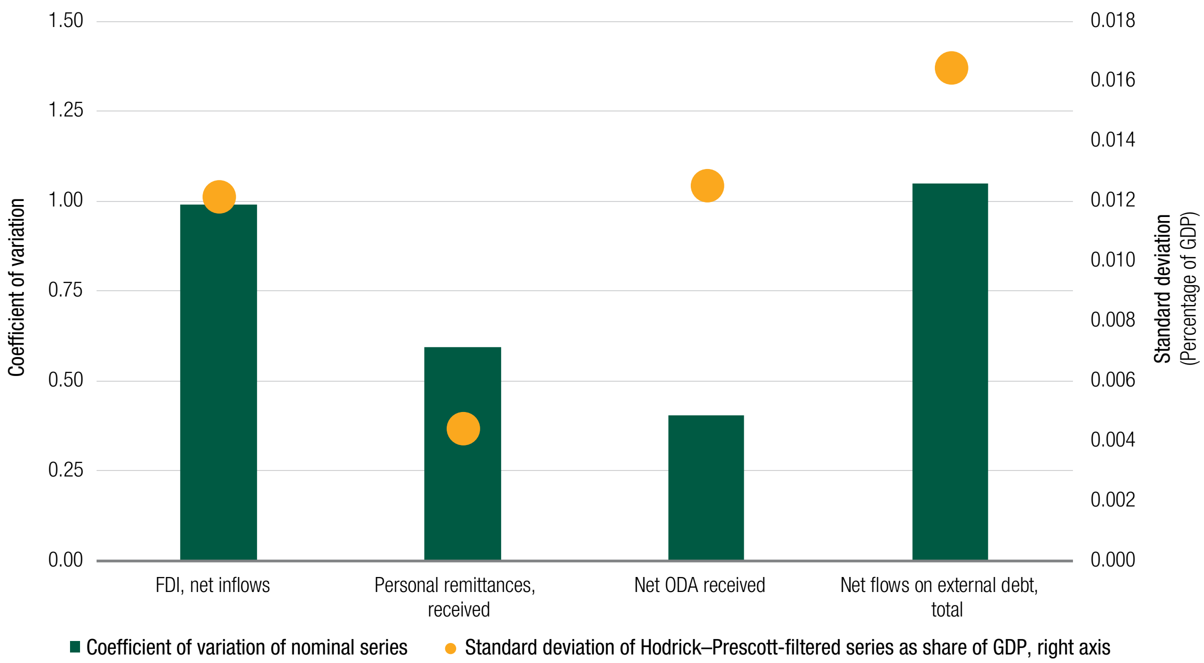
13 According to DAC, country programmable aid is obtained by subtracting from total gross bilateral ODA flows that:
- Are unpredictable by nature (humanitarian aid and debt relief);
- Entail no cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and research and refugees in donor countries);
- Are not part of cooperation agreements between Governments (food aid and aid from local governments);
- Are not country programmable by the donor (core funding of non-governmental organizations).

14 The number of LDCs considered in the figure is limited to 29 in order to retain only countries with complete data series for all external flows and all years.

15 Apart from intrinsically volatile aid components, such as debt relief and humanitarian assistance, sectoral composition of aid appears to leave volatility measures largely unaltered, in line with earlier findings (Bulíř and Hamann, 2008; El Khanji, 2018).

Figure 2.16

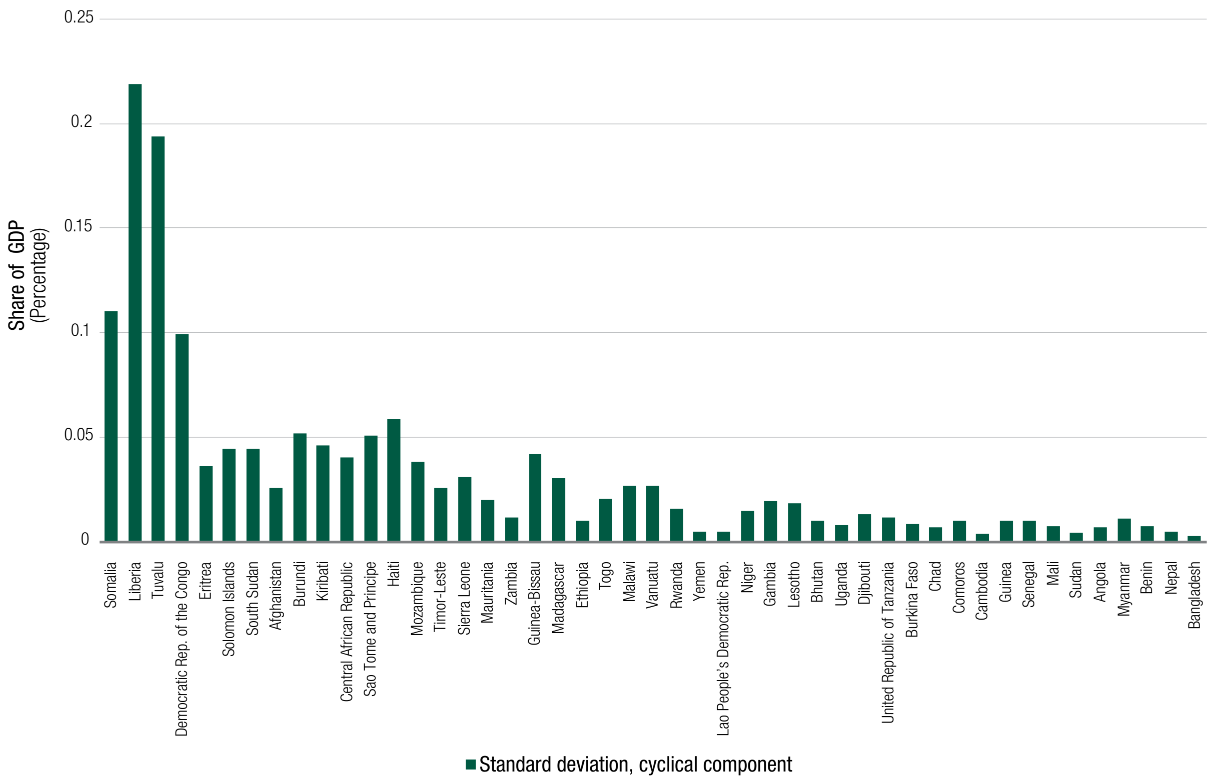
Volatility of external financial flows to the median least developed country, 2000–2017*



Source: UNCTAD calculations, based on data from the World Development Indicators database.
* Based on data for 29 LDCs.

Figure 2.17

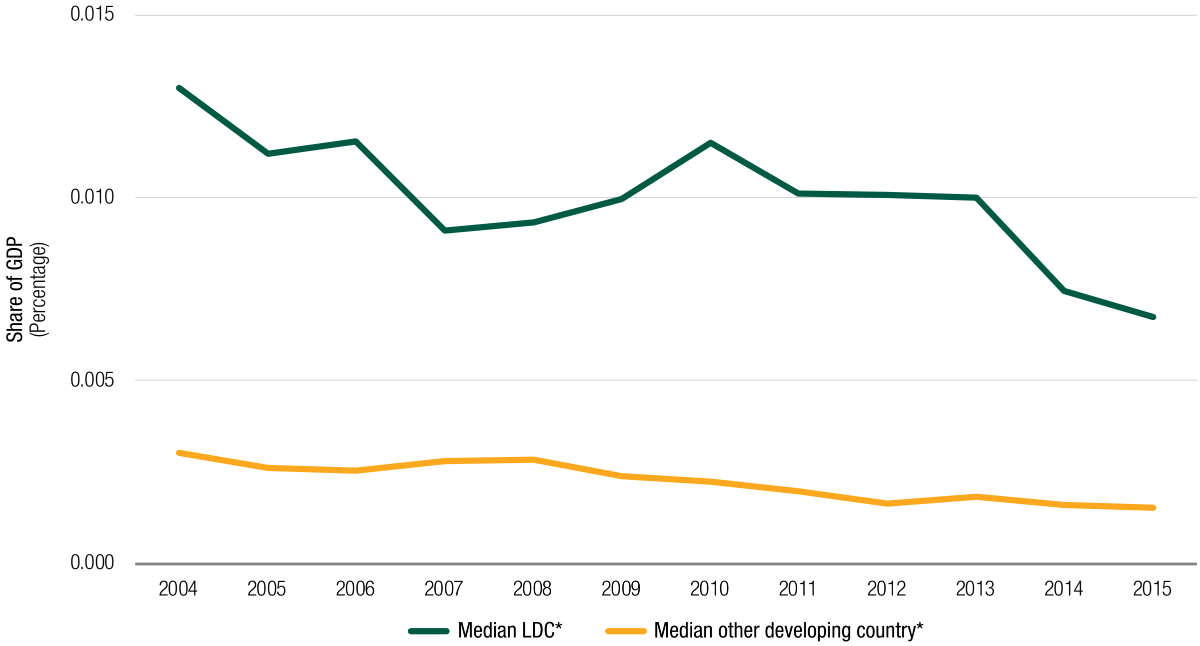
Volatility of net official development assistance disbursements, 2002–2017



Source: UNCTAD calculations, based on data from the OECD International Development Statistics and UNCTADstat databases.

Figure 2.18

Volatility of net official development assistance disbursements, 2004–2015



Source: UNCTAD calculations, based on data from the OECD International Development Statistics and UNCTADstat databases.
* Cyclical component, five-year moving window.

of potential partnerships. Albeit with a long tradition, rooted in the emergence of the non-align movement and the Group of 77, cooperation and economic integration among developing countries have markedly intensified over the last two decades, in parallel with the "South-ward" shifting of global economic power (UNCTAD, 2011a; United Nations, 2017; Besharati and MacFeely, 2019; United Nations, 2019a).

As such a process continues gaining momentum, it exerts wide-ranging implications for the larger development community, both in terms of availability of development finance, and of reshaping economic interdependence at the regional and global level. Concerning the former point, the growing outward orientation of Southern national banks (such as the China Development Bank, Development Bank of Southern Africa and Brazilian National Bank for Economic and Social Development), as well as the emergence of Southern-led multilateral initiatives (such as the New Development Bank and the Asian Infrastructure Investment Bank) has already started to change the development finance landscape. In particular, there are signs that these developments are accompanied not just by an increased availability of long-term finance (especially concessional lending for infrastructure development), but also by innovative approaches in terms of more streamlined approach, and greater experimentation in striking partnerships with other development actors (UNCTAD, 2017c; United Nations, Economic and Social Council, 2018; Cui, 2016). In the reshaping of economic interdependence, Southern-led initiatives to foster economic integration at the regional level – as in the case of the Association of Southeast Asian Nations and the recently established African Continental Free Trade Area – or at the global level, such as the Belt and Road initiative of China, promise to have profound impacts on development prospects in LDCs and beyond.[16]

Against this background, there is an explicit and growing recognition that South–South and triangular cooperation can significantly contribute to the implementation of the Istanbul Programme of Action (United Nations, 2011, paras. 131–140) and of the 2030 Agenda for Sustainable Development. In this respect, even though both are underpinned by the vision enshrined in the Global Partnership for Sustainable Development (Sustainable Development Goal 17), it is important to stress that South–South cooperation is not a substitute for, but rather a complement to, North–South cooperation (United Nations (1978, para. 8), a concept later reaffirmed in a resolution of

16 UNCTAD, 2019c; Chartered Institute of Building and Centre for Economics and Business Research, 2019; United Nations, Economic Commission for Africa et al., 2017.

the General Assembly of the United Nations (2010b) and by the Special Rapporteur on extreme poverty and human rights of the United Nations (2019b). In the same vein, developing countries have reiterated that "South–South cooperation and its agenda have to be set by countries of the South and should continue to be guided by the principles of respect for national sovereignty, national ownership and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit", as reflected in more than one resolution of the General Assembly of the United Nations.[17]

Equally, despite the growing evidence that Southern-led initiatives may open additional opportunities in relation to the quest for sustainable development finance, it would be extremely misleading to reduce South–South and triangular cooperation to its mere financial elements. South–South cooperation has been couched since its very inception as a multidimensional process emphasizing non-financial modalities and partnerships among equals, often hinting to an interplay between solidarity motives and commercial or investment interests. In the same vein, South–South cooperation entails an increasing variety of forms including, inter alia, technical and economic cooperation, knowledge and experience sharing, training, capacity building, technology transfer, promotion of trade, investment, infrastructure development and connectivity (United Nations, 1978; United Nations, 2019d).[18]

In this multifaceted context, there continues to be a lack of a unified definition and methodology for quantifying and reporting South–South cooperation, which makes it extremely challenging to provide comparable and systematic estimates of South–South and triangular cooperation activities (Besharati and MacFeely, 2019; United Nations, 2019a; United Nations, Economic and Social Council, 2018). In this context, assessing in a comprehensive way the footprint of South–South and triangular cooperation in the LDCs is even more problematic, if not outright impossible, as the types of flows considered, and corresponding estimates vary widely from one source to the other. Although some non-traditional partners and South-led multilateral banks do in fact report their activities to DAC, thus following the corresponding methodological guidelines (OECD (2018d) and Creditor Reporting System database), there is a strong proclivity among Southern partner to adhere to their own statistical and reporting standards. This should not overshadow the fact that many Southern partners are indeed stepping up their cooperation assessment systems and processes and striving to build on their comparative advantages to enhance their development impact.[19] Yet the lack of common standards and comparable data – especially in relation to concessional and non-concessional lending – hinders a balanced discussion on the subject (New York Times, 2019; Dreher et al., 2018; Dreher and Fuchs, 2011; Besharati and MacFeely, 2019).[20]

South–South cooperation incorporates more than financial elements

With a view to simply provide some orders of magnitude, it is worth recalling here that the latest report of the Secretary-General of the United Nations on the state of South–South cooperation estimated that worldwide contributions for South–South cooperation likely exceeded $20 billion in 2018 (United Nations, 2018b). In this context, while the pre-eminence of countries such as China, India and Saudi Arabia is widely acknowledged, the precise assessment of each country's contribution is more uncertain, especially for countries not reporting to OECD. For example, OECD (2018d, p. 462) estimated the "gross concessional flows for development cooperation" of China at $3.6 billion in 2016.[21] Yet a subsequent publication from the same institution placed estimates of concessional

17 See paragraph 11 in United Nations (2010b) and paragraph 8 in United Nations (2019d), both of which echo paragraph 13 of United Nations (1978).

18 Issues on the engagement of the private sector in the context of South–South cooperation are discussed in greater detail in chapter 3.

19 In 2018, for example, China announced the establishment of the China International Development Cooperation Agency, to consolidate strategic planning and coordination of its cooperation activities (Cheng, 2019; United Nations, 2019a). Again, countries such as Brazil, Indonesia and Turkey have acquired a significant capacities and expertise in relation to on entrepreneurial education, tropical agriculture and disaster prevention and response, while Cuba has established a strong reputation in relation to health interventions (UNCTAD, 2011a; United Nations, 2019a).

20 Dreher and co-authors note, for example, that "much of the controversy about Chinese 'aid' stems from a failure to distinguish between China's Official Development Assistance and more commercially oriented sources and types of State financing" (Dreher et al., 2018, p. 182).

21 The above data represent OECD estimates of concessional flows from countries that do not report to DAC statistical systems and are on a gross basis due to lack of information on repayments. For the sake of comparison, the same source estimated gross concessional flows of India for development cooperation at $1.7 billion in 2016, while the corresponding figure for South Africa was placed at $95 million and that from Mexico at $220 million (OECD, 2018d, p. 462).

finance provided by China in the range of $3 billion to $7 billion (OECD, 2018a). In the same vein, based on 12 different papers reviewed, Strange and co-authors place estimates of Chinese development finance to Africa in the range of $0.58 to $18 billion per year (Strange et al., 2017). In the Forum on China–Africa Cooperation Beijing Action Plan (2018), China pledged $15 billion in grants, interest-free loans and concessional loans to Africa for 2019–2021.[22]

South–South and triangular cooperation rejuvenate multilateralism

Regardless of the uncertainty in the quantification of the underlying flows, there is no question about the sustained intensification of South–South cooperation activities, globally as well as in relation to LDCs – even if disentangling the latter aspect requires disaggregated data on recipient countries, which is not systematically available (UNCTAD, 2010; Besharati and MacFeely, 2019). According to a recent survey conducted by the Department of Social and Economic Affairs of the United Nations, the share of developing countries providing some form of development cooperation has augmented from 63 to 74 per cent between 2015 to 2017 (United Nations, 2019a). Even limiting the analysis to those non-DAC donors reporting to OECD – hence in this case considering flows reported in line with corresponding standards prior to ODA modernization (see box 2.1) – since 2015 their bilateral gross ODA disbursements to LDCs have surpassed $2 billion per year, representing some 4 per cent of total ODA disbursements to the group. Admittedly the apparent upsurge in these flows is partly due to an increase in the number of non-DAC countries reporting to OECD (especially after 2015); yet, among the factors concurring to this upward trend one feature also the stepped-up assistance from Saudi Arabia and other Gulf countries, the renewed activism by actors such as the Russian Federation and Turkey, and potentially the incipient advent of new partnerships.

The evidence also reveals the emergence of an array of different approaches across non-traditional partners, ranging from continental-wide strategies – as those underpinning the Forum on China–Africa Cooperation, the India–Africa Forum Summit and the Russia[n Federation]–Africa Summit – down to city-to-city cooperation (UNCTAD, 2011a; United Nations, 2018b; Klomegah, 2019; The Guardian, 2019). Although not as visible as large systemically relevant players, a growing number of developing countries are engaged in development cooperation with LDCs at the regional and subregional levels. This includes countries such as Brazil – whose cooperation appears to be mainly shaped by historic and cultural ties to Lusophone countries and Latin America – but also Kuwait, Saudi Arabia, Turkey and the United Arab Emirates – mainly operating in LDCs with a significant Muslim population – as well as South Africa and Thailand operating largely with neighbouring LDCs (Semrau and Rainer, 2017). The complementary approaches among traditional and non-traditional partners pertains not only to the target countries and types of partnerships involved, but also pertains to the sectoral focus of their assistance. For instance, China and India tend to predominantly favour economic infrastructures, in contrast to Brazil whose cooperation is mostly centred on social infrastructures and technical assistance (UNCTAD, 2011a; Semrau and Thiele, 2016; Morgan and Zheng, 2019).[23]

While South–South and triangular cooperation contributes towards achieving sustainable development and rejuvenating multilateralism, it is not free from challenges. First, concerns about regional imbalances in access to long-term development financing persist even in relation to Southern-led initiatives, as the provision of development finance to smaller and poorer countries/regions – notably Africa – tends to be uneven and insufficient even with respect to investment needs (UNCTAD, 2017c). This is compounded with a need to rethink infrastructural gaps and related investment in a more comprehensive and integrated way, not only as a business opportunity but also as a mean to enhance the development of productive capacities and technology transfer in LDCs (UNCTAD, 2018e; UNCTAD, 2017a).

Second, while the contribution of Southern-led initiatives to the revival of infrastructural investments in LDCs is unanimously acknowledged, greater transparency of related flows and contractual terms, particularly those for infrastructural loans, would remove some of the confusion that muds the

22 See http://en.cidca.gov.cn/2018-09/05/c_269593.htm (accessed 11 October 2019), para. 4.1.4.

23 Interestingly, according to some researchers, the outward policy of China has influenced also the sectoral focus of its cooperation activities, underpinning the overlap of solidarity, commercial and financial motives; nevertheless, social infrastructures appear to have played a greater role than commonly perceived (Morgan and Zheng, 2019).

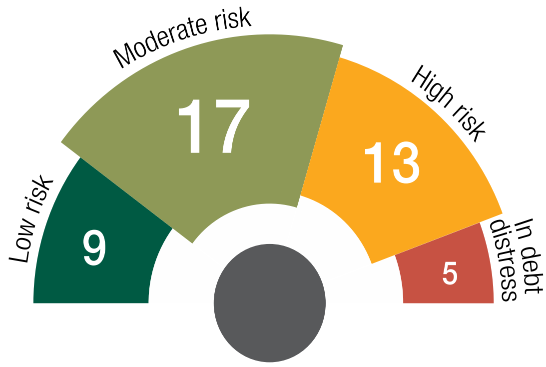
corresponding debate.[24] Lacking a commonly agreed approach among Southern partners, the calculation of concessionality is found to differ according to the method being used, as illustrated by the assessment of credit lines from Brazil, China, India and South Africa (United Nations Development Programme and Centre for Policy Dialogue, 2016). Clarifying the terms of this debate would help recipient countries to assess not just the microeconomic but also the macroeconomic impact of South–South cooperation activities, facilitating their debt management. In this respect, while the issue of transparency should apply equally to traditional and non-traditional development partnerships, it is pertinent here because of the large share of finance provided by some Southern partners in the forms of lines of credit, often tied to the provision of goods and services (Besharati and MacFeely, 2019).

Third, if the emergence of a growing array of potential development partners represents a boon for LDCs, which can strategically harness synergies and complementarities across them and through triangular cooperation, it also makes coordination more complex and demanding. The variety of approaches and players may indeed stretch recipient countries' institutional capacities in asserting their primary responsibility for their own development, by coordinating interventions, ensuring alignment and monitoring impact.

E. Debt sustainability

In a context of heightened uncertainty and persistent financial instability, the worsening of ODA concessionality reinforces mounting concerns about the sustainability of development financing in the LDCs, especially when read in combination with the increase in borrowing from non-concessional channels (UNCTAD, 2018f). Caught between the need to sustain development-oriented investments and the sluggish progress of domestic resource mobilization (see chapter 4), most LDCs have witnessed an accelerating build-up of LDC total external debt stock. This – coupled with a range of additional shock factors such as low commodity prices, currency depreciations, emerging conflicts, and cases of "hidden debt" – has triggered a

Levels of debt distress risk of LDCs



May 2019

deterioration of their debt sustainability outlook. As of May 2019, of the 46 LDCs covered by the World Bank–International Monetary Fund Debt Sustainability Framework, 5 were in debt distress (namely the Gambia, Mozambique, Sao Tome and Principe, South Sudan and the Sudan) and 13 more were classified at high risk of debt distress (Afghanistan, Burundi , Central African Republic, Chad, Djibouti, Ethiopia, Haiti, Kiribati, the Lao People's Democratic Republic, Mauritania, Sierra Leone, Tuvalu and Zambia).[25] Equally worrying, all of these LDCs, except Djibouti, Kiribati, the Lao People's Democratic Republic, South Sudan, the Sudan and Tuvalu, had received debt relief only 10–15 years before under the HIPC Initiative or the Multilateral Debt Relief Initiative (UNCTAD, 2016c; UNCTAD, 2018f; UNCTAD, 2019b).

LDC total stock of external debt has more than doubled between 2007 and 2017, jumping from \$146 billion to \$313 billion. Moreover, whereas the weight of concessional debt in total LDC external debt had declined steadily since 2004–2005, this process came to a halt after 2015 as interest rates in advanced countries began their rebound after the unconventional monetary policy adopted in response to the 2009 crisis.[26] Since then, non-concessional lending largely cooled off whereas the expansion of

24 Concerns in this respect have been in raised most vocally in relation to lending undertaken under the framework of the Belt and Road Initiative, but they appear to be circumscribed to relatively few countries and often "overstated or mischaracterized" (New York Times, 2019; Hurley, et al., 2018). Moreover, recent evidence has documented that China has written off or restructured a significant amount of its bilateral debt between 2000 and 2018: as many as 33 LDCs have benefited from similar debt relief measures, for a total value of \$2.4 billion (Development Reimagined, 2019).

25 Angola is the only LDC not covered by the World Bank–International Monetary Fund Debt Sustainability Framework; since December 2018, the country is supported by the International Monetary Fund through a three-year extended arrangement under the Extended Fund Facility.

26 According to the World Development Indicators database, concessional external debt conveys information about the borrower's receipt of aid from official lenders at concessional terms as defined by DAC; loans from major regional development banks and from the World Bank, however, are classified as concessional according to each institution's classification and not according to the DAC definition.

Shifting modalities of ODA make a reassessment of debt sustainability urgent

concessional debt stock accelerated further, thereby expanding its proportion of the total beyond 60 per cent in 2017. While this trend has been rather broad-based, there are differences between LDCs that have received debt relief under the HIPC Initiative and Multilateral Debt Relief Initiative – the so-called "HIPC post-completion point" – and other LDCs, which are either non-HIPC countries or are yet to reach the "HIPC decision point". Among the former (figure 2.19, panel (a)) the expansion of external debt stock after the debt relief of the mid-2000s has been significantly faster, with double-digit annual growth rates between 2010 and 2017. This is particularly the case for their non-concessional debt stock, which more than doubled over the same period, growing at 14 per cent per year. External debt stocks have augmented slightly more slowly in the case of non-HIPC LDCs or LDCs potentially eligible for HIPC but at "pre-decision" point; yet, even in this case, the stock of external debt has increased at an average annual growth rate of 7 per cent (figure 2.19, panel (b)).

In light of the above, the shifting modalities in ODA flows to LDCs cannot but make even more urgent a holistic reassessment of debt sustainability and related systemic issues (UNCTAD, 2018f). If external debt financing inevitably represents a key element of any sustainable development strategy in LDCs, the main policy challenge is how to harness such instruments while minimizing associated risks. Regardless of the modalities of financing, there is no doubt that cost-effectiveness and focus on results are of paramount importance for an effective sustainable development spending; in the case of debt-creating instruments, this imperative is compounded by the need to ensure that Sustainable Development Goal SDG-related investments generate a (social) return commensurate to the terms of the loan. Yet a conundrum, given LDCs' heightened reliance on external development finance, is that debt service subtracts resources which could otherwise be allocated to Sustainable Development Goal SDG-related investments.

The scale of this challenge can be easily gauged from figure 2.20, which depicts the sharp increase in debt service for public and publicly guaranteed external debt. Even when restricting the attention only to the latter component of external debt – which in the case of LDCs accounts for some 78 per cent of the total external debt stock – debt service has more than doubled since 2010, jumping from $6.2 billion to $13.2 billion in 2017 (see box 2.5).[27] Multilateral creditors only account for some 25 per cent of external debt service disbursements – $3.3 billion – reflecting the fact that the terms of their loans are usually softer than other financial channels, especially for countries facing debt-related challenges.[28] The service burden of other components of public and publicly guaranteed debt, including those from other Governments, has however increased much faster and might become even more onerous in case of a rebound of global interest rates, thus further subtracting resources for other developmental purposes. Moreover, the expansion of debt service for public and publicly guaranteed debt has already been outpacing that of exports of goods, services and primary income, leading to an overall rise in the ratio between the two variables. In 2017, the debt service burden exceeded 6 per cent for LDCs as a group (but reached double-digit rates in a number of individual LDCs), approaching levels last seen before the onset of the debt relief initiatives of the early 2000s.

The surge of debt service also reflects the fact that the composition of LDC external debt has gradually shifted towards more expensive and riskier sources of finance, including a growing share of external debt carrying variable interest rate (World Bank, 2018). Although concessional debt still accounts for nearly two thirds of LDC debt stock, the weight of commercial creditors and of bilateral non-Paris Club creditors have both been on the rise, all of which could have profound implications on debt servicing, debt roll-over risks, as well as – potentially – the costs of negotiating any restructuring.

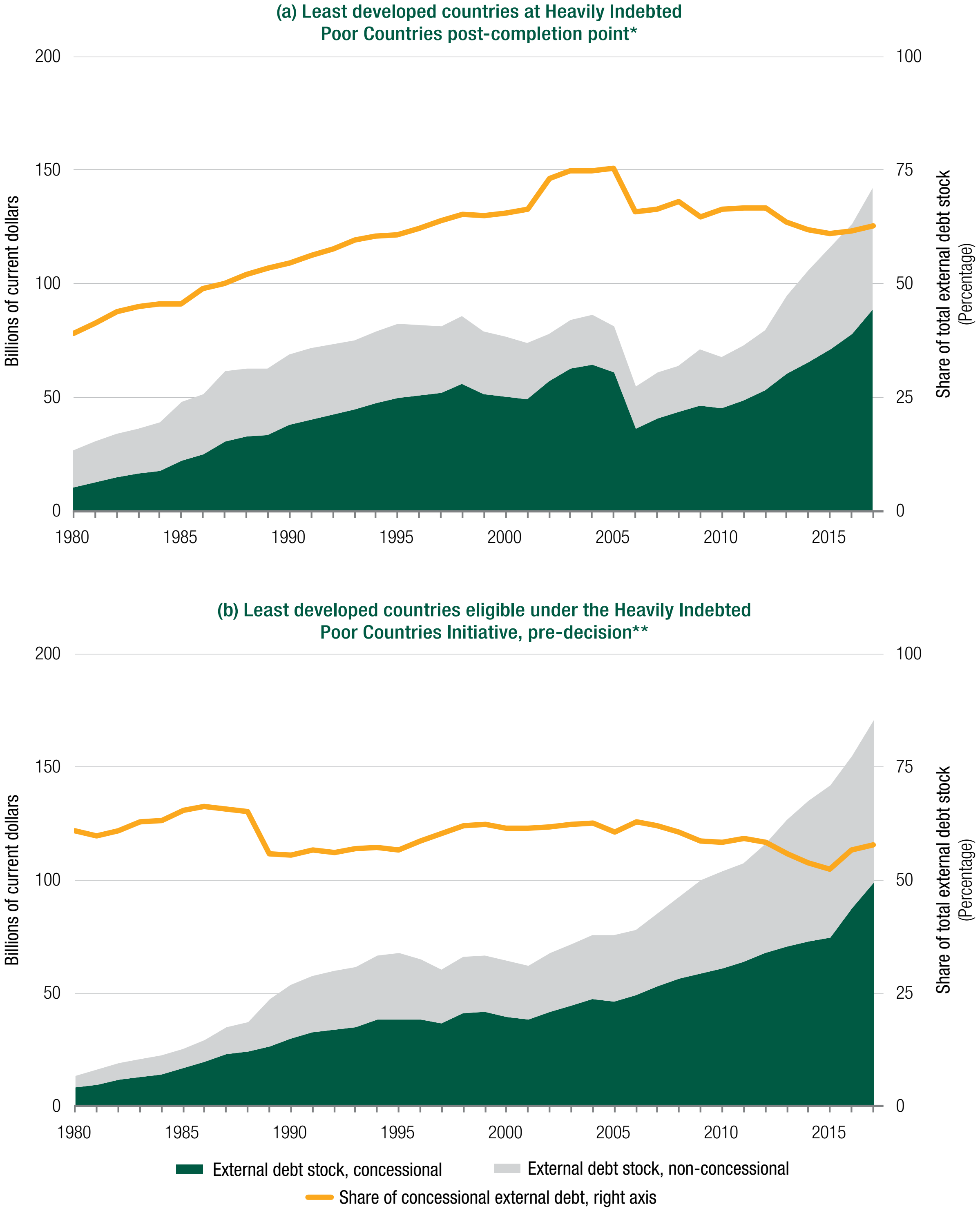
Again, distinguishing between LDCs having reached HIPC post-completion point and all other LDCs

27 Unlike in the case of more financially integrated developing countries, in the LDC context, the shift from public or publicly guaranteed external debt towards private non-guaranteed one is only incipient. With few exceptions, it tends to be more pronounced among Asian and Pacific LDCs than among African LDCs.

28 Public and publicly guaranteed multilateral loans include loans and credits from the World Bank, regional development banks and other multilateral and intergovernmental agencies. They exclude, however, loans from funds administered by an international organization on behalf of a single donor Government, which are classified as loans from Governments. Moreover, the residual class "other public and publicly guaranteed" includes public and publicly guaranteed external debt towards other creditors, such as bilateral Paris Club and non-Paris club creditors, as well as commercial lenders. It is also worth mentioning that the sharp decline in debt services between 2016 and 2017 is owed almost entirely to Angola, as the country received some debt write-offs in 2017 (Macau Hub, 2017).

Figure 2.19

Least developed country external debt stock, concessional and non-concessional, 1980–2017



Source: UNCTAD calculations, based on data from the World Development Indicators database.
* Panel (a) based on data for 28 LDCs.
** Panel (b) based on data for 19 LDCs.

reveals some important differences. For the former group of LDCs (figure 2.21, panel (a)), the burden of debt servicing, relative to exports of goods services and primary income, has declined significantly in the wake of the debt write-off of the mid-2000s, and has remained at broadly moderate levels since 2009,

Box 2.5 Least developed countries and the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative

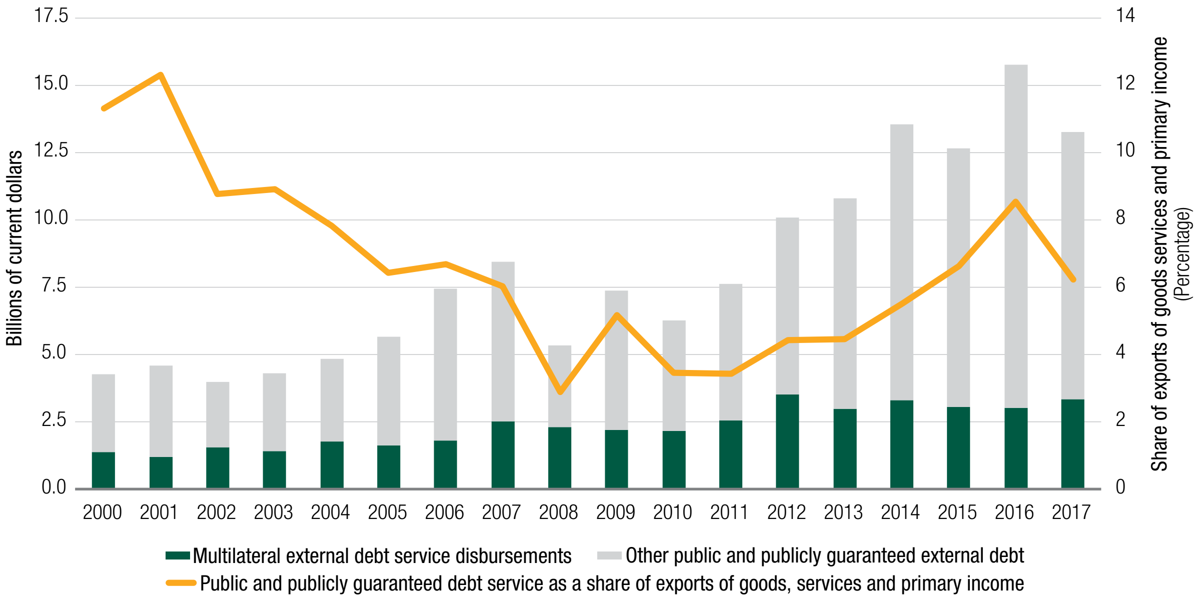
In a nutshell, debt relief under the HIPC Initiative (which was later supplemented by the Multilateral Debt Relief Initiative) involved two steps process: a decision point, at which countries deemed eligible may immediately begin receiving interim relief on its debt service falling due, and a completion point, at which they receive full and irrevocable debt reduction provided that they establish a satisfactory track record of good performance, implement key reforms agreed at the decision point, and adopt and implement their Poverty Reduction Strategy Papers. As of February 2019, the following LDCs had reached HIPC completion point: Afghanistan, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, the Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, United Republic of Tanzania, Togo, Uganda and Zambia. Conversely, Eritrea, Somalia and the Sudan had not yet reached HIPC decision point; all other LDCs, had not qualified or were not eligible to receive assistance under the HIPC initiative.

notwithstanding some slight increases in the last few years. Among non-HIPC LDCs and LDCs not having yet reached the HIPC decision point, the debt burden has remained generally higher, and witnessed a more visible climb since 2014, only partly offset by the subsequent decline (figure 2.21, panel (b)). This is particularly the case in non-HIPC countries such as Angola, Bhutan, Djibouti and the Lao People's Democratic Republic, all of which face serious concerns regarding their debt sustainability outlooks.

Against this background, the tension between financing needs commensurate with the ambition of the Sustainable Development Goals, worsening ODA concessionality, and debt sustainability is becoming increasingly apparent, notwithstanding the stated "importance of focusing the most concessional resources on those with the greatest needs and least ability to mobilize other resources" (United Nations (2015b), para. 52). This also lays bare how high LDC stakes are in discussions of debt sustainability and interrelated systemic issues. Despite their marginal economic weight from a global perspective, they would have the most to gain from a development-friendly reform of the international financial architecture that facilitates access to international liquidity for Sustainable Development Goal-related investments, proactively facilitates structural transformation by encouraging surplus countries to recycle their surpluses to low-productivity economies, and mitigates growing debt vulnerabilities (UNCTAD, 2018f; UNCTAD, 2017b; UNCTAD, 2015b).

Figure 2.20

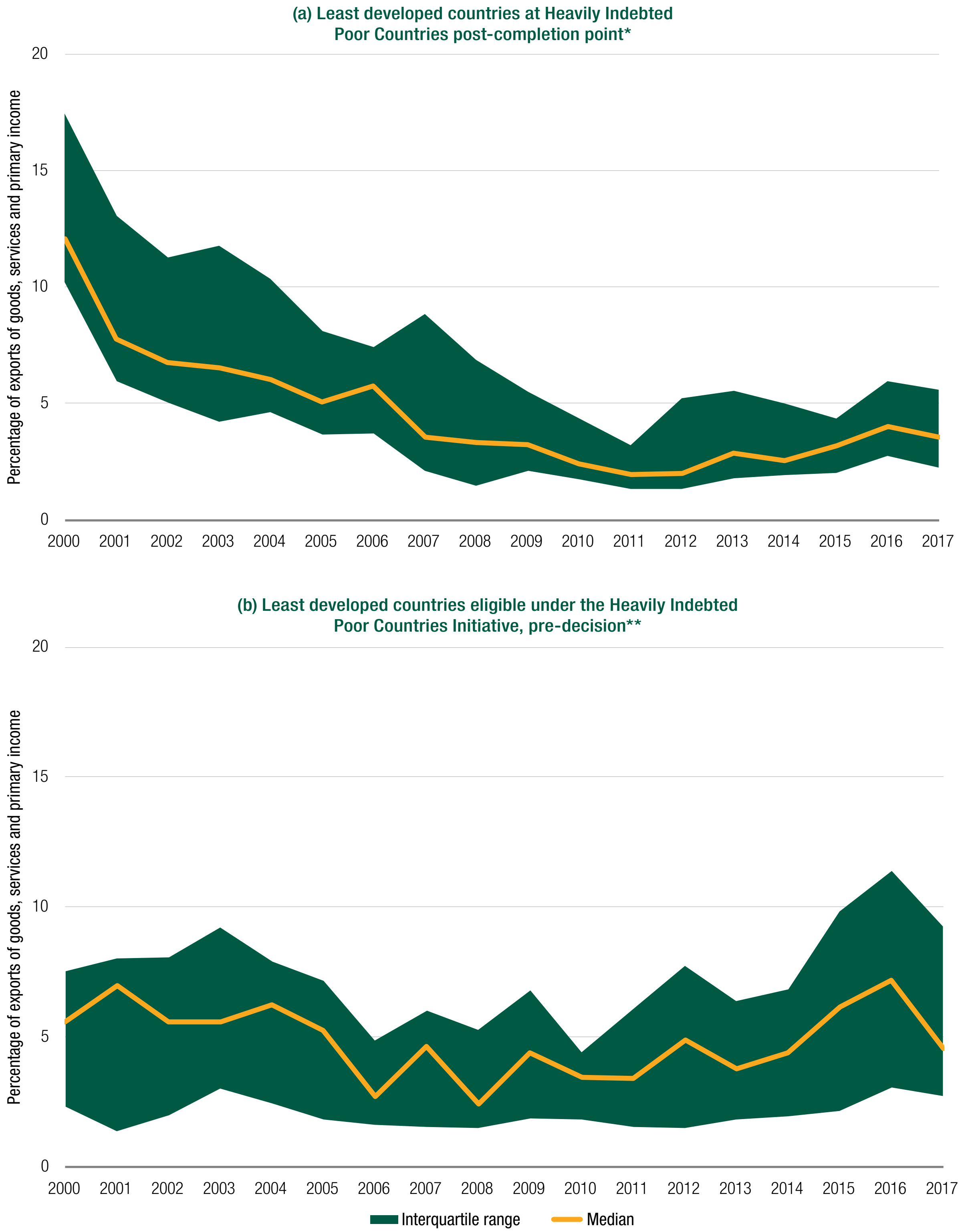
Total external public and publicly guaranteed debt service of the least developed countries



Source: UNCTAD calculations, based on data from the World Development Indicators database.

Figure 2.21

External public and publicly guaranteed debt service across the least developed countries



Source: UNCTAD calculations, based on data from the World Development Indicators database.

In this respect, the growing importance of debt-generating instruments calls for strengthened technical assistance and capacity building in relation to debt management and analytics. It also warrants greater transparency and improved quality and availability of public data related to debt and

The growing prevalence of debt-generating instruments raises concerns for LDCs

debt sustainability issues, including in countries that have not yet reached the HIPC decision point or are affected by situations of conflict (United Nations (2015b), paras. 95 and 96). The need for enhanced transparency applies across all potential sources of debt, from contingent liabilities to bilateral loans provided by non-traditional development partners, as the lack of systematic data hampers a thorough analysis of their sustainability. Finally, the persistent presence of various LDCs in debt distress, or at high risk of debt distress, points to the need to improve sovereign debt workout mechanisms, by preventing financial meltdown in countries struggling to meet their obligations and by facilitating equitable and negotiated solutions to debt restructuring (UNCTAD, 2018f). Against this backdrop, UNCTAD plays a part in addressing the debt-related challenges of developing countries, through its technical assistance and capacity-building on debt management issues, research and policy analysis on the necessary reforms of the international financial architecture and work on its Principles for Responsible Sovereign Lending and Borrowing.

F. Conclusions

Relatively small economic size, sluggish progress of structural transformation and heightened dependence on external finance leave LDCs with limited alternatives to aid dependence, vindicating their condition of heightened vulnerability which justifies dedicated support measures. While aid dependence has been on a downward trend, as the magnitude of aid flows has been declining relative to GDP and other macroeconomic variables (such as imports and gross fixed capital formation), it remains remarkably high by international standards, reflecting in the twin gaps in terms of financing for much-needed investment and foreign exchange. This poses a potential challenge in the current context of stagnant if not declining aid budgets, particularly in light of the “missing middle of development finance” (i.e. the challenge of middle-income country in their transition from aid to other sources of development finance).

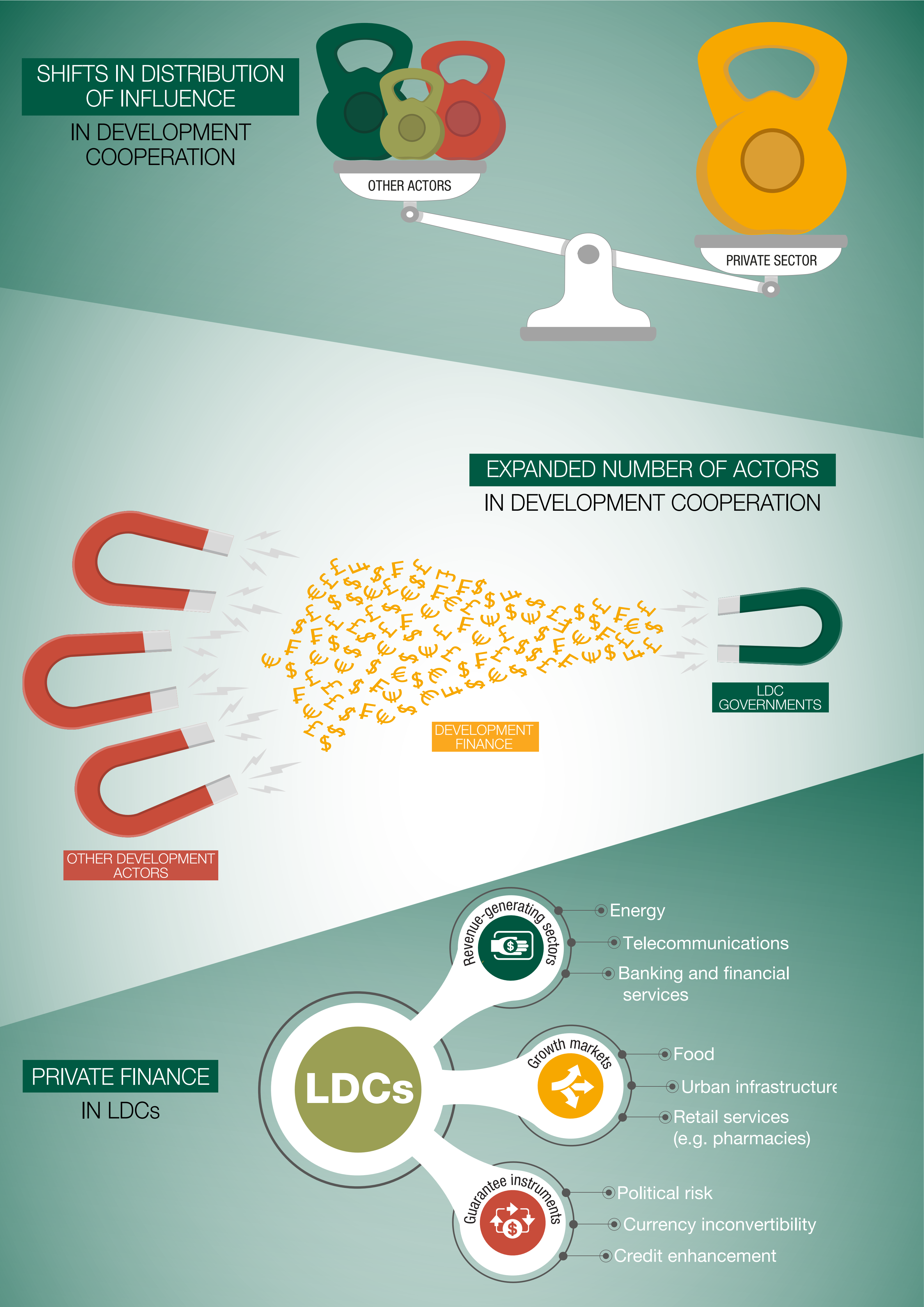
Notwithstanding international commitments (notably target 17.2 of Sustainable Development Goal 17), ODA flows to LDCs have expanded only marginally since the Istanbul Programme of Action was adopted, increasing at half the pace at which they increased under the Brussels Programme of Action (3 per cent per year, compared to 7 per cent under the Brussels Programme of Action). The interplay of stagnant ODA flows and a sectoral allocation disproportionately geared towards social sectors and humanitarian activities (jointly accounting for 60 per cent of total disbursements) has left economic infrastructures and productive sectors relatively underfunded. What is more, over the last few years the degree of concessionality has worsened not only for developing countries in general but also for the LDCs. As a matter of fact, the increase in ODA gross disbursements to LDCs since 2011 is chiefly due to increased ODA loans, whereas grants have remained essentially stagnant or have even been declining, for most of the present decade. The rising prominence of concessional loans over the last few years touches virtually all LDCs and is even more significant if read in conjunction with the incipient use of other official flows.

LDCs institutional capacities are also faced with the growing complexity of dealing with the unfinished progress on the aid effectiveness agenda, as well as strategically engaging a broadening array of development partners. This difficulty of such task is augmented by the growing diversification of financial instruments utilized, which often blur the distinctions between concessional and non-concessional finance, or between private and official funds, potentially hampering an adequate monitoring of the different transactions. This makes the call for greater transparency and improved modalities all the more central, to ensure that the positive effects of a greater availability of instruments are not outweighed by their risks or by the strains imposed on absorptive capacities.

The remarkable intensification of South–South and triangular cooperation, as well as the broadening of related partnerships, is potentially adding more arrows in the quiver, reshaping the development finance landscape and significantly contributing to spur sustainable development. Challenges however remain, most importantly in terms of regional imbalances in access to development finance, as well as need for increased transparency in relation to concessional and non-concessional lending.

In a context of heightened uncertainty and persistent financial instability, the interplay of the trends described above underpin the challenges, which are compounded by a worsening debt sustainability outlook. In particular, while in itself LDC access to concessional finance might be a positive sign – and indeed typically goes hand in hand with the capacity to raise additional non-concessional resources – the sharp rise in LDCs external debt stock raise serious concerns for the sustainability of this process. Moreover, the composition of LDC external debt has gradually shifted towards more expensive and riskier sources of finance, and towards a growing weight of commercial and bilateral non-Paris Club creditors; all of which could have profound implications on debt servicing, debt roll-over risks and costs of negotiating potential restructuring.

This highlights that LDCs have a considerably stake in discussions related to so-called systemic issues, notably reserve currency and debt sustainability. While their economic weight might be marginal when assessed on a global scale, the terms of their integration in the global market are profoundly affected by the measures agreed by the international community in this respect. It is thus all the more important that developing countries, and LDCs in particular, have a saying in critical reforms of the international financial architecture, and their interests are adequately considered and reflected in global forums debating systemic issues, such as access to international liquidity, orderly debt workout systems and tackling illicit financial flows.



SHIFTS IN DISTRIBUTION OF INFLUENCE
IN DEVELOPMENT COOPERATION
OTHER ACTORS
PRIVATE SECTOR
EXPANDED NUMBER OF ACTORS
IN DEVELOPMENT COOPERATION
OTHER DEVELOPMENT ACTORS
DEVELOPMENT FINANCE
LDC GOVERNMENTS
PRIVATE FINANCE
IN LDCs
LDCs
Revenue-generating sectors
Energy
Telecommunications
Banking and financial services
Growth markets
Food
Urban infrastructure
Retail services (e.g. pharmacies)
Guarantee instruments
Political risk
Currency inconvertibility
Credit enhancement

CHAPTER 3

Private development cooperation: More bang for the buck?

CHAPTER 3

Private development cooperation: More bang for the buck?

A. Introduction

The role of the private sector remains controversial in development cooperation, yet it is increasingly being solicited. The architecture of ODA is evolving, as donors seek alternative sources of development finance to fund the ambitious 2030 Agenda for Sustainable Development and to supplement dwindling levels of ODA. Donors' private sector engagement strategies prioritize a toolbox of financial instruments to support private investment in a variety of developing country contexts, including in LDCs. This move has revolutionized the definition of ODA and its purpose.

Opportunities and challenges in the initiation of a new generation of private sector-led development action and its deployment in LDCs are inextricably tied to motivations external to the 2030 Agenda and should be understood within this wider context. Donors have delegated to their development finance institutions primary responsibility for supporting the private sector, using private sector instruments backed by ODA. There are potentially far-reaching consequences for traditional development actors, including the State, as the changes to the ODA architecture shift the balance of power between and across an ever-expanding cast of development actors. This chapter assesses the new expectations, of a private sector transformed into an official development actor engaged in development cooperation. It explores emerging evidence of whether the private sector can live up to these expectations by assessing how well the activities of development finance institutions generate and maximize long-term and systemic development impacts and contribute to structural transformation.

B. Public meets private: An overview of private development cooperation

1. Overview of new terminology and adapted official development assistance architecture

The for-profit private sector (companies and investors) is diverse.[1] It varies in size, scope of activity, sectoral focus and nature of products and services. Its development contribution is correspondingly varied. It has long been recognized as a complementary source of development finance alongside but separate from ODA flows, which are inherently public and concessional. In contrast, private development finance is commercial in nature. Recent changes to the ODA architecture blur this distinction and introduce a panoply of new terminology and concepts into the sphere of development finance. For example, in 2019, the grant equivalent system introduced to measure donor effort as part of the modernization exercise became the standard for measuring ODA and, accordingly, individual loans to private sector entities are reported as ODA on a cash flow basis, provided they have a grant element of at least 25 per cent, calculated using a discount rate of 10 per cent (OECD, 2019d; see box 2.1). In the past, the field of development cooperation and ODA did not overlap with the fields of commercial finance and investor strategies, yet these fields now merge, with the incorporation of various private sector instruments and investment classes and motivations (box 3.1). However, universally agreed definitions of many of the concepts linked to private sector engagement and their application in development cooperation remain lacking. One consequence, therefore, of the reform of the ODA architecture is that a good grasp of the range of development finance terminology now current is a vital prerequisite for policymakers and researchers in tracking and understanding developments in ODA.

Previously, ODA did not overlap with commercial finance and investor strategies

Donors are concentrating their efforts on mobilizing private finance for development in response to the widening gap between the ambitions of the Sustainable Development Goals and the anaemic growth in ODA, by extending ODA-backed support to the private sector and thereby giving the private sector an official role in development cooperation. The intention is to scale up investment projects with Goals-related impacts where the opportunity for private investors (both domestic and foreign) may not be clear cut. It is argued that the use of concessional finance could, in such cases, improve on the risk–return profile of investments, making them commercially investable (Schmidt-Traub and Sachs, 2015; OECD and United Nations Capital Development Fund, 2018).

The business case elaborated in support of a dominant role for the private sector in the implementation of the Goals is impressive. The private sector is lauded for its perceived potential to have a transformative impact on the world's poor. It is characterized as more

[1] The use of the terms "private sector" and "business" in this chapter aligns with the definitions of the Addis Ababa Action Agenda and OECD, which exclude actors with a non-profit focus, such as private foundations and civil society organizations (OECD, 2016a).

efficient, more innovative and better able to capitalize on economies of scale (United Nations, 2018c). However, a common understanding of what constitutes private development cooperation and to what extent the private sector should be considered as requiring ODA remains unachieved. Concerns linger about providing ODA-backed financial support to the private sector because of the attendant risks in such an approach and because the subsidization of commercial activities remains a disputed area (Atwood et al., 2018; Carter, 2015; Carter, 2017a). For example, subsidies provided by donors could substantially jeopardize competition and lead to unfavourable market structures in recipient LDCs. It has been acknowledged that when national regulatory frameworks are weak or absent, international regulations and the voluntary initiatives of companies are a poor substitute, with negative consequences for the quality of private sector development (Davies, 2011; Reality of Aid, 2012). Another concern advocated by civil society actors and others is that public funding to the private sector can be largely unregulated and is likely to flout the accepted principles of development effectiveness (Mahn Jones, 2017). In 2016, concerns were raised and subsequently addressed by a task force of the OECD Development Assistance Committee and Export Credit Group on the boundary between developmental private sector instruments and export credits (OECD, 2016b). Donors rarely use the term "subsidy", instead using terms such as "blended finance" and "smart lever"' in the context of development cooperation, yet implicit subsidies are commonly operationalized through interest rate discounts, reduced taxes or grants (International Finance Corporation, 2018; OECD, 2014; Savoy et al., 2016).

In the aftermath of the Third International Conference on Financing for Development in 2015, some effort was made to bound private development cooperation. Among the issues addressed by the

Box 3.1 Sustainable action in business

The field of sustainable action in business lacks standard definitions and is subject to a variety of interpretations and gaps in monitoring. Sustainable action may or may not be oriented to the public good. In addition, it is often intended to help potential investors predict future financial performance by assessing the related impact of sustainability issues. Business has an incentive to engage in cause-related marketing. Terms such as "bluewashing" (linked to the ocean economy), "pinkwashing" (women and gender-related issues), "Goals/rainbow-washing" (the Goals and their icons) and "impactwashing" (claims by impact investors) are gaining prominence alongside the older "greenwashing" (environmental sustainability issues).

Socially responsible investments consider environmental, social and governance-related factors in portfolio selection and asset management. They are also known as sustainable, socially conscious, green or ethical investments. Impact investments are a subset of socially responsible investments and aim to both influence and practice change along with accruing financial gain. Despite their social leanings, such investments are inherently for-profit, most often in the form of private equity, and therefore often less transparent, in addition to being largely a self-reported category with regard to impacts. Existing literature on impact investing largely reflects the experience of investors. Their key selling point is a perceived ability to drive inclusive and green business and to reach bottom-of-the-pyramid populations using innovative business models. Socially responsible investment instruments include a variety of social bonds across a broad number of sectors that permit private investors to put up capital to fund a social intervention, such as catastrophe bonds issued by the World Bank, among which pension funds are major investors. Such instruments often blend impact investing, results-based financing and public–private partnerships. For example, philanthropists have played a critical role in the development of social impact investment.

Corporate social responsibility is the voluntary management of policies and programmes including, but not confined to, philanthropy, of a company, which address its commitment to stakeholders and socially responsible practices. The range of issues addressed by corporate social responsibility management generally fall within the categories of environmental, social and governance-related issues widely used by investors and lenders; although the two concepts are sometimes used interchangeably, the concept of sustainability is more commonly used by companies. Corporate communication on environmental, social and governance-related issues is usually in the form of sustainability reporting.

Responsible investment practices are efforts by investors to incorporate environmental, social and governance-related issues into investment decisions and to engage with investee companies to encourage environmental, social and governance-related practices to better manage risk and generate sustainable long-term returns. Initiatives in this area include the United Nations-backed Principles for Responsible Investment (see https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment).

Sources: Global Impact Investing Network, 2018; International Financial Reporting Standards Foundation, 2019; Mandalaki and O'Sullivan, 2016; OECD, 2016a; UNCTAD, 2014a.

Development Cooperation Forum in 2016 was the definition of "private development cooperation", which was advocated as "activities by the private sector which aim primarily to support development, do not have profit as their primary aim and involve a transfer of resources to developing countries" (Martin, 2015). This definition included private activities, both financial and non-financial, in support of development, mainly provided by non-governmental organizations and philanthropic and grant-providing organizations and individuals, and excluding all other types of private flows, including FDI, not primarily aimed at development (Martin, 2015). In the lead up to the Conference on Financing for Development, similar reasoning sought to distinguish between two categories of private investment, as follows (Schmidt-Traub and Sachs, 2015):

- Private investment mobilized using international and domestic public funds to support sustainable development.
- Commercial private investment, such as foreign direct investment.

Evidence that these distinctions have gained traction or are respected in the donor development cooperation literature and in implementation is scarce. The outcome document of the Development Cooperation Forum makes no reference to an agreed definition of private development cooperation. An important question in the evaluation of development impacts is whether commercial private investment can be easily disentangled from development-conscious private investment and where the line is to be drawn in the case of unilateral action by the private sector (box 3.1).

a. How donors have repositioned the role of official development assistance in response to the 2030 Agenda

There are several modalities through which private sector engagement occurs, including knowledge and information-sharing, policy dialogue, technical assistance, capacity development and finance (OECD, 2016a). The latter modality is the focus of this chapter and includes private sector instruments. DAC pursues a strategy of private sector engagement using private sector instruments and new financing windows to leverage private investment in the Goals in developing countries based on financial additionality, that is, the fact that investment would not have materialized without the involvement of the official sector (OECD, Development Assistance Committee, 2018). Underpinning the concept of private sector engagement is the belief that the use of ODA-backed private sector instruments can induce private investment to assume a development-conscious role distinct from its usual purely profit-driven focus (Martin, 2015). Additionality has thus become the cornerstone of a new era of development finance.[2] It is often disaggregated into subcomponents (see section C). However, demonstrating and proving it is hindered by the lack of a standard definition, partly because it is context and project-specific (Carter et al., 2018).

Lack of a standard definition of private sector engagement hinders provision of additionality

Logically, a development-conscious role for the private sector is qualitatively different from unilateral sustainable action by business. The latter is often driven by a different rationale, tied to profit, market share and reputation, with corporate governance motivated mainly by capital markets (box 3.1). This is evidenced by numerous examples of wrongdoing in the private sector. Sustainable actions can be motivated by a variety of business interests ranging from defensive, promotional and strategic to charitable and transformative. Since business has an incentive to engage in cause-related marketing, unilateral sustainable actions produce varied results with respect to development impacts. Moreover, companies have significant leeway in how they communicate their sustainable actions, and such communications can be mistaken for deeper engagement. Neither is deeper engagement nor a development focus assured by the voluntary standards that typically govern responsible practices by business. The chair of the International Accounting Standards Board has noted that there are "too many standards and initiatives in the space of sustainability reporting" and expectations about sustainability reporting as an agent for change are exaggerated (International Financial Reporting Standards Foundation, 2019). Mandalaki and O'Sullivan (2016) propose a taxonomy of "indulgence-seeking" behaviours by business linked to sustainable actions, to explain frequently observed inconsistent corporate behaviour and apparently contradictory ethical stances by businesses.

One presupposition of private sector engagement is that the balance of risk and reward for all private

[2] See, for example, https://cidpnsi.ca/additionality-in-development-finance/ and OECD, Development Assistance Committee (2018), page 6.

sector investments is discoverable in advance. This assumption is particularly problematic in the LDC context, as Goals-related financing gaps are greater and blended transactions are more difficult to implement, compared with in other developing countries. In addition, the scarcity of market data and pricing references makes it difficult to gauge the terms under which private capital would be willing to undertake a project on its own. Donors may be tempted to label any investment that combines concessional and private finance in LDCs as additional (OECD and United Nations Capital Development Fund, 2018). Whether the private sector that is deemed worthy of ODA-supported private sector instruments in LDCs should be subject to more stringent qualifying criteria than it is in other developing countries is an open question.

DAC members have not yet reached agreement on permanent implementation rules for private sector instruments (box 3.2). The provisional arrangement proposes a reporting system to distinguish development projects from purely commercially motivated flows, yet it is unlikely that the general public or LDC Governments will easily discern the difference. The risk that regular business activity may be confused with development projects is high, given evidence that concepts such as additionality and minimal concessionality and the risk of oversubsidizing the private sector have yet to be fully internalized in policy and operational conversations in LDCs (Bhattacharya and Khan, 2019). Unresolved issues include how to assure the same level of transparency in private sector instruments as in the rest of ODA, given that investment projects involving the private sector are prone to a lack of transparency stemming from challenges related to commercial confidentiality in matters linked to the private sector. Given that the DAC aim to intensify the use of private sector instruments has led to a

Box 3.2 **Development Assistance Committee: Standardized reporting on private sector instruments**

Member countries of DAC collectively account for almost 80 per cent of global aid spending. In 2014, DAC agreed on provisional arrangements to advance the standardized treatment and reporting of practices not previously eligible as ODA. This initiative was part of a broader reform process initiated in 2012 to update the concept of ODA and better reflect the proactive efforts of members in using private sector financial instruments to mobilize private sector investment. In addition, the emerging financing strategy for the Goals provided justification for a monitoring system that covered both public and private finance. In the light of the financing deficit for achieving the Goals, one of the stated aims of the modernization exercise is to incentivize all members to use private sector instruments to crowd in additional private finance for development.

The provisional arrangement puts in place a modernized DAC statistical system that captures the diversity of private sector financial instruments used by the official sector. The taxonomy of private sector instruments eligible to be counted as ODA includes grants, guarantees or insurance, debt instruments, mezzanine finance instruments and equity and shares in collective investment vehicles. Under the proposed system, FDI, officially supported export credits and other private flows in market terms, including charitable flows, are categorized as other official flows and do not qualify as ODA.

To distinguish development projects from purely commercially motivated flows, ODA measurement will be based on an institutional approach, that is, the ODA-eligible share of inflows to development finance institutions, or on an instrument-based approach, that is, the grant equivalent of individual private sector instrument flows to partner countries. ODA eligibility thresholds are based on discount rates differentiated by income group and a grant-equivalent system for the purpose of calculating ODA figures has been introduced, as follows:

- Sovereign loans will be reported on a grant-equivalent basis using discount rates of 9, 7 and 6 per cent, respectively, for LDCs and low-income countries, lower middle-income countries and upper middle-income countries, and thresholds of 45, 15 and 10 per cent, respectively. The expected outcome is that donors will be rewarded for taking on higher risks and lending more to LDCs.
- Under the institutional approach, contributions to development finance institutions and other private sector instrument vehicles may be counted at face value. If necessary, that is, if an institution is also active in countries and/or activity areas non-eligible for ODA, the share of ODA-eligible activities in the institution's total portfolio will be estimated to establish a coefficient for ODA reporting. The expected outcome is that ODA will be determined through institutional assessment of ODA-eligible activity undertaken in addition to requirements for activity-level reporting.
- Under the instrument-based approach, loans and equities made directly to private sector entities will be counted on a cash flow basis. The expected outcome is that each investment will be reported at the individual activity level only.

Sources: OECD, 2014; OECD, 2017; OECD, Development Assistance Committee, 2018.

rise in project-based initiatives, a related concern is opacity in donor project reporting (Gutman and Horton, 2015; Kindornay et al., 2018). Similarly, the standardization of the assessment and measurement of additionality, a vital concept underpinning the channelling of ODA via the private sector, remains unresolved. Instruments such as mezzanine finance and guarantees are not assessed as ODA, except to the extent that guarantees are invoked and payments made, in which case these payments are counted as ODA. Work on the details of implementation is ongoing (OECD, 2019b).

The failure to put in place a permanent governing framework for private sector engagement in a timely fashion entails risks for donors, whose approaches to ODA-backed private sector instruments could diverge on additionality, with potentially negative consequences for development impacts and value for money (Carter, 2015).

b. The role of blended finance

One element of donor private sector engagement that has captured the imagination of donors is leveraging ODA to mobilize significantly greater amounts of private finance for investment in the Sustainable Development Goals, which has led to the catchphrase "billions-to-trillions" (African Development Bank et al., 2015; Lee, 2017). Blending complements and engages a variety of sources of finance, including but not limited to the for-profit private sector. It is part of the attempt by donors to create an environment supportive of private sector engagement. Theoretically, sources of blended finance can involve entities with more diverse legal settings than other development cooperation modalities, namely, public administration, public and commercial banks, pension funds, local financial institutions, multinational enterprises, microenterprises and small and medium-sized enterprises, individual borrowers, etc. (OECD, 2018e). As noted, sustainable actions by private sector actors can often intersect with actions by donors to mobilize or leverage private finance for Goals-related projects such as development impact bonds.

In the absence of a universally accepted definition of blended finance, the multitude of actors across different sectors in the development finance market, including LDC Governments, understand and apply the concept in a variety of different ways (Blue Orchard, 2018; OECD and United Nations Capital Development Fund, 2018). As noted, the understanding of private sector engagement is shallow in LDCs, compared with concepts championed by OECD donors. Evidence from some LDCs shows that the concept of blending is not uniformly understood by actors even within a single country, let alone across all LDCs. For example, in Bangladesh, blended finance is understood as being within the framework of development cooperation and is often associated with external concessional resources mobilizing private capital for development; in Uganda it is mostly associated with public sector incentives for the private sector to invest in specific sectors, usually manifested in the form of public–private partnerships, concessional loans, grants, guarantees and technical assistance. Blended finance is sometimes characterized as the impact-driven extension of public–private partnerships because it is rooted in the rationale of using a mix of public and private finance to fund projects with a high level of development impacts (Blue Orchard, 2018). Definitions of blended finance continue to evolve, with some definitions applying a broader interpretation than that intended by the Addis Ababa Action Agenda (Attridge and Engen, 2019; Heinrich-Fernandes, 2019; OECD, 2018f; OECD and United Nations Capital Development Fund, 2018).

Understanding of private sector engagement is shallow in LDCs

The situation is further complicated by differences between accounting methodologies used for blended finance by OECD and multilateral and regional development finance institutions, including several bilateral development finance institutions (table 3.1). The methodologies yield vastly different results, which limits comparability, and work on harmonizing the two methodologies is ongoing, but is a difficult and protracted process, with the differences based on the measurement of causality and additionality (Attridge and Engen, 2019). A critical first step towards effective blended finance is therefore a common definition and methodology.

Challenges remain with regard to attracting some classes of investors, such as institutional investors, and the blended finance market remains dominated by public players, that is, public–public blending, prompting recognition of the need for a stronger focus on the mobilization of commercial resources (Blue Orchard, 2018; Lee, 2017). Scepticism about arguments for increasing the investment of ODA in blended finance and the expectations about the leveraging power of ODA is growing in the face of mounting evidence of a low leveraging ratio (Attridge and Engen, 2019; Convergence, 2018; Gottschalk

Table 3.1

Differences in use of definitions of blended finance

Resource	Definition used by the Organization for Economic Cooperation and Development	Definition used by multilateral development banks, development finance institutions and the United Nations
Own-account resources of multilateral development banks and development finance institutions (not cofinanced)	Yes	No
Other official flows, when used by entities with a development mandate	Yes	No
Concessional ODA (donor or third-party concessional finance)	Yes	Yes
Philanthropic capital, when used by entities with a development mandate	Yes	No
Impact funds (investment below market rate)	Yes	No

Source: UNCTAD calculations, based on Attridge et al., 2019.

and Poon, 2017; Heinrich-Fernandes, 2019; OECD and United Nations Development Programme, 2019; Pereira, 2017a; United Nations, 2019a).

Despite these challenges, blended finance has become mainstream in development cooperation. Trailblazers include the International Finance Corporation, multilateral development banks and international and bilateral development finance institutions. Philanthropic organizations, particularly private foundations, still play a small role (Blue Orchard, 2018; Convergence, 2018; Lee, 2017).

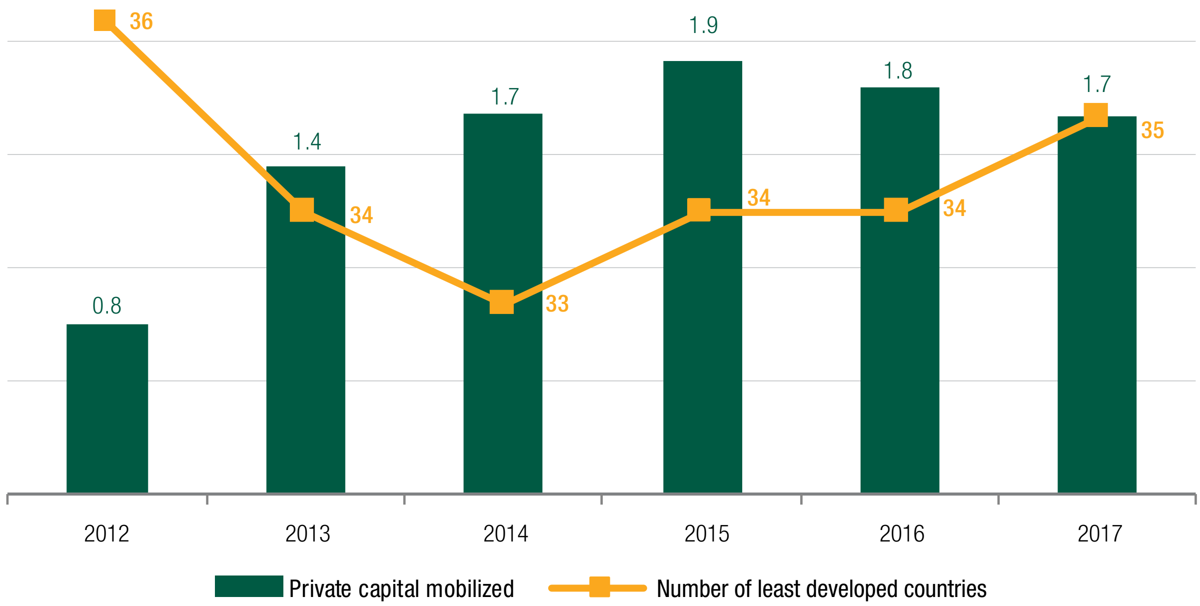
By 2018, 17 of the 23 members of OECD were engaged in blending and 167 facilities to pool finance for blending were launched in 2000–2016 (OECD, 2018g). In 2008–2017, the European Union set up eight regional investment platforms, extending blended finance to Africa, Asia, the Caribbean, Latin America, the Pacific and other countries in Europe (OECD, 2018h).

As shown in figure 3.1, the amount of capital mobilized from the private sector and channelled to LDCs reached $9.27 billion in 2012–2017 (OECD, 2019e;

Figure 3.1

Private capital mobilized in the least developed countries

(Billions of dollars)



Source: UNCTAD calculations, based on OECD data.

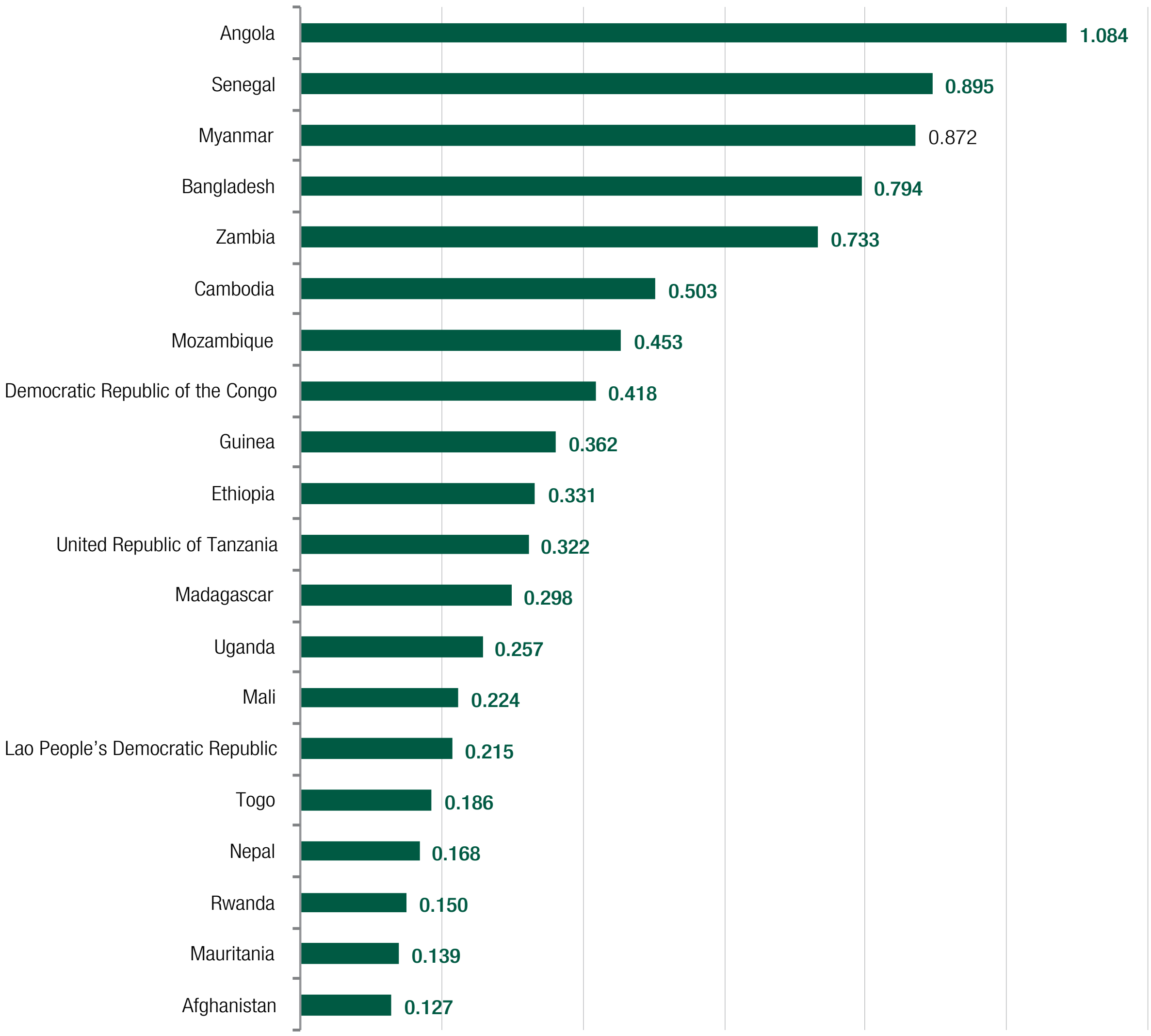
estimates of private sector engagement are valid for 2019 and data for 2016–2017 is preliminary). LDCs accounted for 6 per cent of the capital mobilized (8 per cent of private capital, excluding regional allocations), equivalent to only 5.8 per cent of the volume of ODA disbursed to LDCs. This underlines the continued need in LDCs for official development finance.

The distribution of privately mobilized capital flows in LDCs is uneven and concentrated in a few countries. The top three recipients accounted for nearly 30 per cent of all additional private finance and the top 10 countries, almost 70 per cent. In 2012–2017, among LDCs, the beneficiary country with the greatest amount received was Angola, at $1 billion, followed by Senegal, at $0.9 billion, and Myanmar, at $0.9 billion (figure 3.2). According to a statistical survey, in Angola, several guarantees granted by the World Bank Group enabled additional private investments amounting to more than $800 million. By contrast, Myanmar and Senegal attracted many smaller sized investments. Private capital participation was registered in 42 out of 47 LDCs; the five LDCs that did not benefit from mobilized private capital were the Central African Republic, the Comoros, Eritrea, Kiribati and Tuvalu. A previous survey on blended finance in 2012–2015 reported the absence of such operations in 13 out of 48 LDCs (OECD and United Nations Capital Development Fund, 2018). The increase in the number of LDCs benefiting from blended finance operations is explained by enhanced

Figure 3.2

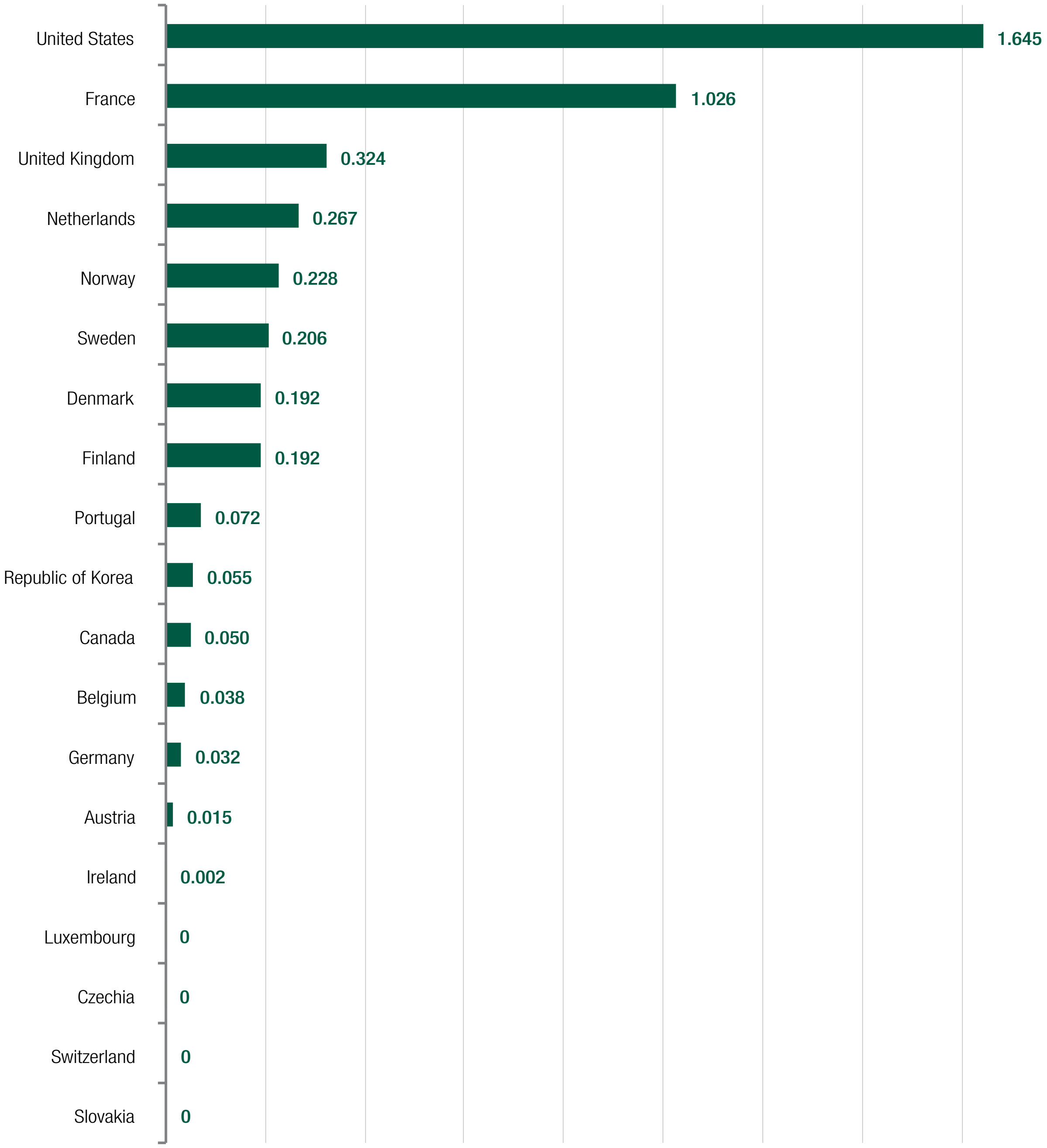
Distribution of privately mobilized capital among top 20 beneficiary countries, 2012–2017

(Billions of dollars)



Source: UNCTAD calculations, based on OECD data.

Figure 3.3
Distribution of mobilized private capital by bilateral donors, 2012–2017
(Billions of dollars)



Source: UNCTAD calculations, based on OECD data.

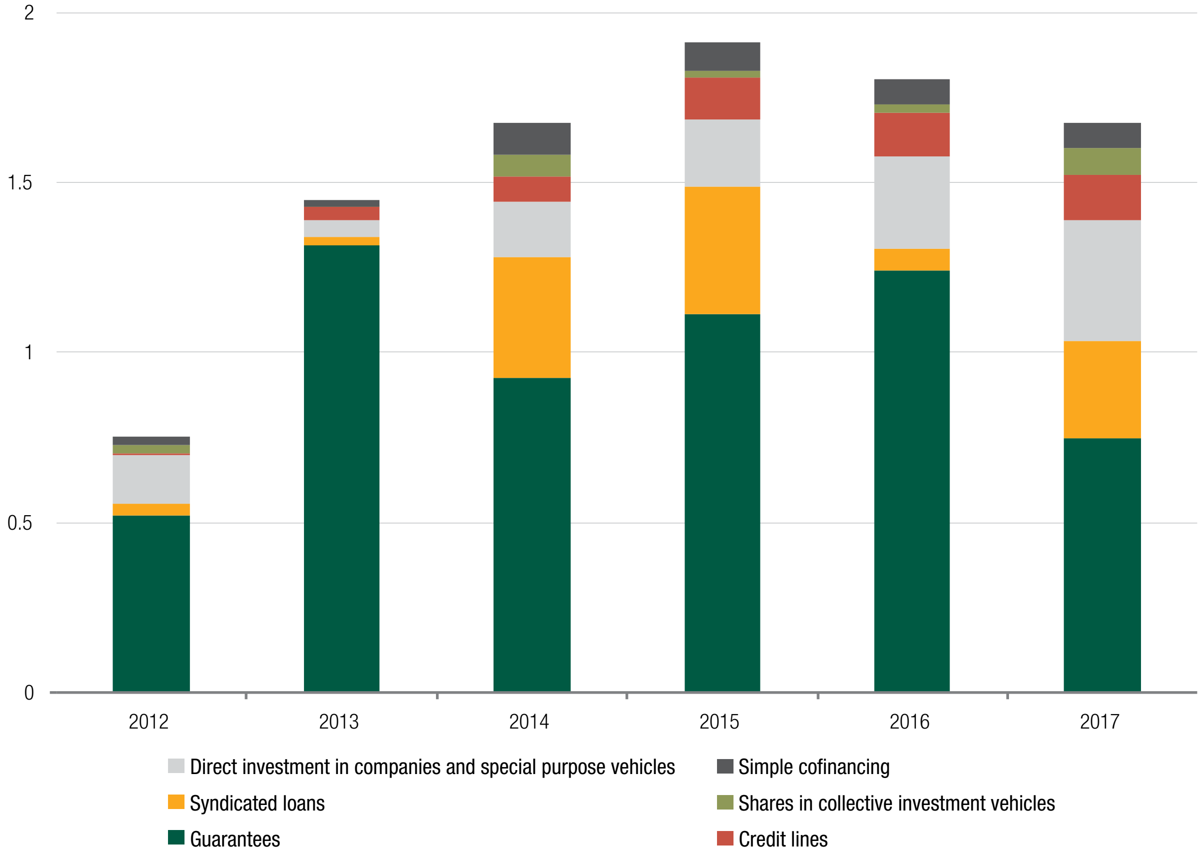
private capital engagement and the wider coverage of statistical monitoring.

Only 33–36 countries engaged additional private capital inflows each year and, year on year in 2012–2017, only 26 LDCs unlocked additional private finance. In addition, 25–30 per cent of LDCs do not attract additional private capital on an annual basis. This underlines the instability of such flows in nearly half of receiving LDCs. The data suggests that private sector engagement and blending is unlikely to compensate for the structural difficulties faced by many LDCs in attracting private capital, in particular small island developing States and landlocked developing countries. It therefore seems unrealistic to expect the private sector to be the main source of development finance in LDCs. Crucially, the 2030 Agenda does not

Figure 3.4

Distribution of mobilized private capital in the least developed countries by instrument, 2012–2017

(Billions of dollars)



Source: UNCTAD calculations, based on OECD data.

envisage a single instrument or modality to address all development problems.

With regard to blended finance, in 2012–2017, sub-Saharan Africa received the highest volume of mobilized capital, at 70 per cent ($6.5 billion), compared with 2 per cent ($2 billion) in Central and South Asia and $0.7 billion (7.8 per cent) in Far East Asia; Middle East, Central and North America and Oceania together accounted for less than 1 per cent.[3] In 2012–2017, multilateral organizations provided the largest share, at 52 per cent, of additional private capital to LDCs. To date, guarantees remain the instrument most requested by investors in LDCs. The Multilateral Investment Guarantee Agency, which accounts for 30 per cent of all additional private capital investments in LDCs, unlocked $2.8 billion of additional private capital; the International Finance Corporation unlocked $0.5 billion; and the Private Infrastructure Development Group unlocked $0.4 billion. Bilateral donors unlocked 46.9 per cent of additional private investments, with the main contributors being the United States of America, at $1.6 billion, France, at $1 billion, followed by the United Kingdom of Great Britain and Northern Ireland (figure 3.3).

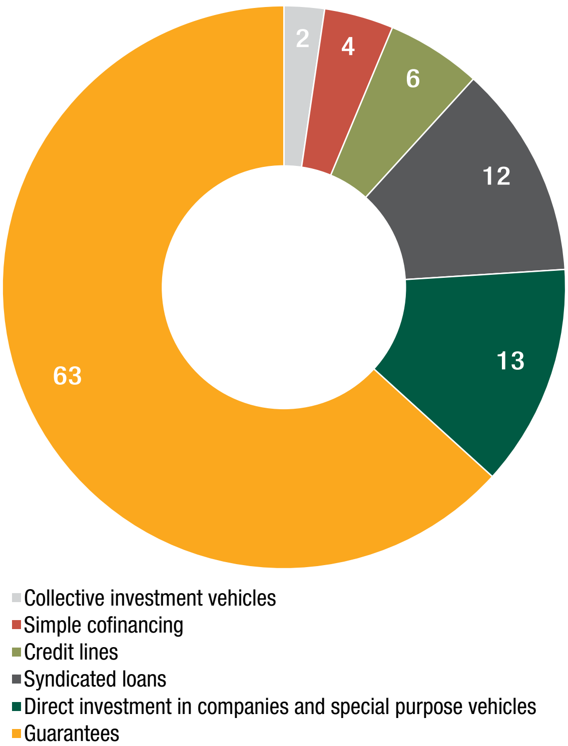
In 2017, 28.5 per cent of mobilized private capital originated from an OECD member country or another high-income country, other than an official donor or provider country. The high share of this group of countries is explained by the greater average number of operations. The second largest source was domestic private sectors from beneficiary countries, which invested 23.3 per cent of all mobilized private capital. Provider country private investors accounted for 16 per cent of private sector operations. Cooperation between official donors and private businesses from provider countries financed more than 400 projects, most of which were through simple cofinancing arrangements. In 2012–2017, with regard to leverage mechanisms, guarantees helped to mobilize $5.9 billion of private capital to LDCs (figures 3.4 and 3.5). In the same period, the share of guarantees not

3 Regional designations reflect the categories in the OECD data.

Figure 3.5

Share of selected private sector instruments in the least developed countries, 2012–2017

(Percentage)



Source: UNCTAD calculations, based on OECD data.

accompanied by official flows among all instruments in LDCs reached 63 per cent; 21 percentage points more than its share for all countries. This casts doubt on the justifications for blended finance.

The sectoral distribution of mobilized private capital shows a concentration in revenue-generating sectors in LDCs (OECD and United Nations Capital Development Fund, 2018; figure 3.6). Energy, banking and financial services and industry, mining and construction attracted $5.6 billion (60 per cent). This is of concern, not because these are not sectors with a strong development impact and likely to help achieve structural transformation, but because there may be less reason to believe that these sectors would not have been served by commercial finance or conventional public–private partnerships, which tend to target sectors aligned with development plans, implying a certain degree of recipient State leadership in contracting the private sector, compared with the propensity of donor or private sector leadership, which may be inferred by donors' private sector engagement and the implementation of private sector instruments. The institutions and regulations currently in place in many LDCs to accommodate the leveraging of private capital towards national development priorities are in the context of public–private partnerships (UNCTAD, 2016c). Public and private actors in LDCs have questioned the adequacy of existing frameworks in effectively facilitating blended operations (Bhattacharya and Khan, 2019). The historically high level of use of credit guarantees in LDCs is explained by the fact that they are the instrument of choice when a project or company can generate enough revenue, to which the guarantee can be attached, in order to service a loan. For example, regulated tariffs and long-term concessions often ensure cash flow stability for water or electricity-related infrastructure projects (OECD and United Nations Capital Development Fund, 2018).

A more detailed analysis of the purpose of mobilized private sector investments shows that the greatest share of investments goes to formal sector financial intermediaries and telecommunications, areas that are high-growth revenue generators (figure 3.7).

The volume of mobilized private sector flows is correlated with the size of the recipient economy (figure 3.8). The association is statistically significant[4] and is evidence that the hypothesis that large LDC economies could absorb or attract more investment may be valid.

c. Additional insights on guiding frameworks for operationalizing private sector engagement

Multilateral and regional development finance institutions are also pursuing increased collaboration with the private sector. Notably, in 2018, the World Bank Group, the greatest multilateral lender, instituted its maximizing finance for development, or cascade, approach (Engen and Prizzon, 2018). This approach specifies recourse first to private sector financing solutions for development finance needs in developing countries. The use of public funding is allowable only after policy and regulatory reform or after the implementation of World Bank Group risk mitigation instruments have been assessed as likely insufficient to unlock private solutions (World Bank, 2016; World Bank, 2018).[5] In instituting this approach, the World Bank Group follows the reasoning that the private sector should play a substantially greater role in development and that the public sector should act only when private solutions are not available (World Bank, 2018). As part of its

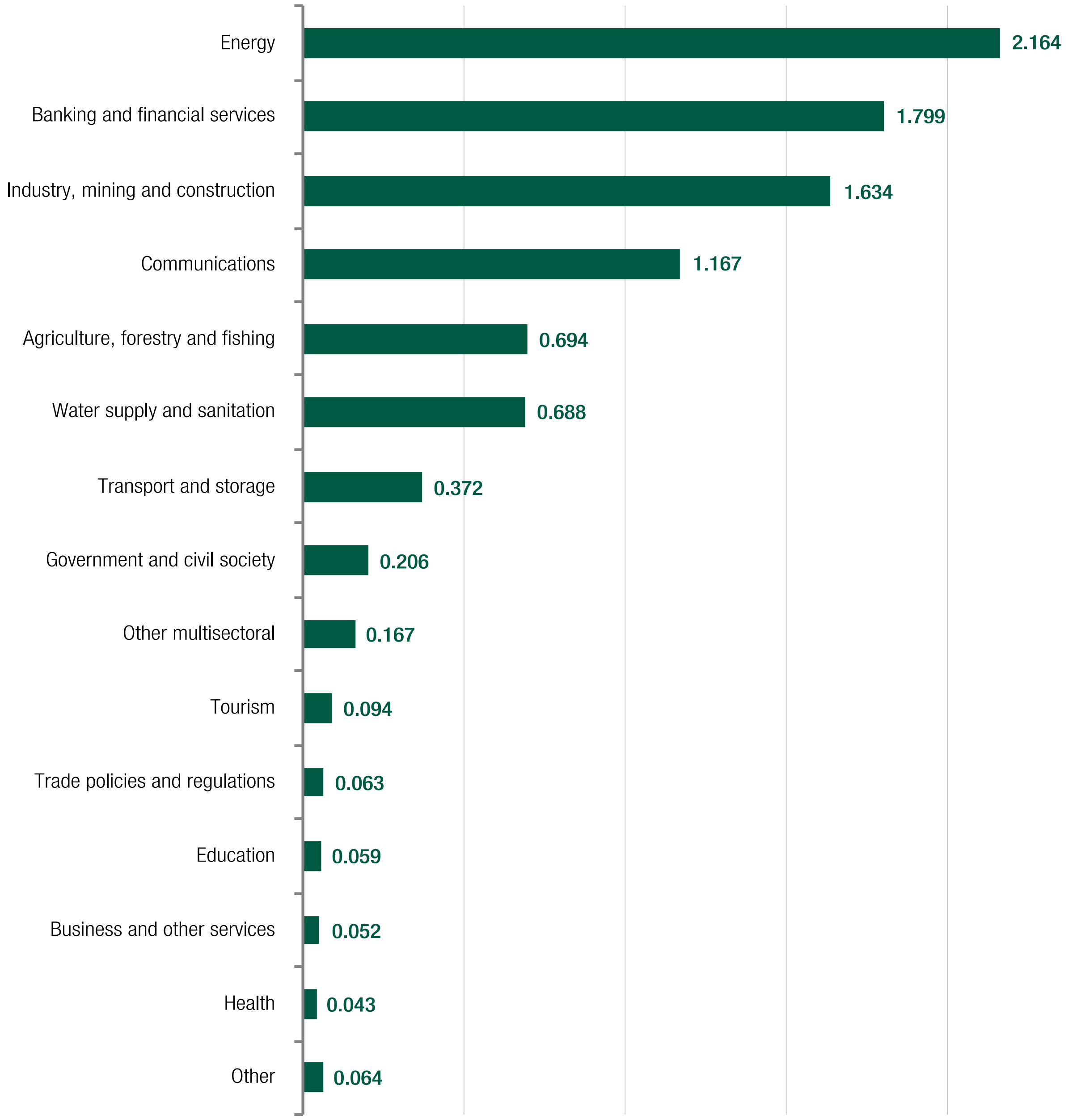
[4] Due to the concentration of private capital in a few countries with a high level of GNI, these countries appear as outliers and, also given the number of countries that do not receive any private capital investment, the best fit regression line may appear misleading.

[5] See https://www.miga.org/products.

Figure 3.6

Distribution of mobilized private capital in the least developed countries by sector, 2012–2017

(Billions of dollars)



Source: UNCTAD calculations, based on OECD data.

Note: “Other multisectoral” denotes private capital that cannot be assigned to individual statistical categories; “other” denotes the sum of sectors not noted separately due to low levels of investment.

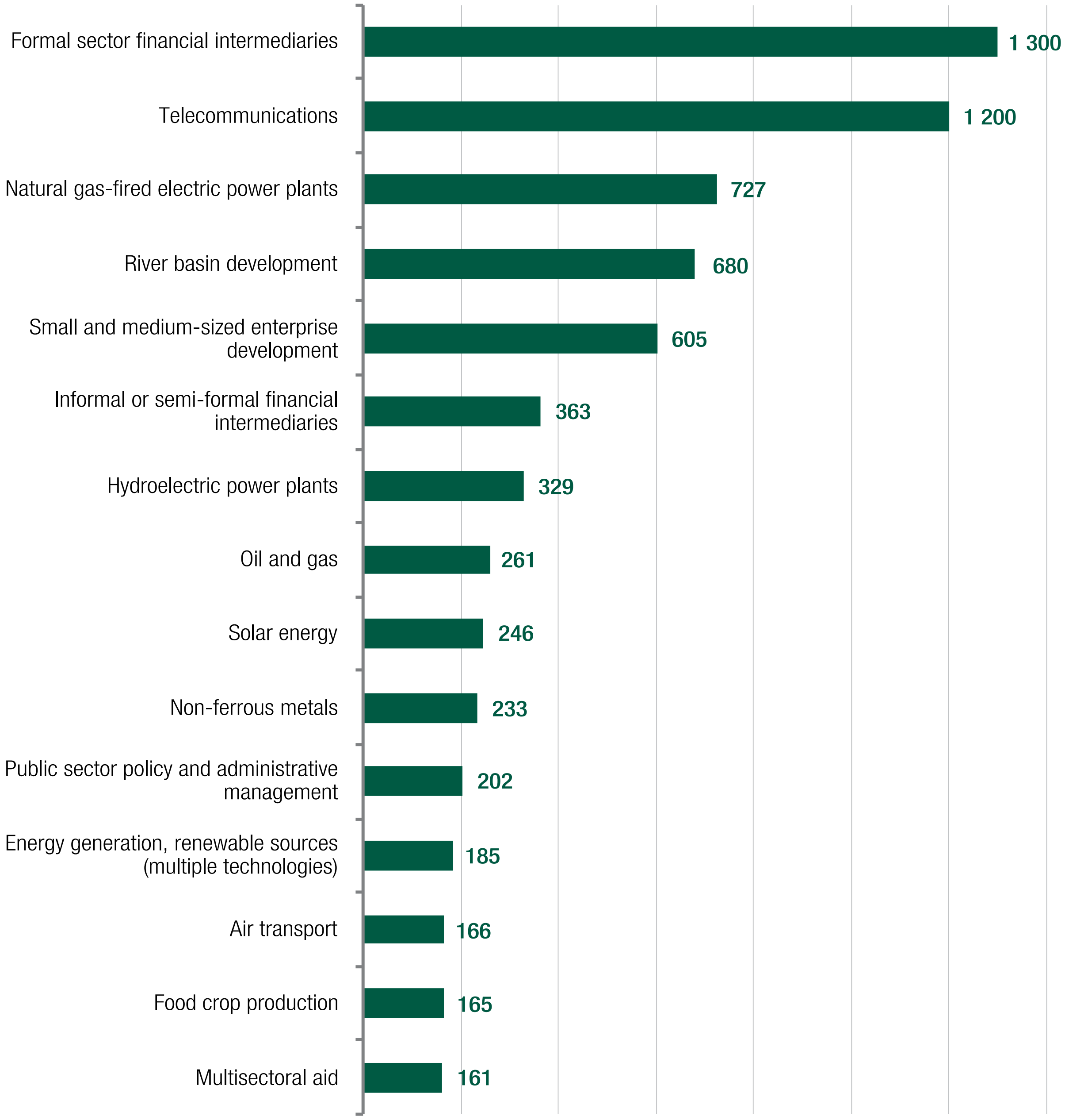
efforts to help implement the 2030 Agenda, the World Bank (2019) is developing a new strategy for fragile and conflict-affected States, to be completed in 2020, intended to help systematize its approach in complex situations that demand an increasing share of its resources.

The maximizing finance for development approach harks back to the era of structural adjustment and its associated aid conditionalities. It appears to ignore the lessons from that era and deem that private interests are always aligned with human welfare and sustainable development in developing countries. By seeking to shape domestic policies and decision-making processes in the interest of private investment, it suborns LDC ownership of development policy. The 2030 Agenda emphasizes

Figure 3.7

Purpose of allocations of mobilized private capital in the least developed countries, 2012–2017

(Billions of dollars)



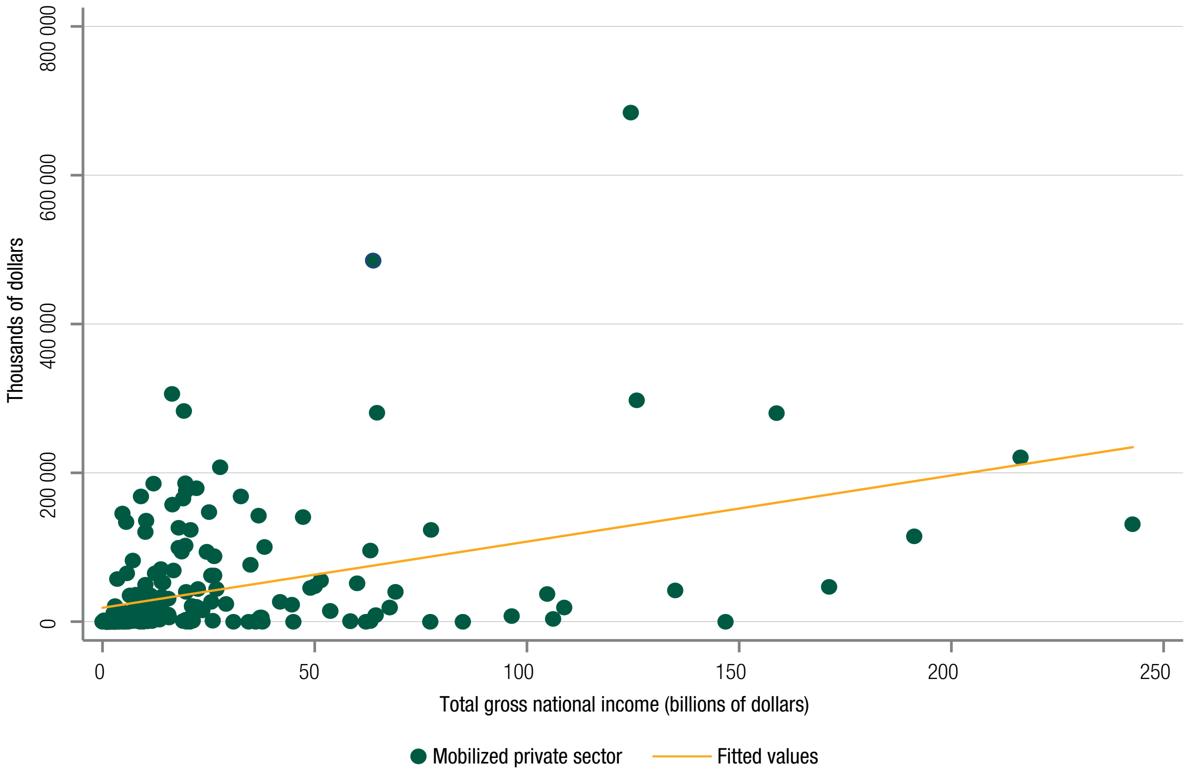
Source: UNCTAD calculations, based on OECD data.
Note: Multisectoral aid denotes aid that that cannot be assigned to individual statistical categories.

the need for Governments to exercise discretion in line with national contexts and interests in such matters, and similar sentiments are echoed by others (African Development Bank, 2013; Bretton Woods Project, 2019; European Union, 2018). The maximizing finance approach limits the options for LDCs to address development challenges in a tailored manner in context-specific development settings.

The United Nations (2019e) slates what it calls an entirely one-sided solution to development financing. It is important to recall that the World Bank Group aims to assist policymakers in developing countries to design and implement policies to address development challenges and the growing list of global challenges. In this role, the World Bank Group has considerable influence on developing country policy

Figure 3.8

Distribution of mobilized private capital in the least developed countries by gross national income



Source: UNCTAD calculations, based on OECD data.

choices through its research, surveillance reports and lending programme buttressed by conditionalities (Bretton Woods Project, 2019; Brunswijck, 2019). It is also distinguished by its shareholding structure, controlled largely by a small group of countries with the greatest voting power, in comparison with other multilateral development banks.[6] This is a source of discontent among developing countries and civil society (Bretton Woods Project, 2019; Engen and Prizzon, 2018; Financial Times, 2012; Prizzon et al., 2017; Wolf, 2019).

Donors increasingly aspire to a key role in policy and political dialogue with recipients in support of regulatory, policy and governance-related reforms in the context of private sector engagement. One concern is that the Goals should not serve as a vehicle for imposing explicit or implicit conditionalities that could impinge on the right to development of LDCs and sovereignty in charting their own paths to development. Nor should the pursuit of the Goals limit the ability of LDC Governments to ensure that reforms, if necessary, are undertaken at a pace and degree that produces long-term sustainable gains. For example, in contrast to developed countries, LDCs are typically constrained in their ability to withstand pressure to liberalize sensitive areas such as public procurement or to take timely measures to protect strategic sectors (Gehrke, 2019).

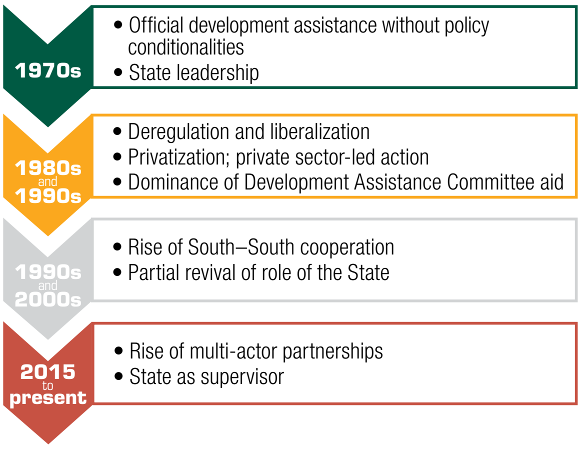
2. Development finance and assistance: Evolution or revolution?

Private sector agency in development policy and practice predates the 2030 Agenda. The Addis Ababa Action Agenda is often credited with valorizing the private sector as a development actor, yet it was built on the same foundational premises as its predecessor, the Monterrey Consensus. The latter resulted in an international commitment to generate an additional $50 billion for development assistance linked to the Millennium Development Goals, to be attained by 2015. Blended finance was already in ascendancy by 2008, as a result of the global financial crisis of 2008/09 and the abrupt lack of liquidity for many private investors (Blue Orchard, 2018).

6 As the largest shareholder, the United States retains veto power (see https://www.worldbank.org/en/country/unitedstates/overview, https://finances.worldbank.org/Shareholder-Equity/Top-8-countries-voting-power/udm3-vzz9 and https://www.worldbank.org/en/about/leadership/votingpowers/).

Figure 3.9

Evolution of the role of the private sector in development assistance



Source: UNCTAD.

Assigning the private sector with a formal role in development cooperation represents a revolution in the definition and measurement of ODA but more of an evolution in private sector involvement. For example, business involvement in humanitarian emergency preparedness, response and recovery is well documented and has attracted acclaim (United Nations Office for the Coordination of Humanitarian Affairs, 2017). Likewise, a range of actors, including donors and their entities with market-oriented operations, multilateral development banks, commercial banks and private investors have previously provided private sector instruments at market terms with a commercial motive (Bandura, 2017). DAC members are already using their development finance institutions to engage in practices characterized as blended finance and catalytic aid.[7]

The status of the private sector in development has undergone a recurrent pattern of decline and regrowth in line with the evolution of the dominant development policy doctrine (figure 3.9). The most recent reconfiguration of the cast of actors on the development assistance stage can be viewed as a further iteration in this pattern. The idea of global public goods under the Goals has reinvigorated the stance that publicly subsidized private sector-led economic growth is the key engine of development (Mawdsley, 2017). It evokes many elements of the modernization theories of the 1950s and 1960s, including the focus on energy and transport infrastructure, agro-industrial productivity and an optimistic sense of forward momentum. Important differences with earlier eras include the different articulation of power between States, firms and markets in the neoliberal era, the prominence of financial firms and interests rather than more conventional profit-seeking enterprises and the complexity of the actors involved (Mawdsley, 2017).

Figure 3.9 is a simplified mapping of the ebb and flow of the popularity of the private sector in development assistance. Prior to the late 1960s and 1970s, development and aid policies were informed by the need to industrialize and for the differentiated treatment of structurally dissimilar economies. The political economy of aid was largely informed by the cold war, the escalation of which led to the founding of DAC. The role of the State and its leadership in development remained largely unchallenged by aid policies through to the mid-1980s, despite a qualitative shift in emphasis from productive to social programmes following the development of the basic needs approach to welfare economics, as discussed later in this section. Changes to aid policy in favour of a more active role for the private sector in development assistance, mainly as a partner to aid-recipient Governments, came with the liberalization agenda and the aid conditionalities associated with the era of World Bank Group-sponsored structural adjustment programmes in the late 1980s and early 1990s. In this period, non-governmental organizations and public–private partnerships were ascendant and DAC members were the dominant source of development finance. By the mid-1990s, the perceived failure of imposed structural adjustment programmes, issues related to local ownership and aid effectiveness and concerns about the negative aspects of public–private partnerships led to waning enthusiasm for private sector-led development and the partial re-instatement of the leadership role of the State. This period also saw providers of South–South cooperation begin to play a greater role in development finance (Edwards, 2014; Fukuda-Parr, 2012; Gomes and Esteves, 2018; Gunatilake et al., 2015; Hulme, 2013; Mawdsley, 2014; Mawdsley, 2017; Vaes and Huyse, 2015).

Throughout this evolution and to date, the role of the State in developing countries has continued to be contested (Rodrik, 2013). The Sustainable Development Goals reflect a compromise between competing conceptions of the State, as a provider or

[7] Catalytic aid is aid that speeds up change processes in others, including through crowding in additional national efforts or commercial domestic and foreign private sector investment. Humanitarian aid, that is, involving programmes designed to improve living standards by providing key services, such as increased primary education or vaccinations, generally does not fit in this framework. Catalytic aid has a long-standing association with growth-enhancing or transformative change and, in this regard, graduation from aid (Rogerson, 2011).

simply a facilitator of the private sector, yet subsequent developments have seen a significant emphasis on public–private partnerships, including unilateral action by the private sector (United Nations, 2018d).

a. Strategic interests reshape aid allocation decisions and partnerships

ODA does not operate in a vacuum. Financing strategies have impacts that extend to the political dimension. The context in response to which and within which the changes to the aid architecture have arisen is thus difficult to ignore. Global solidarity with regard to the Goals is based on the concept of shared value, yet the relationship between value and strategic interests is not free of tensions. It is generally accepted that national interests are a permanent feature of development cooperation. At the conference in 1944 that led to the creation of the International Monetary Fund and the International Bank for Reconstruction and Development, Henry Morgenthau stated that the most effective way to protect national interests was through international cooperation. The debate on the place of national interest in development cooperation continues today (Gulrajani, 2017; Wolf, 2019).

Nationalist populist sentiment in many countries advocates for the greater use of aid to serve strategic national and short-term interests. Leading issues include security and migration, geographic focus and the amount of aid that should go to more advanced developing countries (Di Ciommo et al., 2019; German Development Institute, 2018; Rudolph, 2017). Security interests are a prominent explanatory factor of the focus of DAC aid policy in the post-2000 period (Crawford and Kacarska, 2019). Growing trends include the formal oversight of foreign policy, whereby donor countries increasingly opt to establish development assistance departments within their ministries of foreign affairs; and security concerns in international development strategies and humanitarian practices, such as concerns related to terrorism and migration (Bartenev and Glazunova, 2013; de Felice, 2015; Mawdsley, 2017). For example, the United States administration is seeking to restrict funding to countries that are considered as not doing enough to combat human trafficking, including LDCs (Devex, 2019a).

Since the events of 11 September 2001, weak States have been viewed as potential sources of transnational threats (Coggins, 2015; Freedman, 2006; OECD, 2016c; Patrick, 2011). One consequence of this is a renewed focus on the category of fragile and conflict-affected States, now repositioned as a critical frontier in the implementation of the 2030 Agenda. Estimates show that, without action, more than 80 per cent of the world's poorest will be living in fragile contexts by 2030 (OECD, 2018i). Consequently, there is a debate among donors on whether aid should go to the poorest countries or should follow the poor. The latter argument favours an increasing focus on non-LDC developing countries. It is important to note that there is no universal definition of state fragility. The category is elastic, with no fixed list of fragile States. Donors maintain their own individual lists of such States. For example, the internal approach of the International Monetary Fund labels about 45 per cent of low-income members as fragile (International Monetary Fund, 2018). In 2019, the harmonized list of countries in fragile situations of the World Bank Group included 51 per cent of LDCs. However, the various classifications encompass middle-income countries, and the implications for LDCs as a group may not be neutral. Among the concerns raised are scarce aid resources being diverted from development priorities in recipient countries and recipients being pushed to alter national policies in line with donor security concerns.

Managing donor self-interest is a foreseeable challenge for LDCs

Managing donor self-interest is a foreseeable challenge in LDCs because aid-based private sector instruments can incorporate strategies that promote donors' own private sectors. For example, research suggests that the impact of the European Union on reform agenda-setting in developing countries is stronger than that of any single bilateral donor (Bodenstein et al., 2017). Evidence that aid recipients have had a voice or role in the redesign of the aid architecture is lacking. A systematic mapping of what should be the role of the private sector and what should be the role of the public sector has not been agreed with aid recipients.

The total official support for sustainable development database has been proposed by OECD to complement existing statistical monitoring of ODA by providing information on additional resources above and beyond ODA, including several other types of flows such as private investment and export credits. The development of the database involved an open and inclusive process, whereby a dedicated task force was established to elaborate the statistical features of the database and prepare a first set of reporting instructions.[8] Four LDCs are

8 See oecd.org/dac/financing-sustainable-development/development-finance-standards/tossd-task-force.htm.

Avoiding relegation to a bystander role will be key for LDC Governments

represented on the task force. Bearing in mind that transparency is not a goal for its own sake but as a means to an end, disclosure of actions donors have taken is not necessarily transformational if recipient States are constrained in their ability to have a say in what should be done, evaluate what has been done and pronounce whether it should have been done. LDC Governments are set to be a third party in the DAC private sector engagement process. How far the lack of recipient State agency in private sector engagement can be compensated for by the new database is an open question.

Development practitioners continue to debate on how to enlist the support of the private sector without substituting for the State and undermining its critical role and responsibility in the provision of basic services to citizens. This area of policy represents an additional point of divergence among DAC members, with several countries having funded commercial actors in roles traditionally expected to be carried out by the public sector. To date, clarity in this area has been confined to decisions about commercial private schools, whereby the European Parliament instituted a ban on European Union development aid funding to such entities in 2018, amid concerns that the fast-paced growth of private actors in education could undermine decades of progress in public education. The ban excludes small-scale non-profit private schools such as faith-based, non-governmental organization and community schools, although the role of these actors is not uncontested (Karam, 2019; Ulleberg, 2009).[9] In June 2019, members of the multi-donor Global Partnership for Education, the largest global education fund, at $2.3 billion, agreed to prohibit funds from being used to support commercial education actors unless under exceptional circumstances (Global Partnership for Education, 2019). Commercial schools have been defined as schools with an objective to develop commercial activities out of education services including, among others, product testers, data advice companies and education publishers. While the problem is not confined to developing countries, these countries have a lower capacity to detect and legislate against inimical practices (Dempsey, 2017; Raine, 2007). The Special Rapporteur on the right to education has noted that the persistent underfunding of public education and the rapid and unregulated growth in the involvement of private, in particular commercial, actors in education, threaten the implementation of the right to education for all and the achievement of Goal 4 (United Nations, 2019e).

As development action linked to aid is increasingly outsourced to the private sector, a key challenge for democratically elected LDC Governments will be to avoid relegation to a bystander role. The quality of the multiparty partnerships that LDC Governments will be able to broker with the private sector and other stakeholders is a key area of concern. LDC Governments are typically constrained in their abilities to fulfil their key roles. Constraints in aid absorption are often cited as an inhibitor to donor engagement. However, recent case studies present a more nuanced picture (Guillaumont and Wagner, 2014; Haider, 2018) and raise the question of whether an effort to address the problem rather than to accept it as a standard could better entrench sustainable development in the long term.

DAC donors are not homogenous in their approaches to political conditionality in development assistance, and the extent to which their development assistance policies internalize political conditionality is often shaped by domestic conditions. The evidence suggests that it remains a significant policy tool and its nature and agenda has evolved beyond foreign aid to encompass areas such as security, trade and other policy fields (Bartenev and Glazunova, 2013; Crawford and Kacarska, 2019; de Felice, 2015; de Felice, 2016; Koch, 2015; Molenaers et al., 2015).

The roles of the private sector, donors, philanthropists and civil society have become blurred.[10] Increased interdependence and new means of collaboration are the norm (Byiers et al., 2016). Such actors seek to leverage government resources and affect government policy. Large philanthropic organizations increasingly have the power to shape national policy and global development aid policy, sometimes using aggressive corporate strategies to lobby for their interests

9 Significant political and cultural differences are also noted with regard to philanthropy. With regard to charitable donations, in the United States, 60 per cent are made to religious organizations and 2 per cent to international aid; in the United Kingdom, the figures are 8 and 14 per cent, respectively (Moran and Stone, 2016).

10 Civil society is not homogenous, nor does it represent a single set of interests, being neither exempt from political nor power dynamics that shape its activities and scope of work. Dependence on aid often ties civil society actors to the agendas of official donors. Paragraph 20 of the Accra Agenda for Action states that civil society organizations are development actors in their own right.

(Moran and Stone, 2016). The consequences of this development are not unequivocally positive (Global Justice Now, 2016; Hay and Muller, 2014; Project Syndicate, 2019a). Not all philanthropic flows are reported, and private flows are not reported. Greater transparency is needed among these development cooperation actors.

Compared with the private sector, non-governmental organizations, including others in the broader category of civil society organizations, have long been regarded as commanding moral and ethical agency, but their role and work is not accepted uncritically (Elbers and Schulpen, 2015; Faraz et al., 2018; Gourevitch et al., 2011; Hay and Muller, 2014; Ulleberg, 2009; Werker and Ahmed, 2008). Under the new ODA architecture, non-governmental organizations, in particular international ones, are embattled on two fronts, namely, the decisive shift towards the for-profit sector and the rise of donor localization initiatives that bypass non-governmental organizations by directly funding local civil society. However, localization poses a lesser threat to international non-governmental organizations that have the option of establishing local offices (Devex, 2019b).

A fourth sector has been predicted that encompasses coalitions that blend the best aspects of the private and public sectors with civil society, to better address development challenges and maximize impacts (Bulloch and James, 2014). However, increased interdependence masks an unequal balance of power and influence between partners, such that weaker partners are brought under the sphere of influence and network of advocacy of more powerful partners. This risk is also current among donor localization strategies.

Another group of actors gaining prominence are developing countries acting within South–South cooperation frameworks. South–South cooperation advances mutual interests rather than moral obligations, as its core motivation is to achieve sustainable development. It therefore eschews the terminology of development assistance, aid and donors conventionally associated with DAC members, and adopts the concepts of development cooperation and development partnerships. In 2017, 84 per cent of countries providing South–South cooperation reported exchanging information on science, technology and innovation (United Nations, Economic and Social Council, 2018).

Donors are increasingly concerned by the developing country status of more advanced developing countries, generally with regard to the following three main issues: concern that the balance of power in

South–South cooperation involves the exchange of information on science, technology and innovation

South–South cooperation is tipped towards publicly owned or subsidized companies from more advanced developing countries, and the related perception that they crowd out other external investment; the perception of the levels of indebtedness associated with South–South cooperation; and a perceived erosion of the rules-based world order, including apprehensions related to upholding Western democratic and human rights in developing countries through possible demonstration effects (Blockmans and Hu, 2019; see section C.2). There appears to be a concerted drive to bring South–South cooperation into conformity with DAC traditions, which, absent other standards and given that DAC donors dominate global aid spending and norm-setting, may be perceived as epitomizing international best practices (Gu and Kitano, 2018). The perception that South–South cooperation could decrease the bargaining power of traditional donors is receiving attention and is linked to a related perception that the distribution of global power is gradually shifting towards Asia (Gomes and Esteves, 2018; Gu and Kitano, 2018; Jones and Taussig, 2019; Swedlund, 2017). Analysis has shown that, by 2020, economies in Asia will be larger than the economies of the rest of the world combined (Financial Times, 2019a). Similar outlooks are expressed by the European Commission and High Representative of the Union for Foreign Affairs and Security Policy (2019) and implied by the passage of the Better Utilization of Investments Leading to Development Act in the United States (Financial Times, 2018).

South–South cooperation does not discount the presence of strategic national interests (Cervo, 2010; Mawdsley, 2017). Partners in such cooperation also opt for foreign policy oversight of their South–South cooperation engagement, and major partners are not homogenous in their approaches to development cooperation (Andreff, 2016; Gu, 2009).[11] The evidence suggests that from the point of view of developing countries, their engagement with

[11] Major partners are those South–South cooperation actors prominent mainly in terms of widest global reach beyond their home regions. South–South cooperation at the intraregional level encompasses many developing countries, strategies, contexts and levels of State involvement in outward investment.

There are divergent perspectives on the question of what development is

South–South cooperation and the DAC world order is unlikely to pose a contradiction and probably reflects pragmatism.[12] Some research shows, for example, that when China plays a role in development cooperation in countries in Africa, the World Bank attaches fewer conditions to its loans in those countries and, in contrast, the World Bank generally strengthens conditionality when DAC donors provide aid (Haider, 2018; Hernandez, 2017).

b. What is development?

Many of the tensions between development actors centre on divergent perspectives on the question of what development is. Rather than prescribing a single path for development, development theory has evolved through several conventional wisdoms and remains a collection of theories about how desirable change in society is best achieved. Two main divisions stand out: structuralist theory-inspired approaches tend to emphasize structural transformation and industrialization; and basic needs approaches are premised on achieving that which is required for poor population groups to rise above the poverty line. The elimination of absolute poverty is viewed as the primary way that the previously disadvantaged can assume their place in society as dignified and economically active members that consume and save. Compared with structuralist theory, the basic needs approach centres on individual well-being and prioritizes social investments over economically productive activities, including economic infrastructure. It emphasizes individual agency, while the structuralist approach tends to advocate for a more active role for the State as a necessary condition to overcoming structural impediments to development in developing countries. These theoretical discourses have generated varied conceptualizations of development that have influenced aid and development policy. In general, South–South cooperation tends towards the structuralist approach and DAC-sponsored aid assistance aligns with the basic needs approach.

Among the challenges that policymakers and development practitioners face in applying these approaches is that there is no single universally accepted definition of basic needs. As a concept that is essentially country-specific and dynamic, it is difficult to pin down what a development effort aimed at meeting basic needs should comprise. Nor is there a uniform vocabulary to describe its various elements (Hulme, 2013; OECD, 2006; Overseas Development Institute, 1978). A value judgement on the part of the adopter of the basic needs approach is therefore intrinsically implied. Similarly, rising levels of inequality sooner or later constrain a structuralist approach. The practical failures revealed in the pursuit of both approaches have contributed to the seesaw of development policy application, and continued experimentation and underline the selectivity in the translation from theory to practice (Fukuda-Parr, 2012; Pieterse, 1998).

Conceptually, the Goals straddle the two main divisions of development theory and seek to achieve greater sustainability while also addressing environmental concerns. The 2030 Agenda emphasizes the interrelatedness of the Goals. The Goals may be considered as respecting the principle that igniting economic growth and sustaining it are somewhat different, albeit complementary, enterprises (Cagé 2009). Therefore, they simultaneously address employment creation (a recognized path for poverty alleviation and inclusion) and productivity change (a fundamental aspect of structural transformation), which are among the major challenges faced by developing countries.

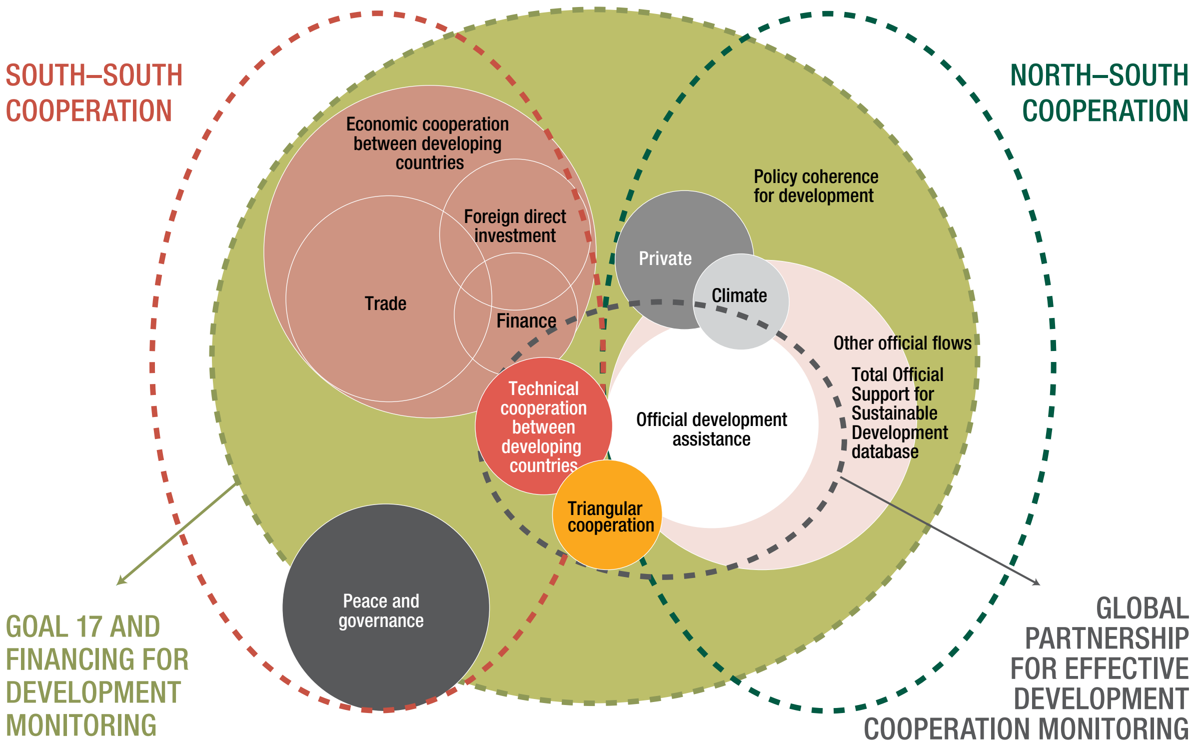
This plays out in practice in the relationship between South–South cooperation and traditional development assistance, which are proving complementary rather than dichotomous in their contribution to development impacts (United Nations, 2018d). For example, triangular cooperation has led to joint actions with the North (figure 3.10). Moreover, as China expands its Belt and Road initiative to Africa, companies from the United States are among the beneficiaries of contracts linked to the initiative, as the technical advantages of some of these companies foster increased collaboration with companies from China on infrastructure projects in Africa (Haider, 2018; Sun, 2019). There is also evidence of cross-fertilization between South–South cooperation and traditional donors. For example, in 2009, DAC established a study group with China aimed at promoting knowledge-sharing and exchanging experiences.[13] Several DAC members have gone on to establish bilateral programmes on

12 See, for example, https://macauhub.com.mo/feature/china-leads-by-example-in-the-cooperation-with-angola/, https://www.theeastafrican.co.ke/news/ea/Rwanda-Paul-Kagame-endorses-Chinese-investment-Africa/4552908-4742800-5bruaIz/index.html and https://www.bloomberg.com/news/articles/2018-10-08/ghana-agreeing-china-deals-with-eyes-open-says-president.

13 See https://www.oecd.org/dac/dac-global-relations/china-dac-study-group.htm.

Figure 3.10

Linking South–South and North–South cooperation for the Sustainable Development Goals



Source: UNCTAD, based on Besharati, 2018.

triangular development cooperation with a view to strengthening their development assistance interventions in developing countries (Haider, 2018). The Food and Agriculture Organization of the United Nations, for example, has over 40 years of experience as a leading promotor and facilitator of South–South and triangular cooperation in agriculture, food security and nutrition, and insights from this experience show that a high level of national ownership can be achieved, that limited technical supervision is required by the Organization, that unit costs can be substantially lower than in conventional North–South technical assistance, that sustainable cost-sharing between South–South cooperation partners is achievable and that South–South cooperation technicians are often well-seasoned practitioners in their own countries and can be immersed in rural communities to promote innovation (Food and Agriculture Organization of the United Nations, 2019).

Pro-poor and pro-growth approaches are mutually reinforcing and should go hand-in-hand (OECD, 2006). Goal 17 on a strengthened global partnership to support and achieve the 2030 Agenda encompasses both. The Global Partnership for Effective Development Cooperation is a multi-stakeholder platform for advancing the effectiveness of development efforts by all actors and monitors the smaller subset of technical cooperation between developing countries, triangular cooperation and ODA. It is the successor to the Busan Partnership for Effective Development Cooperation endorsed by 161 economies and heads of multilateral and bilateral institutions and representatives of civil society and public, private, parliamentary, local and regional stakeholders.

C. Development finance institutions assume centre stage

1. Purpose, history and performance

Bilateral development finance institutions are specialized development banks that generally form part of the overall financial and industrial policy set up of a State.[14] Such institutions operating as

[14] Reference to development finance institutions in this chapter denotes bilateral development finance institutions, unless otherwise stated. There are also multilateral and regional development banks with a similar international mandate, whose private sector arms, such as the International Finance Corporation, are part of the family of development finance institutions; bilateral development finance institutions are the focus of this chapter. See Mayer Brown (2013) for insights on opportunities for commercial lenders.

Development finance institutions are structured to be profit-driven

State-owned risk capital investment funds have sometimes been characterized as the third pillar of international development cooperation alongside donors and multilateral development banks (European Development Finance Institutions, 2016). Unlike blending undertaken directly by donors, which has an interface with recipient Governments, development finance institutions interact with business, either directly or through investment funds.

Development finance institutions are structured to be profit driven and can often reap first-mover advantages in markets with strong growth potential. For example, profits retained by European development finance institutions outstripped replenishments from Governments in 2005–2015 (European Development Finance Institutions, 2016). Development finance institutions also avail themselves of hub-based corporate structures and offshore financial centres associated with financial and tax-related optimization. It is not uncommon for the investments of such institutions to be channelled through secretive jurisdictions, raising concerns about transparency (European Commission, 2018; Jespersen and Curtis, 2016; Trade Union Development Cooperation Network, 2016). It is acknowledged that the impact of such polices is not always neutral on developing country taxation rights (box 3.3), but it has also been argued that limiting this practice could constrain the number of investments that development finance institutions could make in developing countries (Carter, 2017b; UNCTAD, 2015c). Although there is speculation that this practice could be on the decline, initiatives to clamp down on it suggest that the risks continue to warrant concerted action (Capria, 2019; European Commission, 2018). As noted by UNCTAD (2014e), tax havens are an integral part of modern business practices, which can entail "creative compliance" with national legislation and international standards. A global initiative to implement a new Standard for Automatic Exchange of Financial Account Information in Tax Matters has been launched, but a global level playing field will be slow to emerge. The necessity of securing a large number of bilateral exchange agreements, along with implementation that is costly and heavily reliant on administrative capacity and discretion, constrains the participation of most developing countries, and the benefits could be uncertain (Akhtar, 2018; Musselli and Bürgi Bonanomi, 2018; Ring, 2017; UNCTAD, 2016c).

Most development finance institutions have a focused strategy in specific sectors and geographical areas. Investees may be restricted to national companies or, for example, countries in Europe in the case of institutions in the European Union. The aims of development finance institutions are susceptible to periodic revisions in line with the strategic orientations of successive national Governments and other developments in the national political economy. In the European context, aims can be closely aligned with domestic private sector internationalization; for example, Proparco has a stated objective to prioritize companies in France. References to the private sector can therefore be ambiguous; determining whether development finance institutions prioritize domestic (donors') private sectors may require a case-by-case examination of the actual investments of such institutions, complicated by the absence of reporting on investee ownership data. Development finance institutions continuously evolve and review their areas of comparative advantage in order to remain relevant, effective and strategic. Assets managed by such institutions have more than doubled since 2012, recording an increase of 57 per cent over the period up to 2017 (Devex, 2019c). Generally, sectoral coverage is influenced by the perceived areas of expertise and comparative advantage of development finance institutions. The analysis of sectoral preferences is complicated by the fact that such institutions do not use standardized definitions for sectors and that the use of the same terms may not guarantee consistency; as a result, the coverage of the analysis may be misleading.

2. Development finance institution portfolios in the least developed countries

a. Overview

Development finance institutions are expected to be the main vehicle for the use of private sector instruments linked to development cooperation. More DAC members are in the process of establishing or plan to establish development finance institutions in line with the incentives created by the new ODA architecture. At present, development finance institutions aim to achieve financial results alongside development impacts. They mainly provide financing to private investors investing in developing countries, with direct and indirect funding support from States. They invest using their reinvested profits, subventions from Governments through ODA and amounts mobilized from their blending activities. It

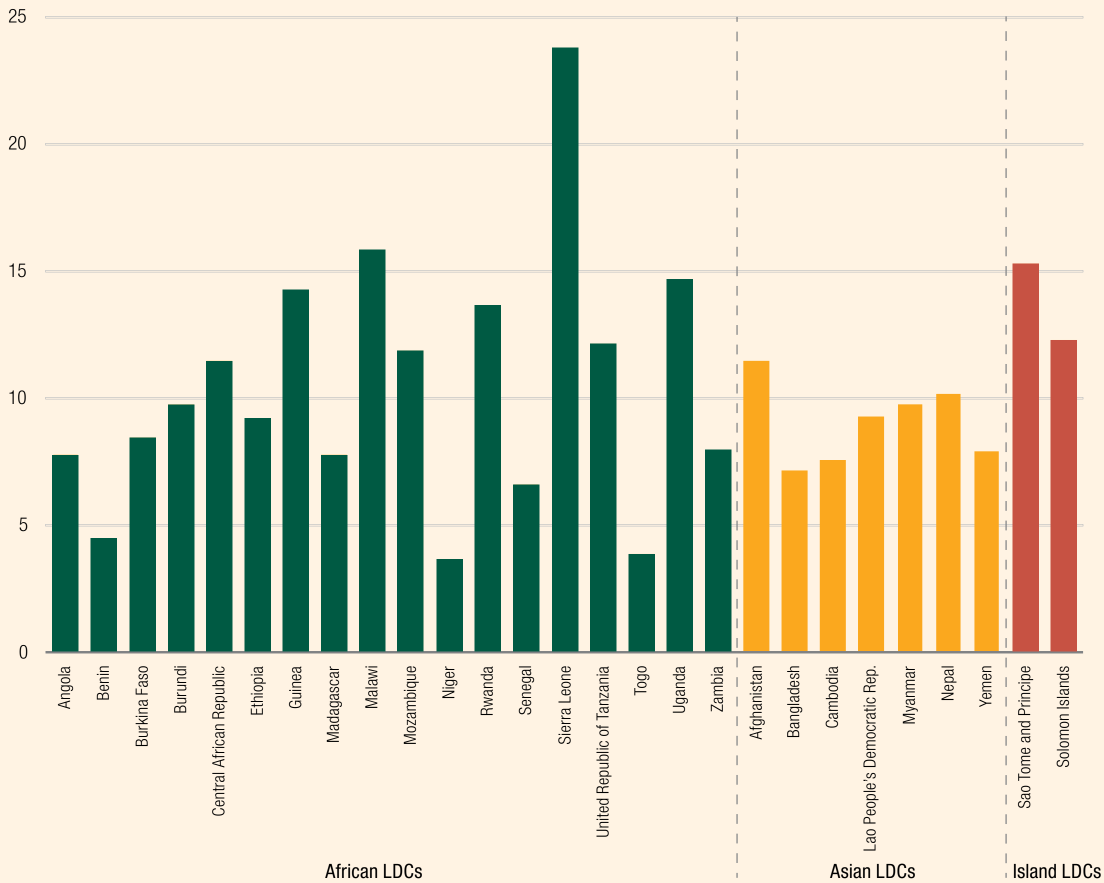
Box 3.3 Is there a link to illicit financial flows?

UNCTAD estimates that developing countries lose $100 billion annually due to aggressive tax avoidance through the use of tax havens. There are different types of tax evasion and tax avoidance. Cross-border tax evasion and avoidance linked to the flow of exports and imports has gained notoriety in development policy. It is more often linked to large foreign investors, as local small and medium-sized enterprises in developing countries are considered to have fewer opportunities to benefit from aggressive cross-border tax optimization schemes. Tax fraud and evasion clearly fall within the definition of illicit acts, yet the debate continues with regard to legal behaviour that has the effect of reducing tax payments or forms the building blocks of hidden money trails. Illicit financial flows stem from corruption, crime, terrorism and tax evasion, with often complex and cross-sectoral relationships across these various factors, and a wide range of policies and actions are needed to combat them. The impact of the activities of development finance institutions on illicit financial flows and their potential role in encouraging responsible corporate tax behaviour is therefore an area of critical importance for target countries of development finance institution investments that are seeking to enhance domestic resource mobilization (see chapter 4).

Illicit financial flows are a significant and persistent obstacle to achieving sustainable and equitable growth in all developing countries, accounting for over 20 per cent of developing country trade in 2006–2015. In 2015, estimates of illicit outflows from LDCs ranged from as high as 23.8 per cent, in Sierra Leone, to as low as 3.7 per cent, in the Niger, of total trade with advanced economies (see figure). The average for all developing countries is 8.4 per cent, with Georgia recording the highest outflows, at 25.6 per cent. Six LDCs feature in the top 10 developing countries ranked by illicit outflows as a percentage of total trade with advanced economies.

Potential trade misinvoicing, outflows

(Percentage of total trade with advanced economies)



Source: UNCTAD calculations, based on Global Financial Integrity data.
Note: Data available for only 27 LDCs.

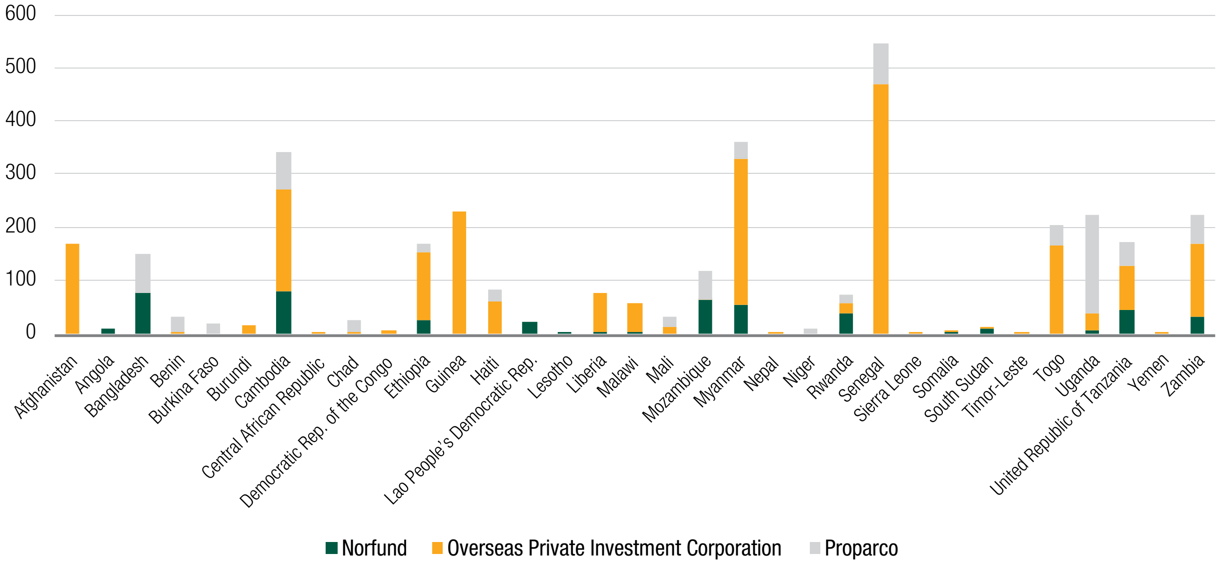
Target 16.4 of the Goals is to "significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime". The inclusion of an indicator on country-by-country reporting on corporate accountability has faced resistance.

Sources: Carter, 2017b; Cobham, et al., 2018; European Development Finance Institutions, 2018; Forstater, 2018; Global Financial Integrity, 2019; McLure, 2004; UNCTAD, 2015b; van der Does de Willebois, et al., 2011; World Bank, 2017.

Figure 3.11

Selected development finance institutions: Active investments in the least developed countries, 2017

(Millions of dollars)



Source: UNCTAD calculations, based on data from Norfund; Overseas Private Investment Corporation, 2019; and Proparco.

can sometimes take several years for deals between development finance institutions and investors to be closed (Savoy et al., 2016).

2017 marks the first year of development finance institutions reporting in line with the provisional arrangement on standardized reporting on private sector instruments. The provisional data include European Union institutions but do not capture all DAC members. Provisional OECD data show that flows linked to private sector instruments account for only about 2 per cent of total bilateral flows to developing countries as a group, with grants occupying a dominant position, at 89 per cent. The proportion is even less significant for multilateral development finance institutions, at below 1 per cent. Of the reporting non-DAC members, none declared the use of private sector instruments, with over 99 per cent of their bilateral flows being grants.

The picture changes somewhat with regard to countries reporting flows to development finance institutions in this initial cycle (13 countries, in addition to European Union institutions). The preliminary data show that private sector instruments account for a higher proportion of their total bilateral flows, at just above 3 per cent, with the grant equivalent of loans also correspondingly higher. This would seem to be in line with the projected expansion of the role of development finance institutions and private sector instruments in developing countries, including LDCs. Finland reported the greatest use of private sector instruments, at above 10 per cent of its bilateral flows, alongside bilateral grants. The dominant trend was for countries to use either private sector instruments or loans. However, for example, France reported a relatively high use of both private sector instruments (6 per cent) and the grant equivalent of bilateral loans (25 per cent).

UNCTAD analysis, based on Cornish and Saldinger (2019), of the active investments in LDCs of four development finance institutions – namely, Proparco in France, Norfund in Norway, the CDC Group in the United Kingdom and the Overseas Private Investment Corporation in the United States – suggests that a significant number of LDCs in all regions have historically benefited from the investments of development finance institutions (figure 3.11). Multi-country or regional initiatives are excluded from the analysis. Of note, experts from Senegal, during consultations with aid recipients on the OECD total official support for sustainable development database, did not support proposals for investments made at the global or regional level – to support development enablers and to address global challenges – to be attributed to intended country beneficiaries unless quantifiable cross-border inflows to specific countries could be established (Delalande and Gaveau, 2018). This stance echoes initial concerns raised during deliberations by the task force on the database on the yet-to-be-finalized reporting instructions. The overlaps between the database and the existing system are significant and concerns were raised with regard to the dangers of artificially inflating aid flows (OECD, 2018j; Pereira, 2017b).

The data provide insights on the main investment types or private sector instruments that development finance institutions typically use in LDCs. However, given the small sample size, the tendency for the investments of such institutions to be opportunistic and the fact that the use of ODA-backed private sector instruments is a new development, few conclusions can be drawn from past trends. It is not possible to separate projects that were beneficiaries of ODA-backed private sector instruments from the information provided by development finance institutions. However, all investments backed by such institutions derive an advantage from association with such institutions which, by virtue of their being public, have a level of creditworthiness that allows them to raise large amounts of funds in international capital markets and typically makes them more attractive to project sponsors than private financiers (Carter et al., 2018). A spot check of 62 active CDC Group and Proparco investments confirms the finding of European Development Finance Institutions (2016) that there is a high level of co-investment between bilateral, regional and multilateral development finance institutions.[15]

The data suggests that the size of investments can differ significantly across LDCs. Differences in investment volumes are partly explained by infrastructure projects, which are often big ticket by nature and likely to be active projects on the books of development finance institutions for much longer (figure 3.12). Collectively, European development finance institutions have been found to show a bias towards the financial sector, followed by a focus on industry and energy as the top three areas of concentration (Devex, 2019d; Kenny et al., 2018). The analysed portfolios suggest broad sectoral coverage (figures 3.12 and 3.13). Infrastructure projects, including telecommunications, energy, transport and infrastructure, account for the highest value of projects overall. Finance, namely, microcredit and small and medium-sized enterprise finance, tops the distribution of interventions across LDCs and the number of interventions in individual countries, followed by agribusiness and food. Infrastructure, including energy and communications, is listed as a priority sector by all the sampled development finance institutions. Manufacturing or industry is not a priority sector for Proparco, but agriculture or agro-industry is a common priority for all of the development finance institutions. The food subsector is a growth sector in many LDCs despite high levels of poverty, as the poor spend the bulk of their earnings on food (Financial Times, 2019b).

Development finance institutions are often criticized for investments in economic infrastructure

Far fewer investments by development finance institutions are made in social sectors compared with investments in economic infrastructure. The spot check of active projects revealed two investments in social sectors, both by the CDC Group through private equity funds, which the CDC Group calls intermediated investments; one in education (an international private company providing education services) and the other in health (a local pharmacy retail chain). Both target segments in the social sector are revenue-generating, echoing trends noted in blended projects (see section B).

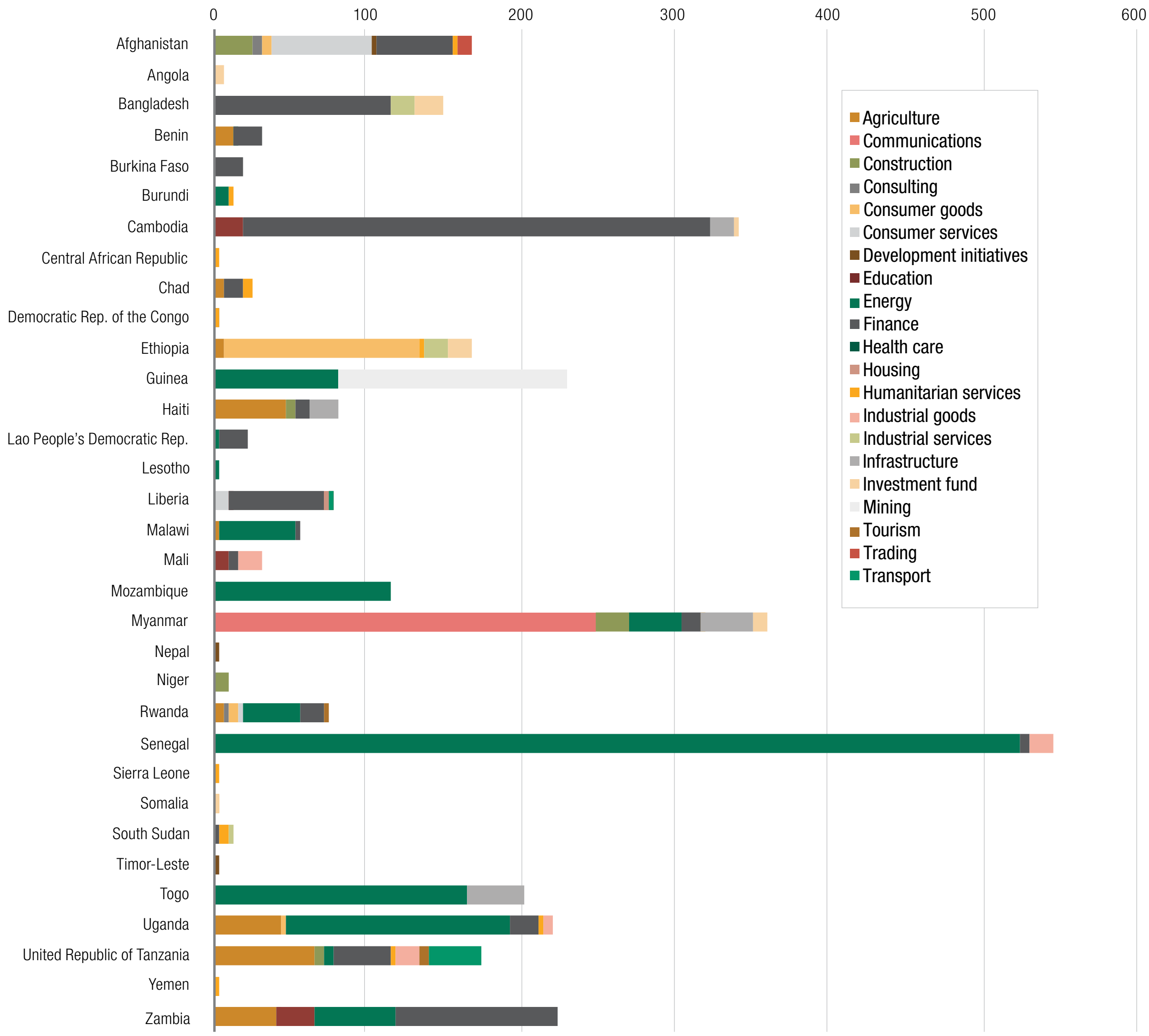
From the perspective of structural transformation, the focus on infrastructure, industry and manufacturing is an encouraging sign that development finance institutions pay attention to issues of systemic impact and of priority to LDCs. However, development finance institutions are often criticized, in particular by non-governmental organizations, for such investments, as their link to poverty is both indirect and the effects only become evident in the medium to long term. About 23 per cent of the active projects of the CDC Group and Proparco that were spot-checked were infrastructure projects, mostly in energy.

In the sample, the CDC Group and the Overseas Private Investment Corporation were among the most active by number of projects across many LDCs (figure 3.14). The Overseas Private Investment Corporation is present across a wide range of sectors, including agribusiness, finance and infrastructure. A spot check of its active projects shows a high level of insurance among private sector instruments deployed in LDCs. The number of its interventions categorized as consultancies and as projects linked to diplomatic missions of the United States or activities of the United States Agency for International Development (specific to Afghanistan) are not insignificant. It

[15] Spot-checked regional investments were counted as single projects without regard for the number of intended beneficiary LDCs. The majority of the spot-checked regional investments of the CDC Group (11) were concentrated in infrastructure or finance; those of Proparco (3) targeted agroprocessing, small and medium-sized enterprise finance, logging and timber processing.

Figure 3.12

Selected development finance institutions:
Sectoral composition of active investments in the least developed countries, 2017
(Millions of dollars)



Source: UNCTAD calculations, based on data from Norfund; Overseas Private Investment Corporation, 2019; and Proparco.

is the only development finance institution to list humanitarian services as a sector. Differences in its portfolio may be explained partly by the fact that, in 2017, it was still not permitted by United States law to make direct private equity investments, although it provided support for the creation of privately owned and managed investment funds (Diongson, 2018).

Overall, the analysed portfolios of development finance institutions throw little light on the line of separation between, for example, investments that can and should be made using the core business model of development finance institutions, which aims to repay 100 per cent of capital and in addition generate a financial return, and those that deliver a lower risk-adjusted return, as pursued by the CDC Group (United Kingdom, 2017). Carter et al. (2018) note that whether an investment is additional cannot be known with certainty by development finance institutions.

b. Impact and accountability of development finance institutions: Implications for structural transformation in the least developed countries

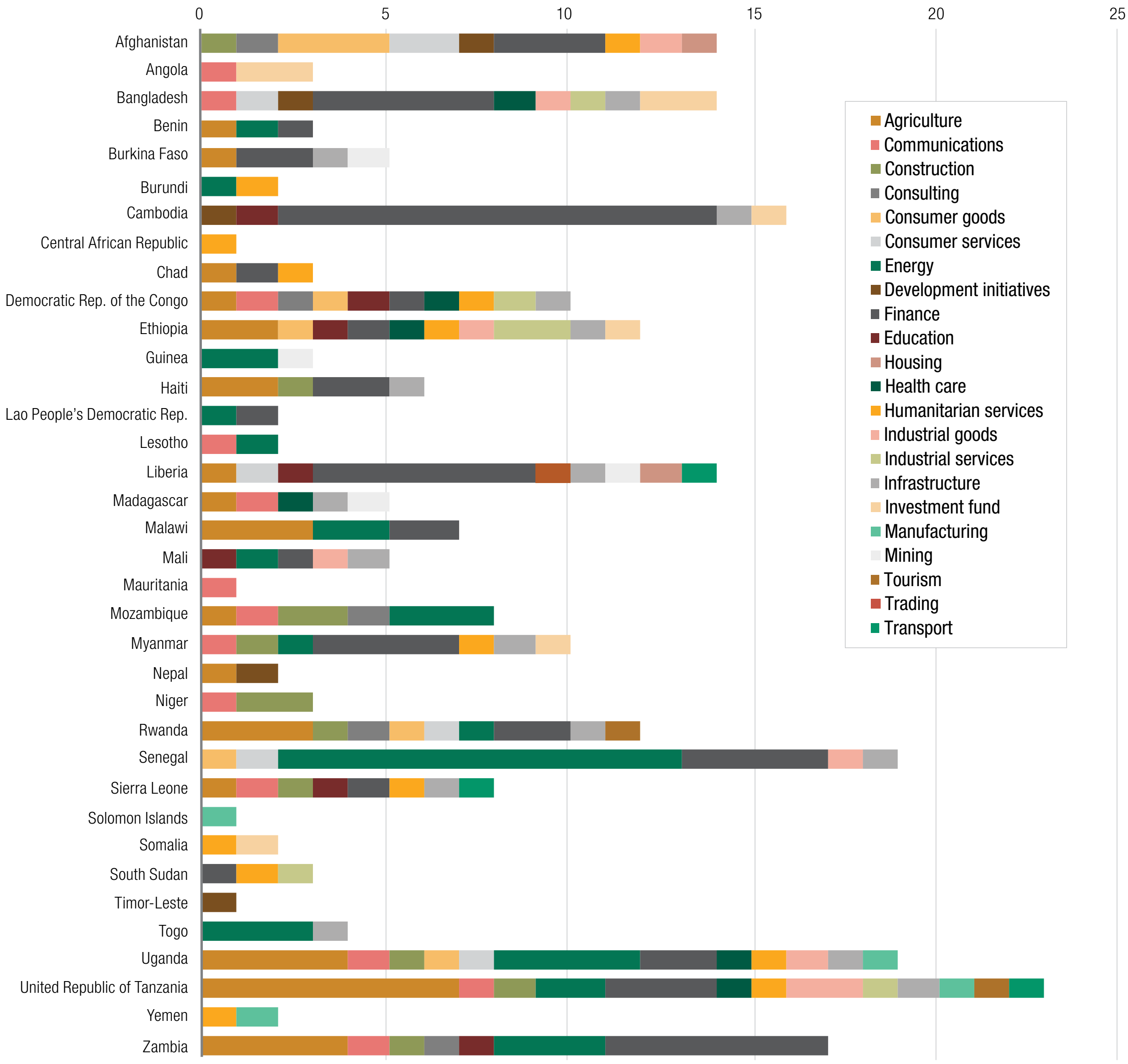
Development finance institutions do not design development projects, but rather accept applications for funding from businesses whose investment

Figure 3.13

Selected development finance institutions:

Sectoral composition of active investments in the least developed countries, 2017

(Number of projects)



Source: UNCTAD calculations, based on data from the CDC Group; Norfund; Overseas Private Investment Corporation, 2019; and Proparco.

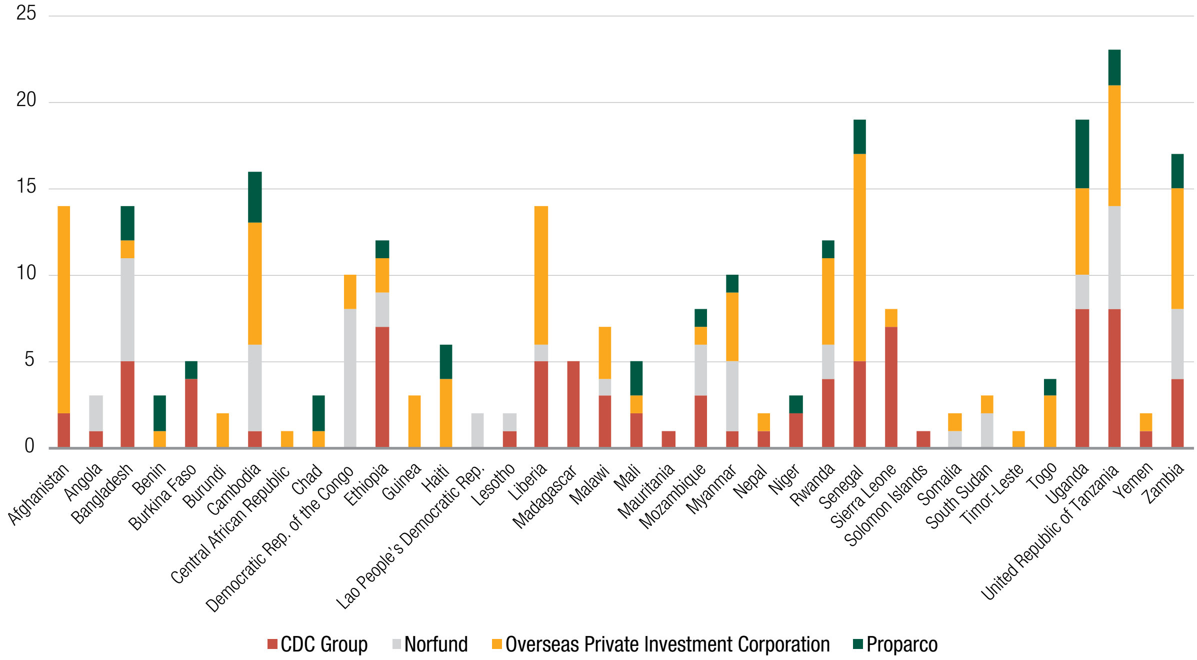
projects carry the prospect of financial returns for the institutions. They engage in confidential bilateral negotiations with project sponsors. Their business model, consequently, is disconnected from country development plans and the type of investment of development finance institutions shapes the type of development impact that is achievable. This serves to underline the concerns related to, for example, the approach of maximizing finance for development adopted by the World Bank Group and the increasing focus that donors are giving to the private sector, in particular in LDCs in which markets are difficult or pipelines of viable investment projects are narrow. Historically, development finance institutions have not displayed an interest in high-risk investments, prioritizing instead investment settings with an above 80 per cent probability of success, regardless of an investment's capacity for transformative impact (Devex, 2019c).

In the context of development policy and the 2030 Agenda, job creation, economic growth and private sector development are by far the most cited policy goals for replenishments from Governments to European development finance institutions.

Figure 3.14

Presence of selected development finance institutions in the least developed countries

(Number of projects)



Source: UNCTAD calculations, based on data from the CDC Group; Norfund; Overseas Private Investment Corporation, 2019; and Proparco.

Sustainable development and climate change (including renewable energy sources), poverty reduction and access to finance (and small and medium-sized enterprises) and catalysing private investors are also frequently cited objectives, in that order. Several European Governments also expect their development finance institutions to promote national economic interests and to mobilize the activities of domestic businesses and investors in low-income and middle-income countries (European Development Finance Institutions, 2016). The development mandate of development finance institutions necessitates that they look beyond traditionally monitored project-by-project direct outcomes, to explore a variety of impact channels. The list of policy goals continues to grow; for example, development finance institutions increasingly seek to track women's economic empowerment and job quality and to enhance their coverage of poorer and fragile countries. Member development finance institutions of the European Development Finance Institutions have reiterated a shared priority to intensify involvement in Africa and fragile States in 2019 (European Development Finance Institutions, 2019).

The shift in focus of development finance institutions to LDCs represents the pursuit of a potentially contradictory double bottom line of profits and development. On one hand, prospects of attaining the high levels of return they depend on to ensure sustainability are in middle-income developing countries and on the other hand, they are requested to advance the development of LDCs, in which the pool of investible opportunities is small and businesses are perceived as having high-risk profiles (Savoy et al., 2016). Achieving a greater distribution of private investments across LDCs and in underinvested sectors in LDCs, while an important verification factor for the rationale behind ODA-backed private sector instruments and development finance institution operations in LDCs, is not assured, unless such institutions better orient their business models to emphasize high-risk investments with inherently longer gestation periods in LDCs. For example, in line with other attempts to bound private development cooperation, Collier et al. (2018) argue that development finance institutions should be explicitly willing to accept commercial losses to achieve public benefits.

In addition, a key challenge for development finance institutions may have less to do with receiving more capital from Governments and more with their lack of capacity to deploy deep-country and specialized expertise (Emerging Markets Private Equity Association, 2018; Mirchandani, 2017).

Nevertheless, some development finance institution experts acknowledge that there may be a trade-off between expanding development impact criteria and the number of investment opportunities that qualify. There is thus reason to question whether an Africa-centred focus will lead to an unequivocal increase in investment flows to all LDCs in Africa, or even only to LDCs in Africa. However, LDCs with favourable market odds could stand to benefit. High population levels, urbanization and middle-class growth rates in LDCs tend to attract investor interest, and LDCs with smaller markets and higher rates of poverty can be expected to lose out. The case for an increased role for development finance institutions in development rests on the argument that they have a proven track record of combining strict adherence to commercial sustainability and systemic impacts. The unique ability of development finance institutions to deliver on additionality and tap a variety of impact channels is frequently referenced (Attridge et al., 2019; Carter et al., 2018; European Development Finance Institutions, 2016; OECD, 2016a; Spratt and Collins, 2012; United Kingdom, 2017). There is no standard definition of additionality, but two categories are often discussed, namely, financial and development additionality, and subcomponents of the latter have also been described by some development finance institutions, as follows:

- Financial additionality. Development finance institutions should extend investment capital to entities that cannot obtain finance from local or international private capital markets with similar terms or quantities without official support and not crowd out other investment through their subsidized pricing structure, contributing to employment growth, or if such a transaction mobilizes investment from the private sector that would not have otherwise been invested.
- Development additionality. Development finance institutions should invest in underserved geographic areas, sectors and segments by taking a long-term approach that permits higher levels of risk, including changing the nature of investments so that they become more beneficial and raising the quality of investments. Subcomponents are as follows:
    - > Value additionality. Development finance institutions can contribute to knowledge enhancement in countries by supporting capacity-building, technical assistance, changes in businesses' regulatory environments and the uptake of environmental and social standards. Such support fosters better managerial and innovation capabilities, which increases the potential of firms to grow and invest in technology and skills, with associated employment opportunities. Sometimes disaggregated into operational and institutional additionality.
    - > Demonstration or catalytic effects. Development finance institution projects can act as a vanguard by demonstrating the potential of new investments in difficult markets, creating a ripple effect that leads to further investments and, potentially, more employment creation, mobilizing other investors by sharing risk and experience.
    - > Forward and backward linkages. Development finance institutions can support firms that have both forward and backward linkages in an economy, that is, manufacturers need inputs from suppliers (backward linkages) and can sell their products to distributors (forward linkages). Supporting growth in such firms may create both forward and backward effects, which can, in turn, affect employment.

Urbanization and high middle-class growth rates tend to attract private investor interest

These articulations of additionality and impact channels are especially useful in development policy formulation because they address the breadth and depth of intended outcomes and the complex interactions in the process of development and structural transformation, beyond reductionist metrics (Committee for Development Policy, 2015; de la Rosa Reyes, 2017). However, as they are indirect, their success, failure or relevance is dependent on a vast range of contextual factors and actors that render attribution to the interventions of development finance institutions problematic. Indirect impacts are generally more difficult to define, and evidence is difficult to uncover. For example, the literature on development finance institutions typically fails to acknowledge the counterfactual (Attridge et al., 2019). There are also trade-offs between the cost of acquiring data and the quality of the data gathered. Indirect impacts can be costlier to measure because they are not easily observable and are more dependent on response time, typically lagging behind direct impacts. Systematic investments in capacity, as well as complex evaluations by development finance institutions, are therefore unavoidable (OECD, 2018h).

Development finance institutions make assumptions to assess the impact of their operations

Consequently, development finance institutions rely on making assumptions and engaging in estimations. For example, evidence of demonstration effects is limited, with causality particularly difficult to prove (Savoy et al., 2016). Similarly, with regard to forward and backward linkages, examining effects beyond direct impacts requires either making assumptions or using deep-dive case studies of impacts, of which few exist for LDCs (Attridge et al., 2019). The variety of approaches used to assess the impact of development finance institutions include microlevel surveys and case studies, econometric studies and macrolevel econometric studies. The use of quasi-experimental studies, including randomized control trials, for example in microfinance, has also been noted.

Unlike national development banks, development finance institutions remain a comparatively understudied set of development institutions in terms of their activities and impacts from the perspective of LDC contexts. There are many expectations of what development finance institutions can deliver in terms of development impacts, particularly with regard to additionality and catalytic impacts, but the proof of their additionality remains weak. Whether they do or can make a real difference is increasingly the subject of research, with a greater emphasis on development finance institutions in development cooperation, and the evidence suggests that definitive evidence of additionality remains elusive (Attridge et al., 2019; Carter, 2017c). The following analysis highlights some issues that require additional attention or consideration to strengthen the evidence base on the development impacts of development finance institutions.

i Job creation

Job creation is one of the main objectives and indicators of development finance institutions, commonly measured as the number of direct and indirect jobs created or maintained, with indirect effects often greater than direct effects. The employment impact of the investments of such institutions follows several channels, as follows (Savoy et al., 2016):

- Direct impacts: Jobs created in companies or projects directly supported by the investment of development finance institutions.
- Indirect impacts: Jobs created through forward and backward supply chain linkages as a result of the project or company supported by development finance institutions.
- Induced jobs: Jobs created through the demand multipliers and other consumption effects of direct and indirect jobs created by development finance institutions.
- Second-order growth effects: Jobs created through growth effects, some of which relate to productivity spillover effects when third companies operate more efficiently, expand economic activities and create more jobs in the process.

The direct employment effects reported by investees are the easiest for development finance institutions to prove, but the difficulty in attribution increases along the causality chain, as a complex mix of intervening factors, including effects that may be influenced by government development programmes and strategies, or inherent to domestic entrepreneurial ecosystems, are difficult to control for.

The activity of development finance institutions is found to be correlated with a growth in jobs and higher labour productivity across countries and over time. Most evidence supporting this finding is on investments in non-LDC countries, possibly due to the limited availability and sophistication of data or limited development finance institution expertise in LDC markets (Attridge et al., 2019). Given that the ability of domestic firms in LDCs to respond effectively to the investments of development finance institutions is typically lower than those in other developing countries, due to constraints in absorptive and productive capacities, the correlation may be weaker or absent in LDCs. This gap in evidence in LDCs belies the concerted push to intensify the activities of development finance institutions in LDCs and casts doubt on the advisability of expanding their operations in LDCs (Attridge et al., 2019). The apparent tension between expectations of the development impacts of development finance institutions and what they can actually demonstrate is problematic, given public policy questions about the balance between the costs and benefits of deploying ODA through development finance institutions (Ashley, 2018).

A case in point is job quality, an area of impact assessment in which development finance institutions are currently lagging. Job quality is important in LDCs because the relationship between job creation and social progress is often not as straightforward as implied by the standard reasoning that employment leads to reductions in inequality and poverty. The poor often accept whatever work is available at whatever wage, resulting in a significant incidence of working poverty, that is, people with jobs but still poor. Working poverty rates in low-income countries are estimated at 40 per cent, compared with the global average of 9 per cent (International Labour Organization, 2019). Extreme working poverty, defined by the International Labour Organization as households with a per capita income or consumption of less than $1.90 per day, is projected to decline in Africa, the Pacific and South-East Asia, yet the rate of moderate working poverty in Africa, at around 23 per cent, is likely to remain unchanged, and a large proportion of the jobs created in the other two regions – where, in 2017, the rates of extreme and moderate working poverty were at a combined rate of 19.6 per cent – are expected to remain of poor quality (International Labour Organization, 2018).

The high incidence of informality across LDC economies continues to be a drag on prospects of reducing working poverty (UNCTAD, 2018b). The focus of development finance institutions on formal employment is thus a welcome development. However, job quality is at stake if employment is to be a driver for structural transformation in LDCs. Poor job quality can increase incentives for diversification towards less complex products and hinders the increase of the productive capacities of States (Freire, 2017). These issues and the related matter of skills development to support higher value addition are of critical concern in LDCs (te Velde, 2013). In this regard, development finance institutions are theoretically well placed in their new roles as sources of vital information for development practitioners and policymakers.

ii Access to finance

The challenge of access to finance is more acute for small and medium-sized enterprises in LDCs and is a frontline issue for development finance institutions in pursuing development policy mandates on private sector development (UNCTAD, 2018b). Many such institutions do not routinely directly support smaller projects, often because of the transaction costs involved, although they may use private sector instruments to encourage increased lending to small and medium-sized enterprises by providing earmarked finance to private investment funds and other financial intermediaries. In doing so, development finance institutions often highlight their contributions to domestic financial deepening. The spot check of the active projects of the CDC Group in LDCs in 2017 suggests a reliance on financial intermediaries such as private equity and

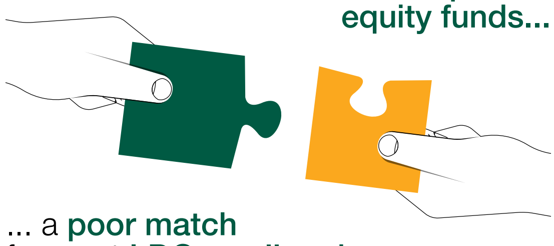
Foreign fund managers are new to investing in small and medium-sized enterprises in developing countries

other types of funds for this purpose. Development finance institutions and impact investors dominate mainstream private equity and venture capital fundraising in many developing countries (Divakaran et al., 2014; Oxfam International, 2018). Transforming most small and medium-sized enterprises and entrepreneurs in LDCs into viable targets of investment typically requires much more technical assistance and project preparation support, as well as financing. In LDCs, the starting points of small and medium-sized enterprises and entrepreneur profiles are uneven and are an important factor of success and growth. In theory, equity funds have more experience in providing financial and capacity-building support to small and medium-sized enterprises in a variety of sectors and therefore increase the chances of successful outcomes, but this is often highly dependent on their having specialized local expertise. Accordingly, partnering with local equity funds and other financial intermediaries becomes desirable.

Among the 50 spot-checked active investments of the CDC Group made via equity funds, only one has a majority of local (indigenous) ownership. While this is no doubt partly a consequence of the lack of financial deepening in LDCs, there is evidence of other contributory factors. Global trends captured by a survey by the Emerging Markets Private Equity Association in 2017 note a tendency towards consolidation in the fund capitals of development finance institutions across fewer managers. This suggests that such institutions pursue both capital concentration and relationship consolidation. Anecdotal evidence from East Africa and Latin America indicates that many fund managers and investment teams are relatively new to the field of investing in small and medium-sized enterprises. Development finance institutions also corroborate that the breadth and scope of regionally based fund managers is suboptimal and that local fund management experience and competency needs development (Divakaran et al., 2014).

The spot check of investments by the CDC Group and Proparco shows a bias towards larger enterprises including, for example, a stated shift of focus to larger small and medium-sized enterprises by the impact programme and catalyst portfolio of

Business models of development finance institutions and private equity funds...



... a poor match for most LDC small and medium-sized enterprises

the CDC Group.[16] Larger enterprises, by virtue of their in-house capacity or ability to access specialized skills, including companies from more developed economies, tend to be better prepared to engage with equity funders and generate greater profit investments for development finance institutions and fund investors. Development finance institutions and investment funds generally prioritize businesses with a track record of profitability, and large firms are 10 times more productive than small and medium-sized enterprises in developing countries (International Trade Centre, 2015). Among the spot-checked active investments, international large firms are significant beneficiaries of investments by the CDC Group and Proparco, and development finance institutions more often make direct equity investments in such companies. In Bangladesh, for example, the CDC Group invested direct equity in local enterprises, all of which were large well-established firms. The evidence also suggests that the preponderance of family or owner-run small and medium-sized enterprises in low-income countries means that a great number of small and medium-sized enterprises are likely to eschew equity in favour of retaining full ownership, contributing to thin addressable markets for fund managers (Emerging Markets Private Equity Association, 2017).

From the perspective of structural transformation, and recognizing that not all types of small and medium-sized enterprises play a role in expanding quality employment and increasing structural transformation, the apparent bias may not be problematic if it delivers systemic gains from high-impact firms and entrepreneurs whose contribution to structural transformation is more assured than that of other types of entrepreneurship prevalent in LDCs (UNCTAD, 2018b). Nevertheless, closing the gap in support of missing-middle projects in LDCs may continue to be an issue in LDCs despite development finance institution efforts in this area.

One contributing factor that might explain an observed bias towards larger small and medium-sized enterprises is the lack of a universal definition of such enterprises. Such enterprises in LDCs tend to be quite small, and even medium-sized companies are smaller than their developed country counterparts. For example, equity investments by Norfund are normally at $4 million and above, and few small and medium-sized enterprises in LDCs are likely to be able to absorb that amount of funding, as shown by the experience of the United Nations Capital Development Fund, whereby small and medium-sized enterprises in LDCs typically need credit ranging from $50,000 to $1 million. Given the need to foster entrepreneurship and a balanced ecosystem of enterprises of all sizes in LDCs, such trends could be negative with regard to structural transformation and disadvantage high-impact microentrepreneurs that already have difficulty accessing small and medium-sized enterprise-level loans. An area that warrants further investigation, therefore, is whether development finance institutions and private equity fund business models on their own are a poor match for diverse small and medium-sized enterprise profiles and their corresponding objectives with regard to growth and equity in LDCs.

iii Ownership

A central issue raised by UNCTAD (2018b) is the role of local ownership in building a sustainable local entrepreneurial base and the endogenous responsiveness of an economy. Local entrepreneurs have many potential advantages. They typically operate in more sectors and tap more diverse segments of domestic labour across a broader range of geographical areas than foreign investors. They contribute to a robust entrepreneurship landscape encompassing different sizes of firms and help reach markets earlier and enable deeper market penetration than foreign firms. They can therefore be instrumental in strengthening local value chains,

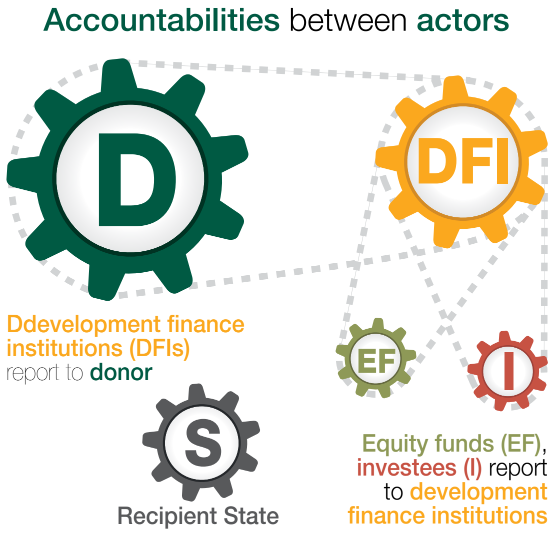
[16] The investments of the CDC Group are grouped into catalyst and growth portfolios; investments under the former are made in difficult markets, such as in LDCs, and assigned a lower profitability hurdle. The CDC Group is reportedly a pioneer among development finance institutions in adopting this approach. In 2018, its catalyst portfolio accounted for about 2 per cent of its total portfolio, compared with 62 per cent under its growth portfolio and 36 per cent under its legacy portfolio. The CDC Group manages two investment vehicles designed to serve its catalyst portfolio; investments by these funds are expected to be higher risk but hold long-term commercial potential and help to catalyse other investments (Independent Commission for Aid Impact, 2019).

contributing to higher levels of local job creation and increased revenues for both the private and public sectors. Finally, they often serve as primary vehicles of inclusion and growth and can play a critical role in reducing foreign investment risk (Devex, 2019e; OECD, 2017; UNCTAD, 2018b).

Development finance institutions emphasize the importance of investors' local operations but are largely silent on the issue of local ownership. It is also not always evident whether a stated focus on increasing access to basic goods and services coincides with fostering local entrepreneurship. Where information is provided on investments, it is often not possible to discern with certainty the distribution across national and foreign private sectors of the support extended by development finance institutions, even in the case of small and medium-sized enterprises. This is in accordance with the European Development Finance Institutions (2018) principles for responsible tax in developing countries, which specify that the responsibility of development finance institutions does not usually extend to the disclosure of the beneficial ownership of investees unless such disclosure is required by law in the host country. The automatic exchange of information standard requires countries to provide information on beneficial owners but, as noted, the capacities of developing counties and LDCs in particular to benefit from its implementation are limited.

iv Production costs

Production costs in LDCs are a significant impediment to private sector development and competitiveness. Development finance institutions often refer to their contributions to improving access to productive services as a part of development additionality. As noted, they prioritize productive infrastructure. Among the spot-checked active projects, several seem akin to conventional public–private partnerships (although at least one was unsolicited and its terms were not publicly disclosed in the country of investment), probably because subsidized tariffs are often a necessity in LDC markets (UNCTAD, 2017a). A critical issue with regard to structural transformation in LDCs is how the investments of development finance institutions impact not only the availability of services but also their costs. The poor track record of energy-related public–private partnerships in LDCs in this regard could undermine the positive impacts from the focus of development finance institutions on infrastructure. Lowering the cost of productive activities is a necessary condition to generating the indirect effects that development finance institutions estimate as part of their development impacts in LDCs, and this information should be made known.



v Transparency and accountability

Much of the information about development finance institutions is presented in forms that make aggregation and comparison difficult and time consuming (Devex, 2019b; Kenny et al., 2018). Reporting procedures, including the metrics used to evaluate performance, are not standardized. Available data sheds little light on the motivations behind the investments made. Each institution has its own parameters to define regions and financial instruments; these are often not made public and, when available, may not be consistently reported across projects or reporting periods. Commercial confidentiality and the peculiarities of business models have been cited by development finance institutions in response to requests for greater transparency. Details of private sector engagement investment projects are not made readily available to the public (Attridge and Engen, 2019). Concerns about transparency are heightened by the changing nature of the development cooperation landscape, which warrants moving beyond non-binding global principles and guidance. Saldinger et al. (2019) note the propensity of development finance institutions to tailor messages to specific audiences and the image that they wish to portray to each audience.

Of concern are accountability relationships between the different actors in private sector development in the era of private development cooperation. Development finance institutions are not obliged to share information with local authorities, and accountability flows backwards to their owners. Investees report to the institutions or to the financial intermediary. As evidenced by the experience of Bangladesh, the recipient State is often left out of the loop and this supports arguments made in this chapter (box 3.4). Information that is critical to assessing project and donor impacts, such as objectives, results and evaluations, tends to be the most difficult to find, even among top performers with regard to accountability. Collectively, donors assessed under the aid transparency index in 2018 scored 27 per cent, on average, in the performance component (Publish What You Fund, 2019).

A similar picture is seen with regard to blended finance, with most evaluations provided by private funds and facilities made on a voluntary basis (figure 3.15). The evaluation reports for most actors of blended finance are for internal purposes only and are only shared with bilateral donors. Private providers of blended finance are not obliged to evaluate their projects. As with the investments of development finance institutions, the evaluation of development impacts from blending among donors is made on a case-by-case basis (European Court of Auditors, 2014).

D. Conclusions

The ODA architecture reform and, in some cases, a single-minded focus in the private sector on some approaches to the achievement of the Goals, has brought to the fore the widening deficit of accountability in international development finance. The resulting blurring of concessional and non-concessional flows brought about by the ODA reform

Box 3.4 Case study: The experience of Bangladesh in development finance institution investment

The following points were determined based on a review of 240 private sector engagement projects:

- DAC donors dominate private sector engagement mobilized through development cooperation (37 per cent), multilateral development finance institutions (33 per cent) and bilateral development finance institutions (25 per cent).
- The predominant private sector instrument is financing, mainly debt financing, primarily in the financial sector, agriculture, manufacturing and energy. Finance underpins 71 per cent of the projects examined, with debt financing supporting 42 per cent of projects overall.
- Large domestic companies remain the most prominent partners in private sector engagement projects in Bangladesh.
- The total size of public or private contributions for private sector engagement projects cannot be determined due to a lack of transparency.
- The main activities supported by private sector engagement projects include improving access to finance for small and medium-sized enterprises and/or a specific sector, technology or research-related interventions in agriculture and financing company operations, including expansion activities and upgrades.
- The extent to which the activities of private sector engagement projects support specific sectoral policy objectives is unclear, even if the sectors chosen by development finance institutions align with the general priorities of the national development plan.
- Private sector engagement projects could benefit from more inclusive partnerships and support greater country ownership; government institutions are listed as partners for only 9 per cent of projects, while 8 per cent involve civil society organizations and less than 1 per cent involve domestic business associations.
- Private sector engagement interventions with regard to the business enabling environment tend to neglect support for government capacity to move from policy formulation to implementation, including with regard to carrying forward existing projects and programmes, ensuring compliance with laws and regulations and establishing greater coordination and consistency across the Government with regard to interaction with the private sector.
- Only a limited number of the examined projects (12 per cent) explicitly target the poor or people living in underserved or rural locations. Only 4 per cent explicitly target women.
- Most private sector engagement projects are subject to regular monitoring at annual or more frequent intervals and, to a lesser extent, through field visits. More development partners could make project-specific monitoring provisions and the intermediate and final results from evaluations publicly available.
- Only 3 per cent of examined projects provide evaluation information and another 4 per cent outline how evaluation will occur. The focus seems to be on publicizing institutional approaches and policies for evaluation, as is the case for 65 per cent of the projects.

Source: Kindornay et al., 2018.

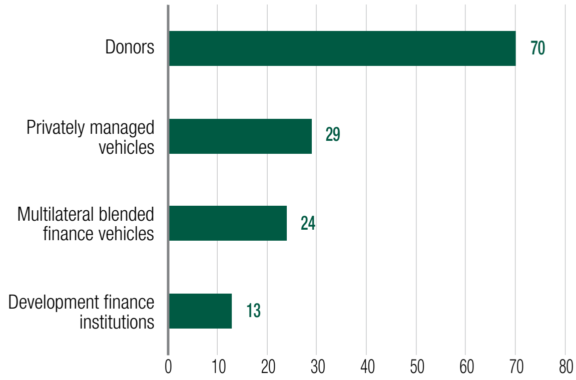
renders previously comprehensible aspects of ODA opaque. This accountability deficit could turn out to be the Achilles' heel of the Goals.

Development has many faces, and achieving the aims of the 2030 Agenda will come down to providing the answer to three key related questions, namely, what is success? Who decides on the answer? Who charts the path to success? Significant enthusiasm is being generated with regard to achieving the Goals, and current approaches to implementation provide considerable leeway for individual actors to unilaterally finetune definitions and key concepts to encompass their own efforts or favour strategic interests. As a result, scope for the divergent application of key concepts and less than meaningful success factors has widened.

Determining wherein authority lies to answer the first and third key questions and how that authority should be exercised is a pressing challenge in the implementation of the 2030 Agenda. At the level of donors, development finance institutions have been appointed as the primary vehicle for achieving ambitions related to private sector engagement. By default, they provide guidance on which activities matter and when and how they matter for development impacts. Increasingly unclear is the place of the national development plans and aspirations of recipient countries and private sectors. Recipient States, although given primary responsibility for achieving the Goals by the 2030 Agenda, have effectively vanished from the development toolbox. This flies in the face of what is intended to be a revitalized global partnership for sustainable development. The absence of a common understanding of this issue has the potential to significantly undermine development impacts at the systemic level in countries at the receiving end of donor-led private sector engagement. Crucially, opportunities to make needed investments in State capacity and ownership risk falling by the wayside.

Figure 3.15

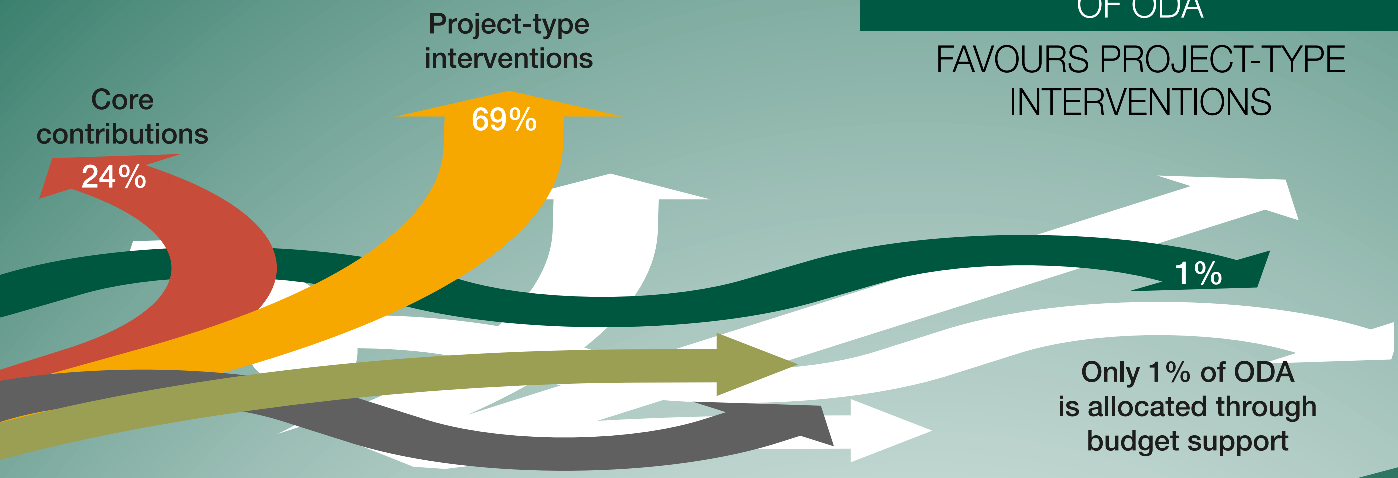
Dissemination of evaluation reports



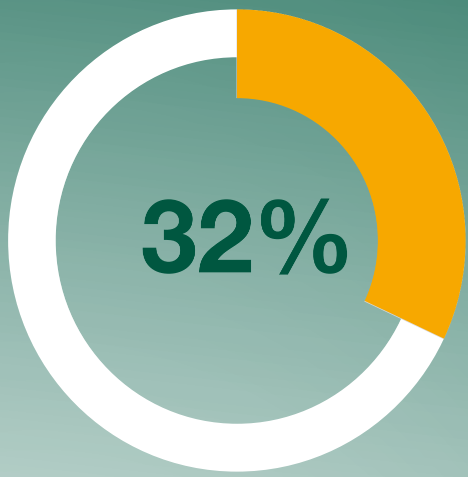
Source: UNCTAD calculations, based on data from OECD, 2018g.

DONOR-CENTRIC MANAGEMENT OF ODA

FAVOURS PROJECT-TYPE INTERVENTIONS



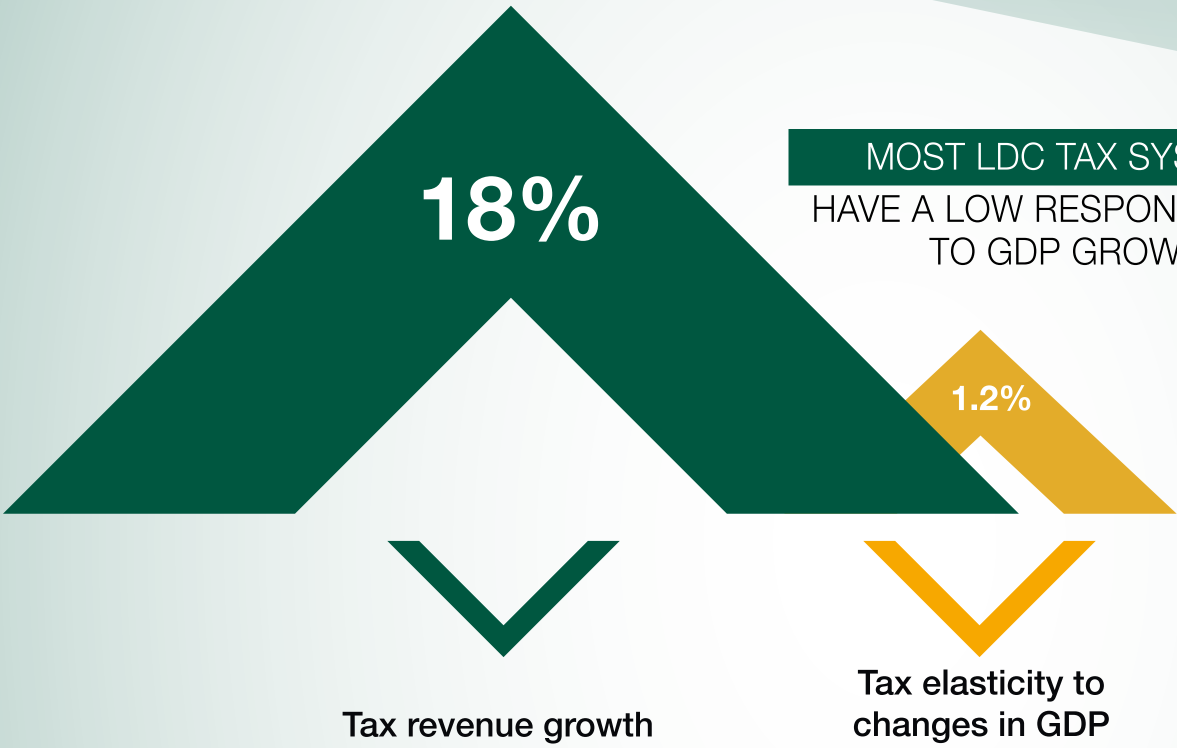
OF DONOR INTERVENTIONS



HAVE OBJECTIVES DRAWN DIRECTLY FROM NATIONAL DEVELOPMENT PLANS

MOST LDC TAX SYSTEMS

HAVE A LOW RESPONSIVENESS TO GDP GROWTH



CHAPTER 4

How dependence on external development finance is affecting fiscal policies

CHAPTER 4

How dependence on external development finance is affecting fiscal policies

A. Introduction

Critical to achieving the Sustainable Development Goals in LDCs are the domestic public resources needed for public investments and services, as well as enabling policies, to sustain economic transformation, eradicate poverty and end hunger (UNCTAD, 2014b). Private investments are drivers of economic activities, yet a substantial increase in domestic and external public resources is also required for LDCs to boost productive capacities, accelerate growth and build economic resilience. However, resource constraints in LDCs suggest a greater need for external financing, including ODA, to supplement domestic public resources.

The development cooperation landscape is changing rapidly, with the emergence of new financial vehicles and additional actors, including the private sector (see chapter 3). In LDCs, dependence on external finance is driven by persistent structural deficits and balance of payments problems (see chapter 1). Even LDCs with relatively higher tax revenues require substantial amounts of ODA to finance the growing demand for infrastructure and public services, to attain the Goals (UNCTAD, 2014b). The pace of achievement of the Goals and the quality of results also depends on the synergy between domestic and external public resources in the development process. The Addis Ababa Action Agenda highlights the complementary role that international public finance plays in the poorest and most vulnerable countries, and signatory countries committed to further strengthening the mobilization and effective use of domestic resources (United Nations, 2015b).

Strengthening domestic public resource mobilization is critical to closing development financing gaps in LDCs. With domestic public resources failing to keep pace with the increased demand for public goods and services, tax revenue should be ramped up to avert the risk of increasingly unsustainable public debt. ODA is expected to continue to play a catalytic role in LDCs, including in helping to strengthen the management of public finances and develop administrative and institutional capacities. However, misalignments between sectoral allocations of ODA and national priorities place a further constraint on already overstretched public budgets. This is shown partially by the divergent trend between public capital investment expenditure and ODA and an uptick in public debt. The growth in the number of partners with diverse interests bears the risk that LDC development agendas may be rendered alternative and additional. For LDCs to benefit from increased partnerships, specific attention should be paid to aid predictability and accountability and a better alignment with LDC priorities, consistent with the principle of national ownership, an overarching principle of the Goals.[1]

Strengthening domestic public resource mobilization is critical to closing development financing gaps

This chapter seeks to explain the link between fiscal imbalances in LDCs and dependence on external public development finance, and how domestic resource mobilization is already playing a critical role in development financing. It discusses the implications of the slowing inflows of external resources on LDC capacity to close structural fiscal gaps, and how LDCs manage and coordinate development partnerships given the increased number of actors in financing for development. In addition, it provides insights on how misalignment between sectoral allocations of ODA and the national priorities of LDCs impacts on their capacity to accelerate structural transformation, further potential to mobilize additional domestic resources and chance of graduating from the LDC category. Section B discusses recent progress in LDCs in raising domestic resources through taxation, assesses both the capacity and efficiency of tax systems and discusses the scope for mobilizing additional domestic tax revenues from various tax components. In addition, an analysis of the expenditure side provides insights on whether synergy is being achieved through aid. Section C discusses the alignment of international support for development in LDCs. It takes the view that safeguarding the policy space of LDCs and strengthening their institutional capacities are critical in accelerating structural transformation (UNCTAD, 2006a; UNCTAD, 2009). In addition, it provides insights on how divergence between national and partner priorities may negatively impact LDC fiscal policies and slow down structural transformation.

B. The state of fiscal policies in the least developed countries

The link between fiscal policy and ODA and its implications for aid effectiveness have been studied extensively (Morrissey, 2015; Mosley, 2015). The substitutability (additionality) of domestic and external

[1] The term “alignment of aid” is used in this chapter in terms of the extent to which partners use beneficiary country systems and policy frameworks in their aid disbursement, implementation and results frameworks.

LDCs have increased tax collection efforts, but structural constraints limit further growth in revenue

resources can give rise to a trade-off or complementarity between policies oriented towards growth or structural transformation (for example, public investment in energy and transport infrastructure) and social policies such as social transfers and primary health-care expenditure. The impact of aid on government expenditures in recipient countries depends on the composition of aid, but the effect of aid on government revenue is country specific (Chatterjee et al., 2012). To break aid dependence, it is important to reverse on a case-by-case basis the tendency for ODA to promote increased public spending and reduced tax collection efforts and to rather promote a better alignment between ODA allocation and national priorities; aid can also lead to reduced spending in some sectors in favour of others, while maintaining or raising the overall budgetary outlay (Mascagni and Timmis, 2017; Morrissey, 2015; Mosley, 2015; Ouattara, 2006). The complementarity between ODA and domestic resources is presumed in the Addis Ababa Action Agenda because both flows are expected to rise during the period of implementation of the 2030 Agenda. However, concern remains that, in developing countries, ODA dampens incremental tax efforts or the degree to which tax-based revenue rises as a share of government revenue over time (Mosley, 2015; Thornton, 2014).

Strengthening public administration systems in LDCs is crucial in implementing the 2030 Agenda. The capacity of the State to collect taxes can be understood in two ways. First, it refers to technical capacity, which is influenced by the level of economic development and the structure of the economy. Second, tax revenues, as with ODA disbursements, are not outcomes of neutral policies; both have complex incentive structures that have feedback impacts on the amount of tax collected by the State. The starting point of a country on the tax revenue curve matters because tax receipts are sensitive to tax rate increments, depending on the level of economic activity, tax regulatory framework and level of tax compliance (Akgun et al., 2017). Tax policy reforms can positively or negatively impact aggregate demand components, including capital accumulation, and have wider macroeconomic consequences depending on how budget deficits are financed. Under the 2030 Agenda, domestic capacity for tax and other revenue collection is assessed under the indicators for target 17.1, on total government revenue as a proportion of GDP and on the proportion of the domestic budget funded by domestic taxes.[2] Data with regard to the first indicator are covered in the World Development Indicators database of the World Bank but, with regard to the second, several countries are not covered in the government finance statistics of the International Monetary Fund. Tax revenue-to-GDP ratio is an insufficient indicator of capacity to collect tax, yet it provides a reasonable estimate of the fiscal resources that a country can mobilize relative to its economy (Sindzingre, 2007).

1. Recent progress in raising tax revenue

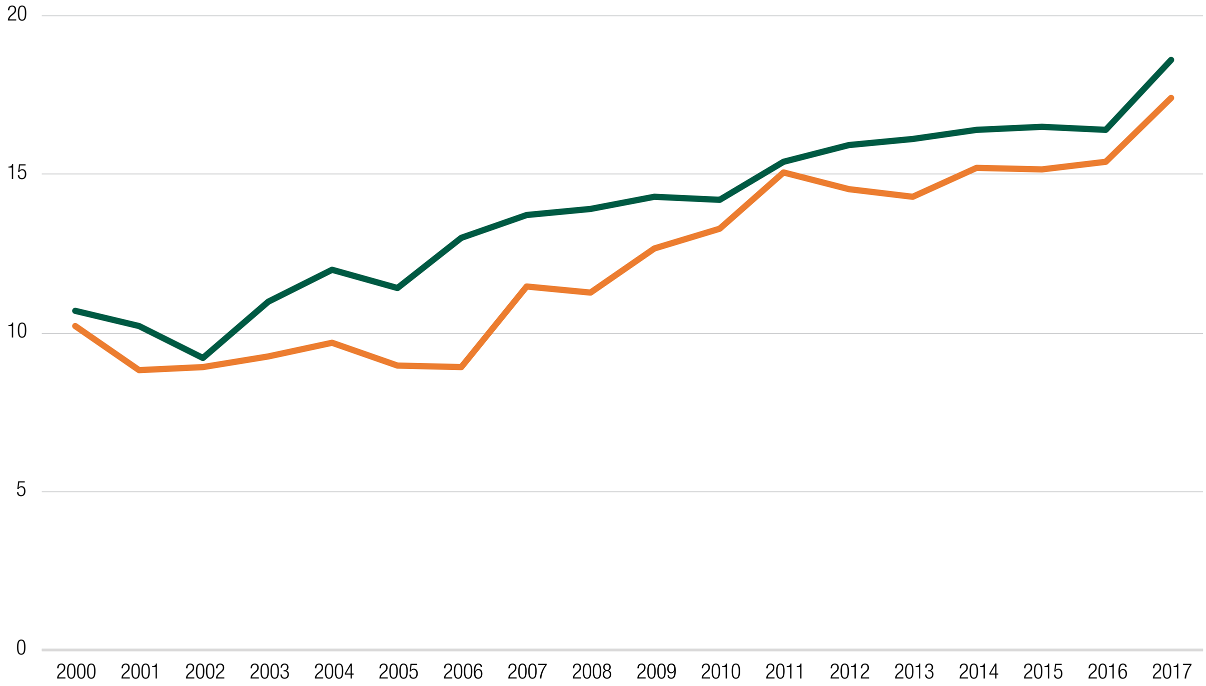
Among LDCs, tax revenue has increased, from an average of 11 per cent of GDP in 2000 to 19 per cent in 2017 (figure 4.1). Despite heterogeneity between countries, the median and average tax revenue-to-GDP ratios have remained close. The trend reveals a slow upward movement in both statistics, yet the number of countries with low ratios has remained relatively matched with those with higher values, implying no radical improvement or deterioration at either extreme. Significantly, in 2011, both reached 15 per cent, which is widely regarded as the minimum threshold necessary to support sustainable growth and development (International Monetary Fund, 2016). However, the tax revenue-to-GDP ratio remains less than 10 per cent in several LDCs. Since 2015, for example, Bangladesh and Myanmar, which are relatively large economies with GDPs of $250 billion and $67 billion, respectively, had ratios averaging only 9 and 6 per cent, respectively. Afghanistan, Angola, Bhutan, the Lao People's Democratic Republic, Rwanda, Timor-Leste and Uganda have also recorded tax revenue-to-GDP ratios averaging less than 15 per cent since 2015. In the last three years, Angola, Bhutan, the Lao People's Democratic Republic, Lesotho, Senegal, Solomon Islands, Togo, Vanuatu and Zambia have experienced sharp declines in tax revenue-to-GDP ratios. Kiribati, at 23 per cent, Lesotho, at 37 per cent, Mozambique, at 22 per cent, and Solomon Islands, at 28 per cent, perform relatively well in such ratios, yet closer analysis is needed to ascertain the strength of their tax systems. For example, the tax base of Kiribati is narrow, with taxes on goods and services, on income and on international trade contributing a combined total of 22 per cent to revenue in 2017. In 2015, fisheries licence fees contributed 78 per cent of total government revenue, and this reliance on a single

2 The metadata repositories for the related indicators are available at https://unstats.un.org/sdgs/metadata/.

Figure 4.1

Tax revenue-to-gross domestic product ratios in the least developed countries

(Percentage)



Source: UNCTAD calculations, based on data from the World Development Indicators database.

natural resource exposes the country to vagaries in weather, the international price of tuna and fish stocks (Kiribati, 2015). In contrast, the tax revenue of Lesotho is fairly diversified, with value added tax, at 39 per cent, and personal income tax, at 36 per cent, contributing large shares, and corporate income tax, at 15 per cent, and other taxes, at 10 per cent, completing the basket in the 2017/18 fiscal year (Lesotho Revenue Authority, 2018).

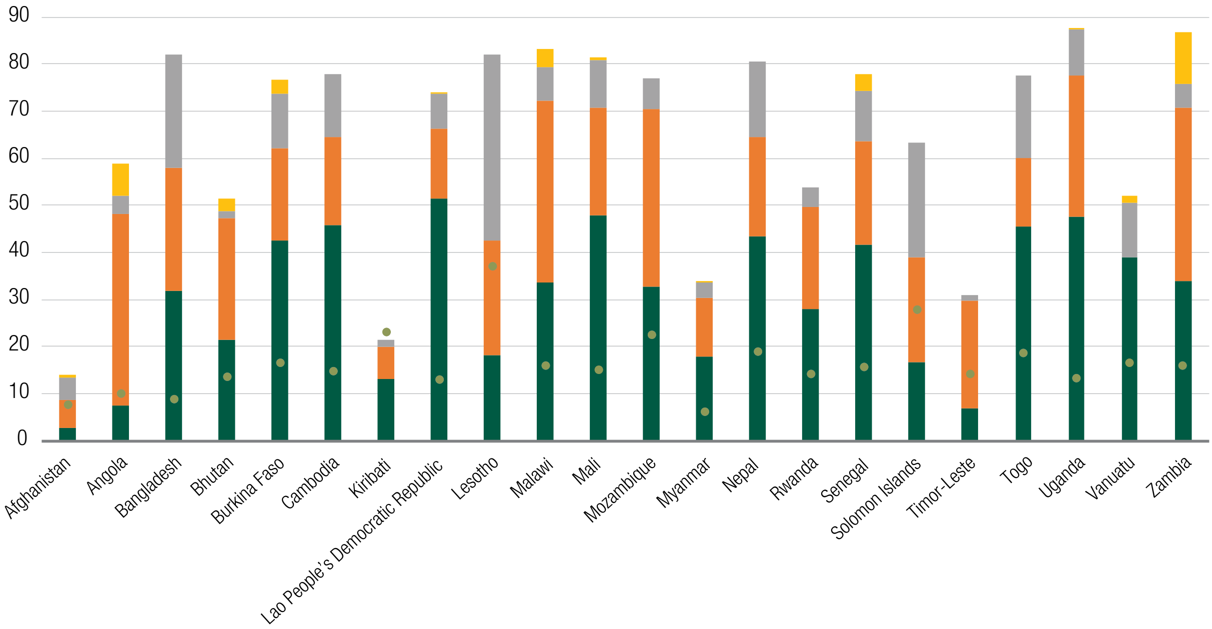
The structure of taxation in some LDCs is also diverse, with taxes on goods and services and on income playing significant roles (figure 4.2). Generally, there has been a significant shift in the composition of taxes among LDCs over the years, from predominantly taxes on international trade to broadly defined consumer and income taxes. Taxes on international trade include import and export duties and taxes on the profits of export or import monopolies, exchange profits and foreign exchange. In 1990–2000, taxes on international trade averaged 25 per cent of total revenue, receding to 13 per cent in the last decade. Since 2011, a few countries, including Bangladesh, Cambodia, Lesotho, Nepal, Solomon Islands and Togo have still earned significant shares of tax revenue from international trade. However, among LDCs, taxes on goods and services are beginning to dominate, rising from an average of 24.5 per cent in 2010 to 32.4 per cent of total revenue in 2017. In the same period, taxes on income, profits and capital gains also increased in significance, from 18.6 to 23.5 per cent of total revenue. However, low levels of diversification of economies limit the extent to which LDCs can increase net revenue from taxes on income and profits. Also, due to the positive correlation with the level of economic activity or GDP, net revenue from taxes on goods and services and on income is bounded by the weak growth potential of these economies. Macroeconomic shocks and structural vulnerabilities in LDCs also contribute to the underperformance in tax revenue collection, in particular in countries with weak institutions.

Economic growth is a key determinant of the accuracy of fiscal revenue forecasts. However, global conditions affect the economic growth of this group of vulnerable countries, as 39 of the 47 LDCs are commodity dependent and have relatively less capacity to absorb negative commodity price shocks (UNCTAD, 2019e). Their fiscal space grows when the global economy is in an upswing and contracts during a slump. In 2009–2017, LDCs experienced relatively strong economic growth averaging 5.2 per cent, and projections for 2018 remained within the

Figure 4.2

Contribution of various components to tax revenue in selected least developed countries, average, 2015–2017

(Percentage)



Source: UNCTAD calculations, based on data from the World Development Indicators database.
Note: Only LDCs for which recent data are available are included in the analysis.

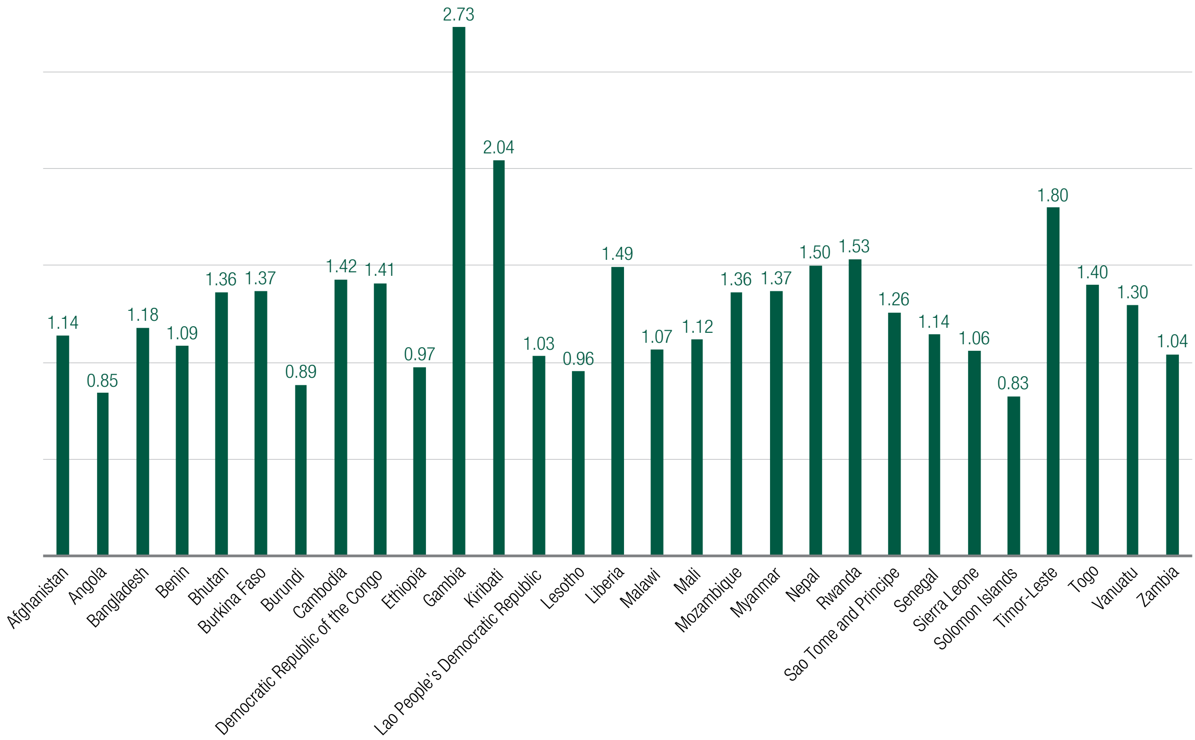
same range. Medium-term economic projections are optimistic, as conditions are improving in many parts of the world, yet the prospects for many commodity exports remain challenging (United Nations, 2019c). Moreover, most LDCs have low tax buoyancy, that is, the responsiveness of tax revenue to changes in GDP, averaging 1.2 in 2002–2017 (figure 4.3). Although tax revenues in LDCs grew by an annual average of 18 per cent in 2002–2017, the tax revenue-to-GDP ratio grew slowly, by 2.1 percentage points in 2015–2017. The tax revenue-to-GDP ratio grew by 0.6 percentage points in 2002–2017 and recorded growth of more than 1 percentage point only five times in the 16-year period. This may suggest that the tax systems in most LDCs operate at inefficient levels, and periods of fast economic growth such as commodity booms do not necessarily translate into proportionate increases in tax revenue or sizeable reductions in government deficits. Implicitly, in periods of economic slump, the tax systems may hinder economic recovery due to inbuilt inefficiencies. Tax buoyancy is robust in only a few countries, in particular in the Gambia, Kiribati, Liberia, Nepal, Rwanda and Timor-Leste.

The countries in this analysis, except for Liberia, Nepal and Rwanda, have small populations, which makes the identification of taxpayers and tax collection relatively less costly. In addition, improvements in tax administration, including compliance, have helped to better link tax revenue to economic activities. For example, in Nepal, which has a population of 29.9 million, the number of taxpayers increased from 1.5 million in the 2015/16 fiscal year to 1.8 million in 2017/18 (German Corporation for Development Cooperation, 2019; United Nations Population Fund, 2019). Similarly, Rwanda intensified registration and added 20,450 new taxpayers in 2017/18, to reach a total of 172,988 registered taxpayers (Rwanda Revenue Authority, 2018). The analysis of tax revenue potential also shows that in LDCs, tax efficiency could be improved, with the average tax effort across countries stable at 0.82 in the last 10 years.[3] Only nine countries, namely, Lesotho, Kiribati, Togo, the Gambia, Nepal, Malawi, Benin, Burkina Faso and Mali, consistently operate at close to full tax capacity or average at least 0.9, implying high tax efforts (figure 4.4). Another seven LDCs have tax efforts of

[3] Tax effort is measured as the ratio of actual tax collected to the predicted tax value from a stochastic regression relationship that controls for individual country characteristics. A ratio of close to 1 shows that a country has made a high level of effort, above 1 shows that a country has exceeded capacity and below 1 implies that a country has made a low level of effort. For a discussion of estimation methods see Fenochietto and Pessino (2013) and Khwaja and Iyer (2014).

Figure 4.3

Estimates of tax buoyancy in selected least developed countries, 2002–2017



Source: UNCTAD calculations, based on data from the World Development Indicators database.
Note: Estimates are based on a regression of the log of tax revenue on the log of GDP, not including those countries for which there are insufficient observations and/or insignificant regressions.

between 0.8 and 0.9. The Democratic Republic of the Congo, Zambia, Afghanistan, Bhutan, Timor-Leste, Bangladesh and Angola have relatively lower tax efforts of 0.75 or less, with Myanmar scoring lowest at 0.56.

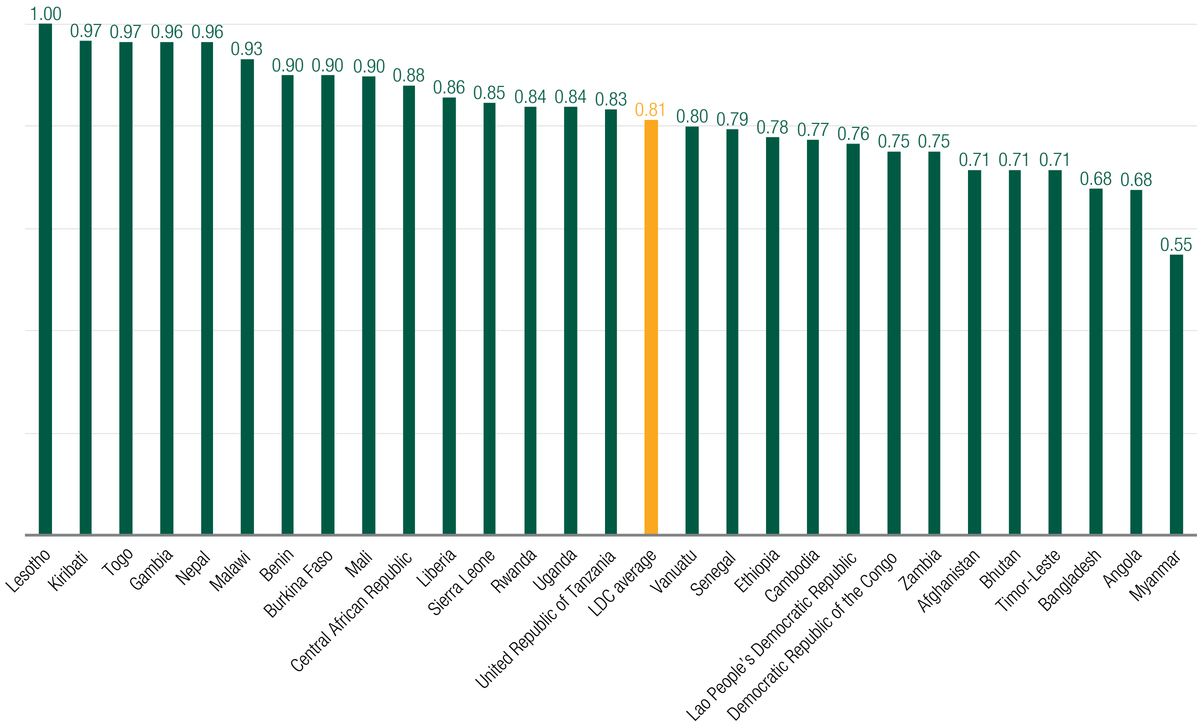
LDCs need to improve tax efficiency to enhance domestic revenue mobilization. Tax components can be seamlessly substituted through changes in tax regulations or policies in some LDCs, but in many LDCs, there are structural limitations and capacity challenges when it comes to tax policy changes. For example, the net addition to tax revenue from tax policy changes, such as by substituting one tax for another, increasing or reducing the tax rate or removing tax exemptions, is marginal, in particular among already high performing small economies such as Kiribati, Lesotho and Malawi. In these countries, the coherence of fiscal policies with structural transformation and long-term economic growth objectives is more relevant. Tax collection inefficiencies in larger LDCs, including commodity-dependent economies, may be reduced through a rigorous review of fiscal policies to promote the broad-based growth of tax bases and diversify and rationalize the contribution of various tax components to the total tax collected. The short-term trade-offs in the tax system may be minimized only through a series of budget reforms aimed at lessening the negative impacts of changes to the relative size of various fiscal aggregates, including the expenditure side. It may also be necessary for countries to assess how the various tax components (that is, the fiscal policy options) affect the total tax effort, in addition to addressing the macroeconomic and institutional impacts of increased tax collection (Fenochietto and Pessino, 2013).

The buoyancy of various tax components provides further empirical evidence for countries exploring net tax revenue gains from consumer taxes (figure 4.5).[4]

[4] These elasticities are indicative and should be interpreted with caution, as the assumption that tax rates remained stable over the estimation period is unrealistic for most countries. The elasticities are with regard to the change in final consumption for taxes on goods and services; the change in disposable income for taxes on income and profits and the change in imports and exports for taxes on international trade. For a discussion of methodological issues, see Haughton (1998).

Figure 4.4

Tax effort in selected least developed countries, average, 2007–2016



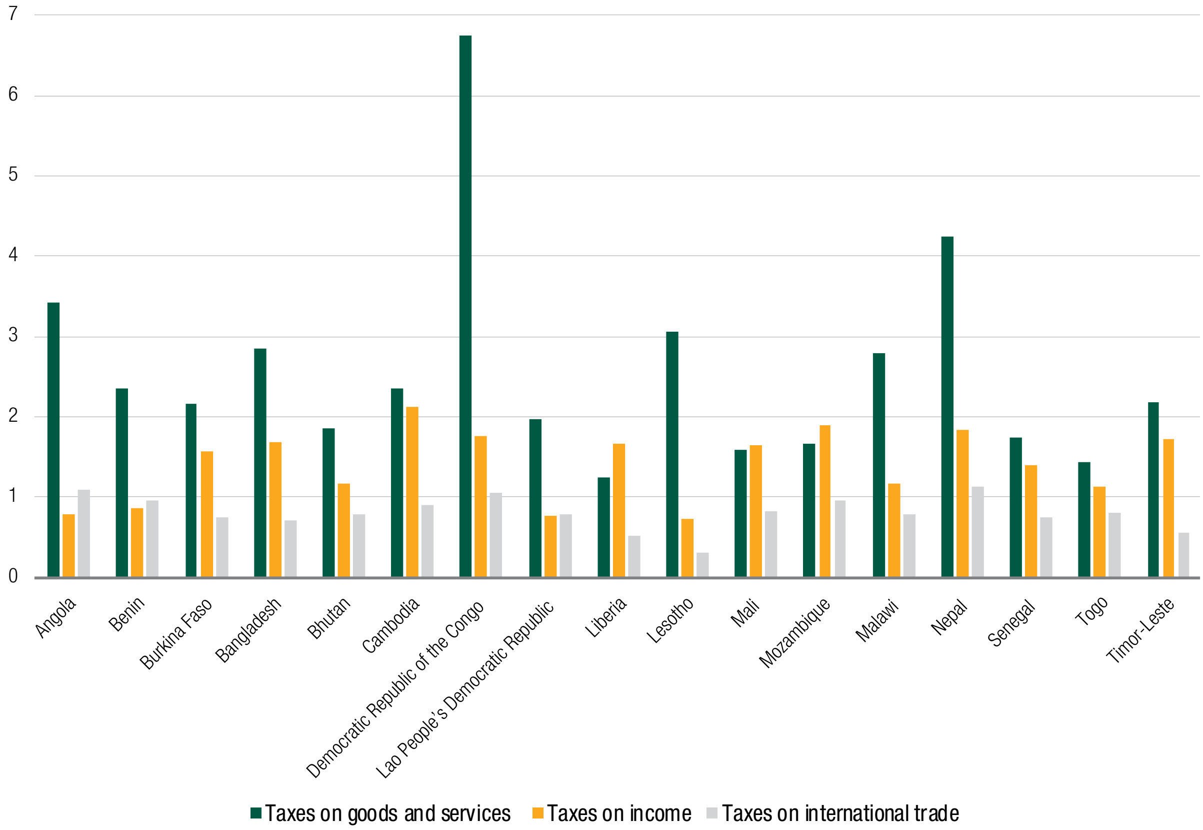
Source: UNCTAD calculations, based on data from the World Development Indicators database.

However, indirect taxes and value added taxes tend to have greater welfare implications for the poor and may therefore conflict with poverty eradication goals if not accompanied by other, offsetting public policies. Taxes on international trade are the least responsive, with an average elasticity of 0.81. This confirms the insignificant level, as well as the slow growth, of international trade from individual LDCs and LDCs as a group. The elasticity of taxes on goods and services or value added tax ranges from a minimum of 1.24 in Liberia to a maximum of 6.5 in the Democratic Republic of the Congo and the elasticity of taxes on income and profits ranges from 0.74 in Lesotho to 2.12 in Cambodia. However, countries apply different tax rates from one fiscal year to another, and it is therefore generally ineffective to focus on a few tax components instead of comprehensively reviewing the tax base and improving the tax administration system on a continuous basis. In addition, taxes are non-neutral and distortionary in nature, and raising tax rates or introducing new taxes does not always lead to greater tax revenue. In the context of fiscal policy, neutrality occurs when a change in tax or expenditure policy does not affect aggregate demand and distortions occur when a change in policy impacts production or consumption patterns (Weil, 2019). The impact of new or broadened taxes on the economy depends on design and implementation, economic structure, consumer preferences and the social contract ramifications of the fiscal policy (Freire-González, 2018).

There are other factors that reduce the tax potential in LDCs, including tax evasion, the relative size of the informal economy compared with the formal economy, weak tax administration systems, corruption, illicit financial flows and underperforming public policies and institutions. Fiscal reforms necessitated by the related challenges can either reinforce or break the momentum of structural transformation by shifting production and consumption patterns away from or towards intended policy objectives. Other challenges include the high cost of tax administration, due in part to high levels of informality, non-compliance with tax procedures, ineffective processes and political patronage (Gupta and Plant, 2019). Tax policy reforms should therefore aim to close loopholes in tax administration systems; remove ill-designed tax incentives, in particular exemptions in natural resource sectors that do not correspond to the value of the underlying resource and tax holidays that fail to balance foreign interests and local enterprise development requirements; curb illicit financial flows

Figure 4.5

Buoyancy (elasticity) of various tax components in selected least developed countries, 2002–2017

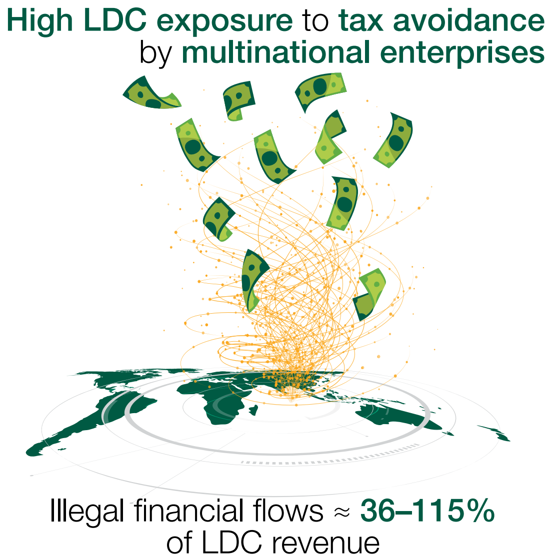


Source: UNCTAD calculations, based on data from the World Development Indicators database.

that directly reduce the tax revenue potential; simplify the tax system and provide adequate information to improve willingness to pay; and improve the capacity and efficiency of public institutions.

Building fiscal space requires a series of budget cycles to incrementally and cumulatively develop the efficiency of the Government to meet its fiscal projections based on national priorities (Schick, 2009). This may be done through a clearly articulated fiscal reform agenda through removing non-performing subsidies, reviewing malfunctioning taxes, rationalizing social protection measures to safeguard vulnerable segments of society and reduce inequality, deepening the tax base, improving coherence between fiscal policy and broader structural transformation policies, incentivizing the formalization of businesses and reducing the cost of tax compliance among small-scale businesses and responding to public feedback about their value assessments of the quality of public goods and services (World Bank and Pricewaterhouse Coopers, 2015). Curbing illicit financial flows, which averaged 5 per cent of GDP in 2015, has the potential to boost revenue. Such flows were on average equivalent to 36 per cent of tax revenue in LDCs, with certain countries facing particularly high outflows relative to tax revenue, as follows: Bangladesh, 36 per cent; Malawi, 36 per cent; Burkina Faso, 40 per cent; Zambia, 43 per cent; Timor-Leste, 52 per cent; Kiribati, 58 per cent; Mozambique, 58 per cent; Vanuatu, 64 per cent; Myanmar; 68 per cent; and Cambodia, 115 per cent (figure 4.6).

Developing countries are significantly more exposed to tax avoidance by multinational firms. Dealing with illicit financial flows is complicated because of the illegal nature of the transactions and the systematic steps that those conducting them take to hide the trails (African Union Commission and United Nations Economic Commission for Africa, 2015). Beyond the difficulties in defining the illicit component, illicit financial flows also include different categories that have tax implications. Further, specific sectors such as extractives are more prone to such flows than others (Moore et al., 2018). However, in general, countries should target trade-related activities such as tax evasion, trade and services misinvoicing, base



erosion and transfer pricing abuses, which are the predominant contributors to illicit financial flows, as well as the natural resource sectors that are particularly vulnerable to abuse by multinational companies and organized criminals (Global Financial Integrity, 2019).

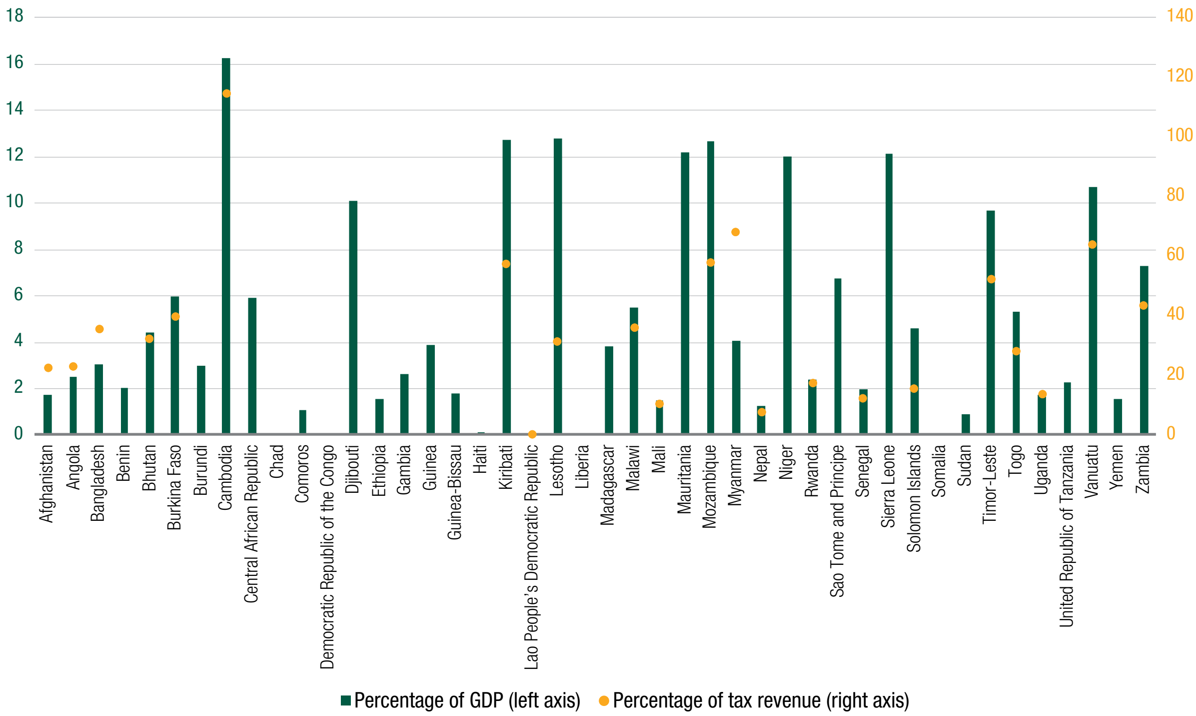
At the policy level, lack of transparency, discretionarily awarded incentives and corruption are some of the factors that facilitate illicit financial flows and worsen the loss of tax revenue in LDCs. Closing the gaps in national and international tax systems requires concerted efforts by countries. Stylized facts also show a small number of destination countries of illicit financial flows, which primarily include developed countries and emerging economies that are the major trade partners of developing countries (United Nations, Economic Commission for Africa, 2015b). LDCs therefore require the cooperation of these countries in setting minimum standards to close tax loopholes, including on exchanges of information on the true beneficiary owners of entities and their tax transactions and in enforcing regulations that have been flouted. There is also a need for enhanced national capacities among regulatory and tax administration bodies to track, stop and prevent illicit activities that drain resources and reduce tax revenue collected by LDCs.

2. Public expenditures and external resource dependence

National budgets are critical for mobilizing and allocating public resources towards key priorities in national development plans. An efficient and

Figure 4.6

Illicit financial flows from selected least developed countries, 2015



Source: UNCTAD calculations, based on data from the World Development Indicators database, the direction of trade statistics of the International Monetary Fund and Global Financial Integrity, 2019.

Note: Estimates do not cover all possible illicit flows, and data are not available for Eritrea, South Sudan and Tuvalu.

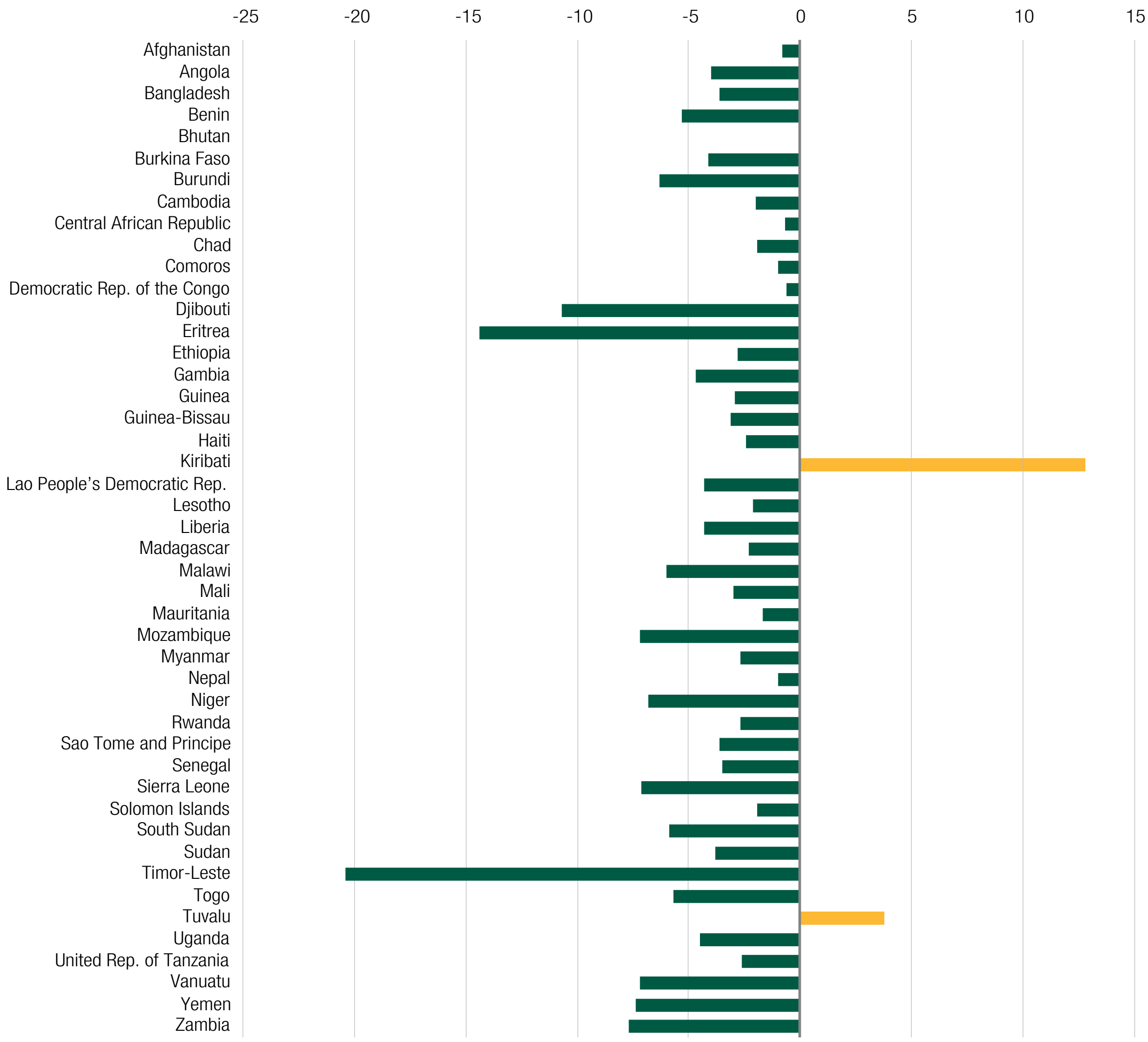
effective allocation of public resources may assist countries to lower their financing deficits (Bhushan et al., 2013). Aligning public expenditure with structural transformation and national development plans is therefore as strategic as mobilizing domestic and external resources to finance the Sustainable Development Goals. Public expenditure instruments can be used to bolster the tax revenue potential of future budget cycles in addition to stabilizing the economy. Each national budget cycle reveals the public resource envelope within which capital and social development expenditures are available to deliver public goods and services, as well as the fiscal deficit projections against which domestic and external financing decisions are made. The growth of tax revenue would contribute to reducing dependence on ODA and external debt, while an increase in the domestic resource gap increases the risk of external indebtedness.

Most LDCs face long-term fiscal imbalances indicative of consistently low revenue but increasing expenditure on public goods and services. Government budget deficits steadily widened from an average of 1.8 per cent of GDP in 2013 to 4.8 per cent in 2016, before contracting slightly to 3.6 per cent in 2018. The five-year average in 2014–2018 shows that only Kiribati and Tuvalu posted budget surpluses and Bhutan balanced its budget (figure 4.7). Tax revenues linked to natural resources in commodity-dependent LDCs are volatile and impact both the revenue and

Figure 4.7

Government budget primary deficit, average, 2014–2018

(Percentage of gross domestic product)



Source: UNCTAD calculations, based on the government finance statistics of the International Monetary Fund.
Note: Data are not available for Somalia.

Public debt stocks of LDCs generally track fluctuations of foreign aid

expenditure sides of the fiscal relationship. In addition, despite having relatively high tax efforts, some developing countries have a high concentration of tax revenue from one tax base, either a natural resources sector, income taxes or consumer taxes, but low effective tax rates and exemptions that contribute to fiscal imbalances (Fenochietto and Pessino, 2013). Since 2007, there has been an uptick in domestic debt, as demand for development financing has increased while ODA has slowed. The public debt stocks of LDCs have generally tracked fluctuations in foreign aid, with a rapid fall in ODA mirrored by a significant increase in external debt stocks in subsequent years. Experiences vary by country; for example, in the last five years, both domestic and external public debt have increased in Bangladesh, Benin, Burkina Faso, the Gambia, Guinea, Guinea-Bissau, Haiti, the Lao People's Democratic Republic, Malawi, Myanmar, Senegal, Uganda, the United Republic of Tanzania and Vanuatu. In Chad, domestic debt rose sharply from 18 per cent of GDP in 2015 to 25.2 per cent of GDP in 2018. Some countries experienced only slight increases in both domestic and external debt, for example Afghanistan and Yemen, and others in external debt only, for example Cambodia, Kiribati, Lesotho, Madagascar, Mali, Mauritania, Mozambique and the Sudan. In other countries, external debt levels are falling, while domestic debt levels have stabilized, for example in the Central African Republic, Djibouti, Liberia, Rwanda, and Solomon Islands. Togo has stable external debt but rising levels of domestic liabilities.

As domestic tax resources fall short of development financing requirements, ODA and other sources of financing are required to fill the gap. The link between external financing and various categories of public sector expenditure is critical, in particular in the impact on the quality of public financial management institutions and their ability to generate domestic revenue for government priorities (Feeny and McGillivray, 2010). The willingness of a Government to finance its expenditures through taxation is seen through the growth of tax revenue as a share of public revenue, yet external financing, in particular concessional aid, may reduce incremental tax efforts and is therefore detrimental to development (Mosley, 2015; Thornton, 2014). In LDCs, tax revenues are low due to a combination of low income levels, narrow tax bases and weak tax administration systems. There is therefore a need to strike a balance in mobilizing additional tax revenue in a manner that recognizes the dynamic impacts of tax-financed public investments (UNCTAD, 2016a). In 2012–2016, in LDCs for which budget data is available, capital expenditure averaged 21 per cent of total government expenditure and public expenditure on recurrent consumption and wages averaged 25 and 31 per cent of total expenditure, respectively (figure 4.8). Some countries spent proportionately more on the use of goods and services, such as Benin, at 41 per cent, Liberia, at 31 per cent, and the Niger, at 62 per cent, while in other countries, wages accounted for the largest share of expenditure, such as in Afghanistan, at 49 per cent.

a. Tax revenue and official development assistance fall short of desired public expenditures

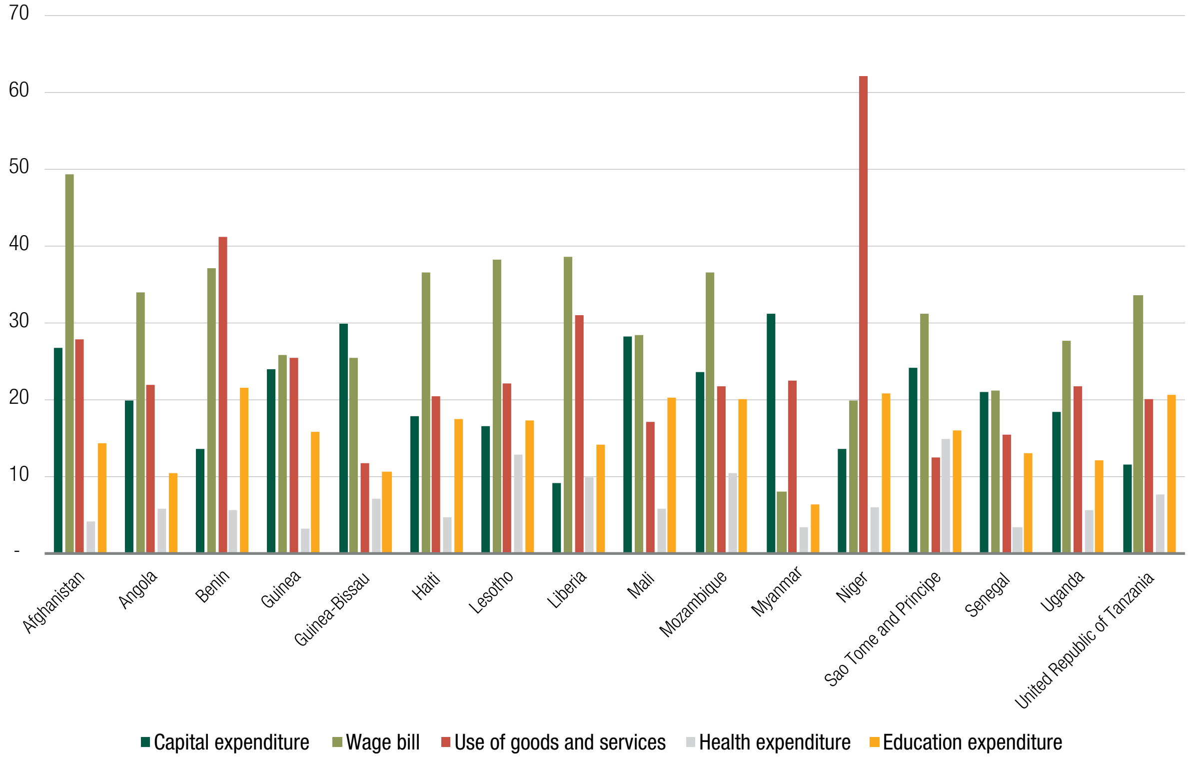
The effect of aid on the fiscal behaviour of developing countries has been studied extensively (Feeny and McGillivray, 2009; Morrissey, 2015; Ouattara, 2006; Remmer, 2004). The impacts are country specific depending on the type and channel of aid received and the domestic environment, including the quality of public policies and institutions (Feeny and McGillivray, 2010). The risk of a misalignment of priorities between LDCs and aid providers escalates if tax revenue decreases absolutely or marginally with concessional support, including ODA. The risk is less pronounced when non-concessional debts replace grants and concessionary loans contracted to cover structural deficits in recurrent budgets but may increase if grants and concessional loans are used to cover temporary shortfalls in recurrent budgets.

LDCs can aim to achieve the Goals if both domestic public resources and external financing, including aid, are scaled up substantially. A positive relationship between public investment and economic growth defies the general view that LDCs have low absorptive capacities. Declining marginal returns of public investment have been used to justify low levels of foreign aid to productive sectors, although such investments have better potential to stimulate structural transformation, in particular in LDCs. Overcoming structural bottlenecks, particularly to the real economy, is critical to sustaining economic growth and effectively removing structurally imposed limits on domestic resource mobilization. However, this requires better policies and a better alignment of donor aims with national priorities through a substantial shift away from projects in favour of

Figure 4.8

Government expenditure categories, selected least developed countries, average, 2012–2016

(Percentage of total expenditure)



Source: UNCTAD calculations, based on data from the open budgets database of the World Bank.

more programmatic forms of aid, using national systems and reducing donor overlaps (Foster and Keith, 2003).

ODA and government investments were closely matched from 1980 to 2004. Public expenditure on social services increased after 2000, as countries embarked on strategies to deliver on the Millennium Development Goals. However, since 2005, public investment and ODA have diverged significantly, with public capital formation rising sharply as ODA growth has faltered; the divergence rose from $3.5 billion in 2006 to $92.6 billion in 2017, in a period during which LDCs experienced higher output gains, with combined GDP rising from $384 billion to $1,070 billion (figure 4.9). This trend is consistent with the conclusion that domestic policies have a more positive impact on economic growth than aid, which may undermine the tax structures and key institutions of recipient countries (Presbitero, 2016). Although some aid is specifically earmarked for public administration, aid has also been found to have a negative impact on some dimensions of governance, particularly when transactions between donors and recipients are not transparent. It has also been argued that aid delivered through the State, that is, budget support, may trigger increased corruption and decreased accountability (Cheng and Zaum, 2013; Salifu and Abdulai, 2018). However, aid withdrawn from budget support also slows the development of the financial management capacity of the public sector (Salifu and Abdulai, 2018).

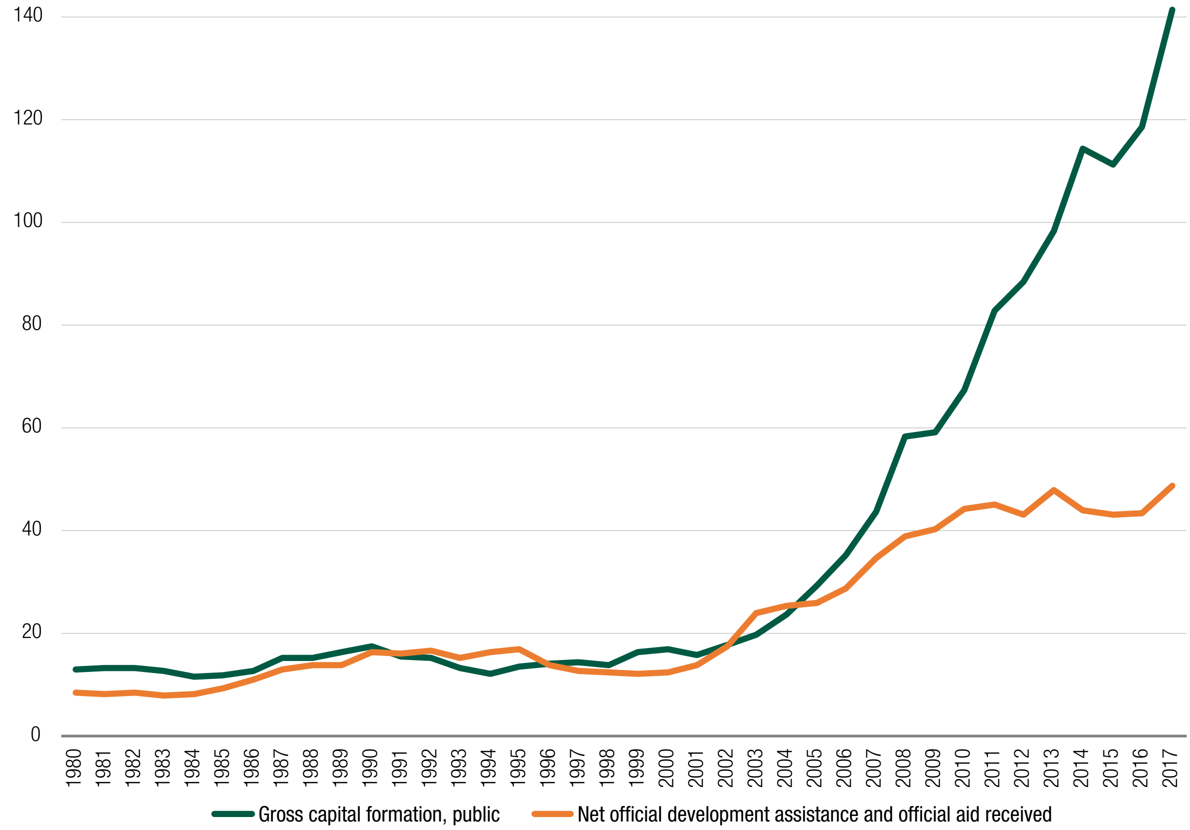
Fragmented modalities of aid also create and sustain independent bureaucracies in both source and beneficiary countries. Many donors operate more than one aid agency or contribute to several multilateral agencies with clearly defined thematic, sectoral or regional focuses, which further refragments support into projects or other arrangements. Research suggests that developing countries receiving aid that is broken up into projects exhibit worse outcomes than recipients with streamlined aid (Carcelli, 2019). As outcomes worsen, the implication is that beneficiary Governments either need to step up the mobilization of domestic resources through tax revenue or scale down public expenditures, to maintain a balanced budget.

Whether ODA has a direct impact on the level and composition of government expenditure, that is, the

Figure 4.9

Public capital formation and official development assistance in the least developed countries

(Billions of dollars)



Source: UNCTAD calculations, based on data from the World Development Indicators database.

additionality of aid, and whether aid is allocated to sectors intended by donors or recipients, that is, the fungibility of aid, have been the focus of many studies on aid effectiveness (Feeny and McGillivray, 2010; Mascagni and Timmis, 2017; Morrissey, 2012; Ouattara, 2006; Remmer, 2004). Frequent episodes of unexpected shortfalls in tax revenue should sound alarm bells for aid recipient countries because of the enhanced risk posed by non-performing public sector expenditures that drain public resources. Persistent shortfalls of tax revenue in a country with low growth potential could be a result of institutional capacity weaknesses in planning and managing economic development. In such a situation, the volatility of foreign aid and the allocation of volatile aid between different uses have negative impacts on economic growth in recipient countries. In LDCs, the concern is that not all sources of financing contribute significantly to productive capacities, and ODA has been shown to have a significant impact on composition or allocations to various sectors, and the level of government spending, particularly in social sectors such as health, education, water and sanitation.

Building productive capacities in LDCs requires scaling up capital accumulation through both public and private investment. In this regard, and despite concerns about the volatility of allocations, ODA could have a positive impact on economic growth when used directly in productive activities, for example, through aid earmarked for improving public services and the physical and social infrastructure in the recipient country, namely, with regard to transport, communications, energy, water, banking, industry, health and education, while negative economic growth effects of foreign aid occur when aid is purely humanitarian, that is, used for food aid or reconstruction after a natural disaster, and involving transfers to cover emergencies (Neanidis and Varvarigos, 2009). LDCs have considerably increased the role of domestic policies in driving their development agendas, including fiscal policies that positively contribute to the proportion of development financing from domestic resources. Tax revenue as a share of GDP increased from 9 per cent in 2002 to 19 per cent in 2017, while ODA as a share of GDP gradually declined, from about 16 per cent in 2002 to 11 per cent in 2017 (figure 4.10). This suggests that tax efforts have not been negatively affected by ODA and that, in particular, as tax revenue was twice the value of ODA received in 2017, the bulk of development financing in LDCs is being met by domestic resources. The analysis in section B.1 also shows a stable trend in tax efforts among LDCs. In addition, based on individual LDC indicators, several countries have relatively higher tax revenue-to-GDP ratios compared with ODA-to-GDP ratios, including Bangladesh, the Lao People’s Democratic Republic, Lesotho, Myanmar, Senegal, Timor-Leste, Togo and Zambia.

There was a sharp rise in government expenditures among LDCs in Africa, from $88 billion in 2009 to $146 billion in 2014, as countries sustained government spending in the wake of the global financial crisis of 2008/09 (figure 4.11). However,

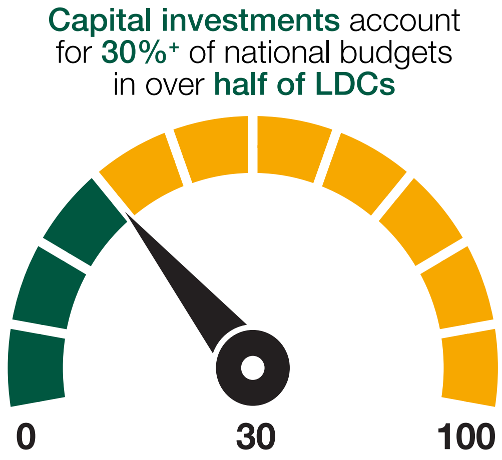
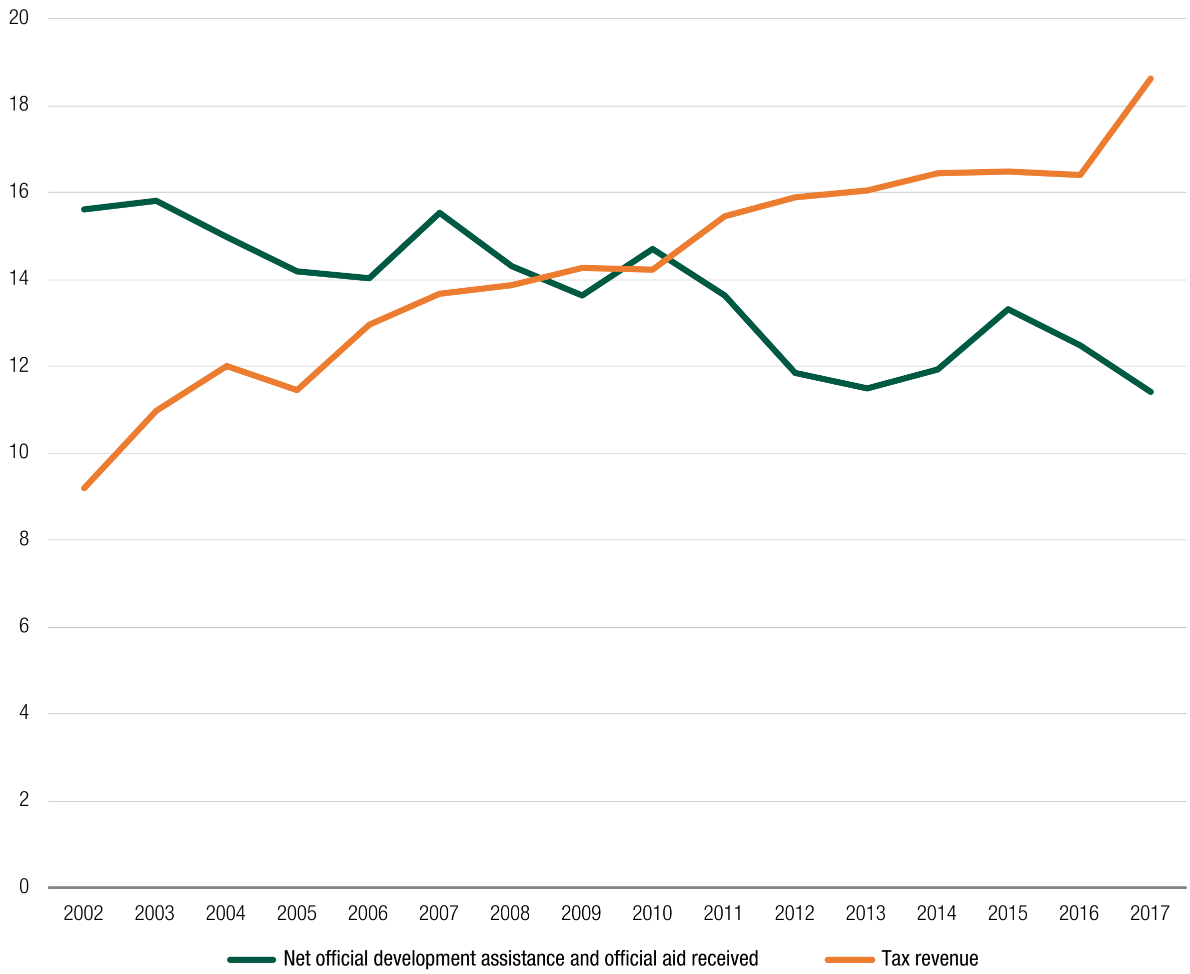


Figure 4.10

Tax revenue and official development assistance, least developed country average

(Percentage of gross domestic product)

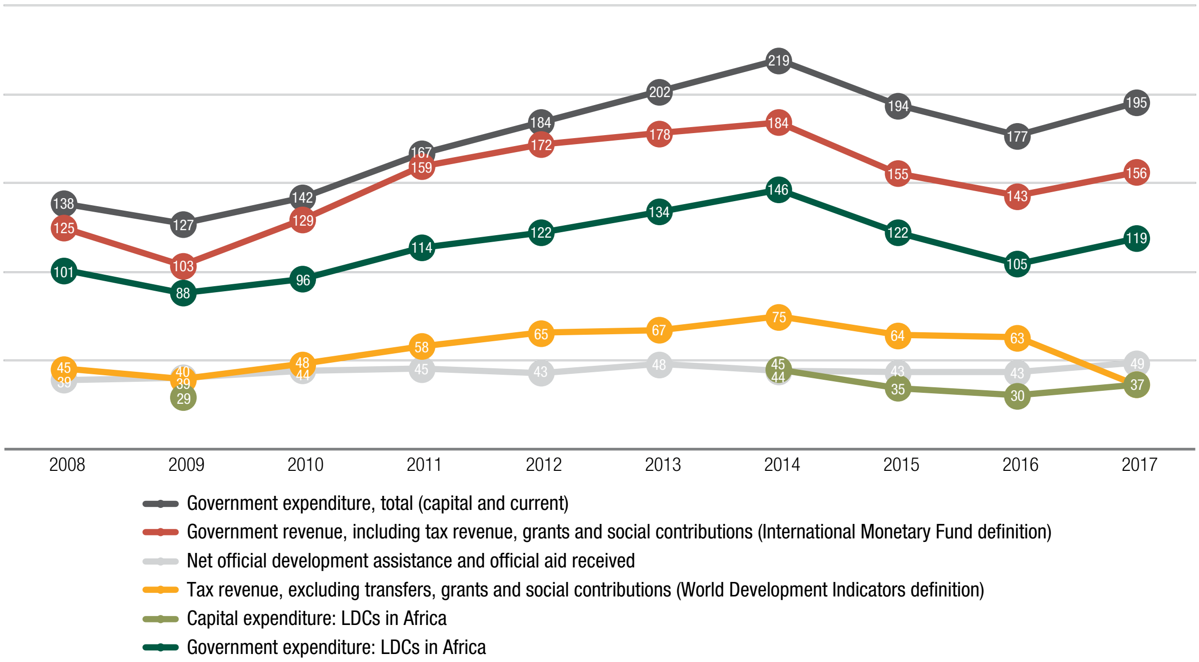


Source: UNCTAD calculations, based on data from the World Development Indicators database.

Figure 4.11

Fiscal aggregates and official development assistance in relation to total government expenditure

(Billions of dollars)



Source: UNCTAD calculations, based on data from the World Development Indicators database and the African Economic Outlook database of the African Development Bank (available at http://dataportal.opendataforafrica.org/tovgvsb/african-economic-outlook-2018).

Notes: Capital expenditure data is only available for LDCs in Africa from the African Economic Outlook database. The fiscal aggregate figures are indicative, and caution must be exercised in interpretation. Consistently full tax revenue data is only available for 20 LDCs in the World Development Indicators database, namely, Afghanistan, Angola, Bangladesh, Bhutan, Burkina Faso, Cambodia, Kiribati, the Lao People's Democratic Republic, Lesotho, Malawi, Mali, Mozambique, Myanmar, Nepal, Senegal, Solomon Islands, Timor-Leste, Togo, Vanuatu and Zambia.

there has been a significant cutback since 2015, with slight recovery at the end of 2017, as countries emerged from underperforming commodity trade. This analysis shows that both capital expenditure and current expenditure have increased at a rapid pace. However, as evident in the short trend in 2014–2017, capital expenditures decline faster during a recession than current expenditures and recover sluggishly during economic recovery. There is thus a limit to growth based on expansion through government spending, in particular focused on physical and social infrastructures, if there are no measures to complement domestic resources, including strategies to better align external development support such as ODA with LDC priorities and domestic policies to crowd in the private sector to offset the negative impact of an expanded government. Even LDCs with relatively higher tax revenue-to-GDP ratios, including Guinea-Bissau, Haiti, Lesotho, Mozambique, the Niger and Sao Tome and Principe, need to manage fiscal imbalances as government expenditures rise. The growing gap between tax revenue and public expenditure is of concern, whereas ODA levels have remained relatively unchanged over the years.

b. Foreign aid eased out of fiscal relationships

In comparing the relative contributions of domestic tax revenue and ODA to government expenditure, the ratios of tax revenue-to-government expenditure and ODA-to-government expenditure provide two key insights, namely, the fiscal position of a Government is considered healthy when the share of government priorities financed by tax-based resources is high; and the relative importance of aid in financing government expenditure, although the ODA-to-government expenditure ratio does not accurately account for the actual amount of aid spent on government programmes, or additionality and fungibility. In this regard, when both the tax revenue-to-government expenditure ratio and the ODA-to-government expenditure ratio are equivalent to at least two thirds, parallel donor structures divert resources and avoid national systems (Morrissey, 2015). The tax revenue-to-government expenditure ratio remained relatively high among LDCs in 2002–2017, implying that most government priorities were financed through domestic resources (table 4.1). Only Eritrea posted revenue of less than 70 per cent in 2002–2008, and in 2009–2017, none of the countries dropped below this level. In comparison, in 2002–2008, aid was less than 30 per cent of government expenditure in Angola, Bangladesh, Bhutan, the Comoros, Kiribati, Lesotho, Myanmar, the Sudan and Yemen, but increased in the Comoros and Kiribati in 2009–2017.

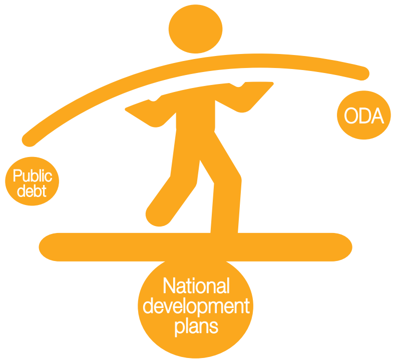
Table 4.1

Government revenue and foreign aid as percentage of government expenditure

Country	2002–2008		2009–2017		
	Revenue ratio	Aid ratio	Revenue ratio	Aid ratio	Domestic debt ratio
Afghanistan	90	239	98	127	1
Angola	102	6	95	1	..
Bangladesh	77	19	76	13	137
Benin	95	59	85	36	106
Bhutan	92	23	99	20	6
Burkina Faso	90	70	85	41	43
Burundi	74	88	82	82	40
Cambodia	79	49	86	26	0
Central African Republic	98	..	91	..	160
Chad	87	43	90	29	135
Comoros	89	22	111	32	..
Democratic Republic of the Congo	78	257	100	82	..
Djibouti	88	30	84	30	16
Eritrea	60	36	51	19	..
Ethiopia	80	81	88	46	..
Gambia	88	125	79	68	295
Guinea	86	57	81	34	115
Guinea-Bissau	73	85	90	73	158
Haiti	87	60	87	90	10
Kiribati	90	22	101	32	..
Lao People's Democratic Republic	81	54	85	20	63
Lesotho	102	17	95	16	6
Liberia	102	249	90	117	1
Madagascar	82	103	84	39	79
Malawi	88	92	86	58	72
Mali	103	75	87	47	21
Mauritania	92	66	96	30	17
Mozambique	88	108	83	48	20
Myanmar	74	8	84	14	122
Nepal	94	39	97	28	62
Niger	106	98	83	48	30
Rwanda	96	117	93	58	32
Sao Tome and Principe	193	106	84	46	..
Senegal	96	53	83	25	59
Sierra Leone	101	152	74	83	61
Solomon Islands	107	101	103	54	1
South Sudan	..	..	90	43	..
Sudan	95	23	76	14	82
Timor-Leste	96	54	71	19	..
Togo	91	31	81	40	181
Tuvalu	80	49	101	78	..
Uganda	94	101	78	43	84
United Republic of Tanzania	91	86	82	38	50
Vanuatu	94	52	88	53	29
Yemen	96	6	67	27	10
Zambia	101	87	78	22	..
LDC average	**92**	**75**	**86**	**45**	**54**

Source: UNCTAD calculations, based on data from the International Monetary Fund and OECD.
Note: Domestic debt data are not readily available, and most countries have few data points.

Greater LDC domestic public debt correlated with misaligned ODA



Domestic public debt > ODA in 40% of LDCs (2000–2017)

In 2009–2017, aid was also less than 30 per cent of government expenditure in Cambodia, Chad, Eritrea, the Lao People's Democratic Republic, Nepal, Senegal, Timor-Leste and Zambia. Critically, LDCs that received aid equivalent to at least 50 per cent of government expenditure but with a similarly high tax revenue-to-government expenditure ratio faced significant aid diversion problems. Most aid is delivered through parallel donor structures that do not report using the public financial management systems of recipients. There is therefore no clear mapping of ODA receipts to fiscal aggregates on either the revenue or the expenditure side of Governments' financial statements. This explains the findings of fiscal response models that aid has a direct impact on budget deficits mainly because the dominant mode of delivery defies the logical expectation that it should be spent through the Government, thereby complementing tax efforts and reducing the need for domestic debt. The extent to which aid increases government expenditure additionality and fungibility is also overstated; it is therefore not possible to generalize the effect of aid on fiscal policy as the effects tend to be country specific (Morrissey, 2015; Mosley, 2015). In 2009–2017, domestic debt exceeded aid in 17 of the 34 LDCs for which data were available. In eight economies, namely, Afghanistan, Bhutan, Djibouti, Haiti, Lesotho, Liberia, Mozambique and Solomon Islands, domestic debt is closely matched with fiscal deficit; Mali and Mauritania have slightly overestimated budget deficits. In fiscal policy contexts, excessive deficits and a procyclical bias in government budgets may suggest suboptimal institutional or political choices (Lledo et al., 2018).

Aid disbursement is weakly associated with national development priorities in LDCs mainly because aid is delivered in a manner that is outside the policy frameworks of recipient countries. A non-stochastic analysis of aid and government revenue cannot adequately explain the budgeting behaviour of recipients, yet pairwise correlations confirm that aid flows are not correlated with fiscal imbalances in recipients. A negative and significant correlation between revenue and aid, and between aid and domestic borrowing, for example in the United Republic of Tanzania, may be indicative of a need for better forecasting of tax targets as the tax administration system continues to mature. Significantly, however, the impact of donor withdrawal has been felt in the United Republic of Tanzania, as both revenue and aid declined relative to government expenditure in 2002–2017, with aid receding heavily in 2009–2017. By contrast, in Rwanda, although aid has decreased significantly, from 117 to 58 per cent of government expenditure since 2009, a positive correlation between revenue and aid, and between aid and domestic debt, shows the positive complementary impact of aid when it is fully supportive of national priorities.

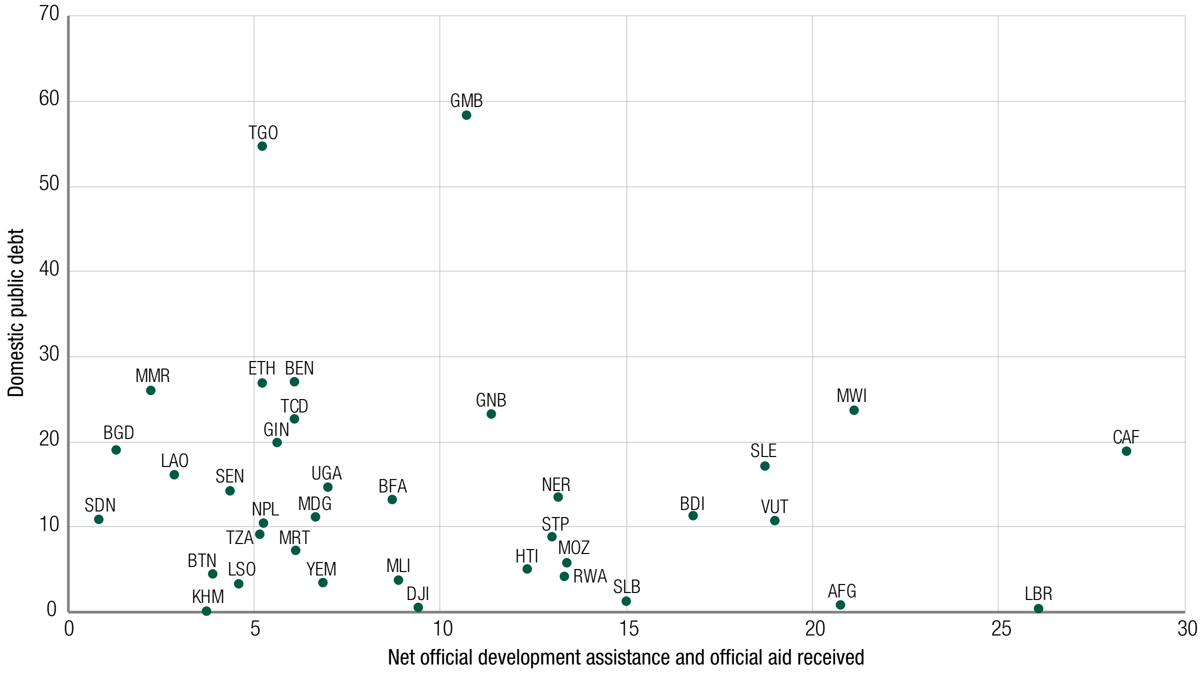
In Afghanistan, Djibouti, Haiti, Lesotho, Mozambique and Solomon Islands, domestic debt is closely associated with short-term discrepancies between tax revenue and government expenditure, which give rise to fiscal deficits. In these countries, aid can facilitate improved fiscal outcomes and reduced public debt when it is earmarked for specific sectors that contribute to increasing the fiscal deficit. Although the share of aid delivered through public sector channels is high, averaging 52 per cent among LDCs in 2014–2017 as reported in the common reporting standard database of OECD, in most countries aid is not fully reflected in the regular budgets of the central government or the sectoral budgets of the recipients. In such cases, the impact of aid on fiscal aggregates is subdued or not direct. In 2014–2017, LDCs that received at least 60 per cent of aid through the public sector included Bhutan, Burkina Faso, the Comoros, the Lao People's Democratic Republic, Mauritania, Sao Tome and Principe, Senegal and Togo.

Aid supporting a country-owned strategy can lead to growth and poverty reduction, in contrast to imposed reforms (Remmer, 2004). However, low levels of tax revenue and ODA have increased the exposure of LDCs to the risk of debt. With tightening global economic conditions, external debt and domestic liabilities have also been pushed up to unsustainable levels in some countries, and domestic debt threatens to slow economic growth even further. For example, Bangladesh, Myanmar, the Sudan and Togo have double digit domestic debt-to-aid ratios, and Benin, Chad, Ethiopia, Guinea, the Gambia, Guinea-Bissau, the Lao People's Democratic Republic, Madagascar,

Figure 4.12

Domestic public debt and official development assistance, 2015–2017

(Percentage of gross domestic product)



Source: UNCTAD calculations, based on the government finance statistics of the International Monetary Fund and data from the World Development Indicators database.

Notes: Country names in figure abbreviated using ISO codes. Data are not available for the Comoros, the Democratic Republic of the Congo, Eritrea, Kiribati, Somalia, South Sudan, Timor-Leste and Zambia. To enhance readability, Tuvalu is not included, as it is a clear outlier, with a value of net ODA and official aid received at 91 per cent of GDP.

Nepal, Senegal, the United Republic of Tanzania and Uganda have a ratio of at least 2 (figure 4.12). The diversion between donor priorities and national priorities is therefore critical in these countries because of the high fiscal imbalance and the low level of external support relative to deficits. An increase in government expenditure would have significant positive spinoffs initially but might also pose challenges if the additional expenditure resulted in higher current consumption and inflation. High levels of domestic public debt are also associated with low growth due to the crowding out effect on private investment. Such imbalances may increase in the absence of complementarity between ODA and domestic public resources.

C. Aligning international support for development in the least developed countries

Global economic trends point to the emergence of a multipolar world defined by a shift in the balance of power from traditional donors with historical ties to developing countries to emerging developing partners. This is evident from shifts in world trade, capital flows, exchange reserves, commercial interests and sovereign assets (World Bank, 2011). Flows and cooperation to developing countries worldwide from China have grown significantly, ranging from $3 billion to $18 billion per year, with some higher estimates (Dreher et al., 2017; see chapter 2). South–South trade also accounts for more than half of the increase in exports in developing and transition economies (UNCTAD, 2018e).

Brazil, India and the Russian Federation have also emerged as important partners to LDCs. According to UNCTAD statistics, merchandise exports from LDCs to Brazil, China, India, the Russian Federation and South Africa increased from $44 billion in 2015 to $52 billion in 2017 and imports from these countries to LDCs grew from $88 billion to $95 billion in the same period. Exports from LDCs to China alone grew from $30 billion in 2015 to $37 billion in 2017 and imports from China averaged $51 billion per year in the same period. Exports from LDCs to India also increased slightly in the same period, from $10 billion to $11 billion, and imports from India rose sharply, from $21 billion to $27 billion. FDI from China to

Donor coordination policies in LDCs back up national development strategies and institutions

developing countries fell from $458 billion in 2014 to $381 billion in 2017, but the stock of FDI from China in developing countries has been on a steady rise, from $5.2 trillion in 2014 to $6.9 trillion in 2017 (UNCTAD, 2018d).

The increased trade and development financing options from emerging South–South cooperation are an opportunity for LDCs to close financing gaps for sustainable development, but there are concerns about the increased complexity of development cooperation and aid coordination challenges posed by multiple partnerships. Developing countries are not necessarily seeking low-cost financing alternatives but rather filling the gaps left by unfulfilled aid pledges and fragmented aid and to leverage support for national development agendas. In some LDCs, ODA is a source of financing for much needed services, particularly in the social sector, which is currently difficult to replace, and critical for building productive capacities (United Nations, 2015d). However, the diverse and fragmented delivery system is well documented in most LDCs in Africa and Asia, in which bilateral and multilateral official aid projects in each country number in the hundreds (UNCTAD, 2006a). The number of instruments and mechanisms has increased and international private flows to developing countries have also grown significantly in relation to external public funding (Alonso, 2015). This has meant that there are more financing options available to developing countries, yet the challenges of managing the various sources of financing have also multiplied.

1. Aid coordination policies

The purpose of donor coordination is threefold, namely, to ensure the integration of external development assistance with the priorities of recipients; assert the responsibility of recipients for their development agendas as recognized in the Addis Ababa Action Agenda, the Istanbul Programme of Action and the 2030 Agenda; and ensure that external support adheres to the strategic objectives of national development agendas, as emphasized in the Monterrey Consensus and the Paris Declaration on Aid Effectiveness. Coordinating donor aid has a number of advantages, including lowering transaction costs, reducing the fragmentation of donor activities and eliminating parallel structures and inconsistencies in donor approaches (Fengler and Kharas, 2011).

Aid coordination and aid effectiveness have re-emerged as topical issues in development financing because the number of players has increased significantly, while the level of direct financing to individual countries, in particular LDCs, has not significantly improved (Bickenbach et al., 2019; Dornan, 2017). Bilateral and multilateral aid is no longer mobilized only by State actors, but also by private actors (see chapter 3). The need for coordination increases when bilateral donors multiply, bringing unharmonized procedures and conditionalities. For example, Bangladesh has over 1,000 active donor-funded projects being implemented by at least 60 donor or partner groups.[5] The coordination of aid is expected to reduce duplication among donors, but also involves a burden on scarce labour resources in recipient countries and high turnover due to excessive recruitment levels among donors (Bourguignon and Platteau, 2015).

Donor and recipient perspectives on aid coordination have not changed much over the years. In 1967, the notion of a common aid effort was floated, whereby the purpose of coordination was to eliminate overlaps and differences between bilateral and multilateral aid givers (Overseas Development Institute, 1967). The notion remains relevant as the modalities of aid to developing countries, in particular programmed aid and project-type aid, usually involve a small group of partners pooling resources, using common procedures and delivering results that satisfy all parties. However, recipient perspectives of aid coordination depend on who manages aid, the disbursement process and how integrated the aid process is to national development priorities.

In the Paris Declaration on Aid Effectiveness, in the context of external support, alignment refers to the fact that donors base their overall support on partner countries' national development strategies, institutions and procedures; and commit to respecting partner country leadership and helping strengthen their capacity to exercise it (OECD, 2005). There is an assumed joint commitment between donors and partners to developing a relationship that ensures that donor inputs are effectively integrated into national processes at both the policy and systems levels (Welle et al., 2008). National planning and budget frameworks are tools for policy coherence and in improving the quality of results across sectors and different levels of government. Since budget support to LDCs remains fragmented, and less inclined towards

5 See http://aims.erd.gov.bd/AIMS/Home.

developing productive capacities, there is a need to improve the coordination of aid to avoid selective focus, misalignment and the wasteful allocation of donor support to non-performing sectors.

The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action strongly advocate for the use of national systems, including public financial systems, institutions and procedures, to achieve alignment with national priorities. However, in most project-type interventions, the role of recipient governments is reduced to tracking the number of projects approved, with donors deciding on strategy and implementation. With less than 10 per cent of the total aid receipts in LDCs going through budget support, the aid process remains donor-centric despite the target in the Paris Declaration on Aid Effectiveness to increase this type of aid. According to creditor reporting system data from OECD, over two thirds of aid to LDCs – 69 per cent in 2017 – is delivered through project-type interventions. Developing countries must therefore coordinate fragmented efforts that are effectively under the control of external partners rather than directly integrated into their national systems. This has given rise to ad hoc systems whereby LDCs urge cooperating partners to pool resources instead of channelling support through unrelated projects managed by donors or their proxies (Klingebiel et al., 2017). In the implementation of the 2030 Agenda, Goal 17 on partnerships for the Goals is shaping conversation and practice on the means of implementation for the Goals, with recognition of the need for better cooperation among actors, including Governments, the private sector, civil society and communities.[6] A number of United Nations-led multi-stakeholder partnerships have been set up to achieve the Goals, such as the high-level political forum on sustainable development and the partnership forum of the Economic and Social Council, which were established following General Assembly resolution 67/290 and subsequent resolutions, including resolution 68/234 on global partnerships.[7] However, greater efforts are needed to translate global partnership interests into country-level interventions and to improve the alignment of development cooperation with national priorities in the most vulnerable countries and integrate efforts into government systems.

a. *Thematic coordination*

Following the Monterrey Consensus, sectoral approaches became popular among donors seeking to align their priorities in developing countries. However, the geographic and thematic distribution of aid continued to reveal the non-neutrality of aid disbursement (Sraieb, 2016). The focus on narrow sectoral themes is common among bilateral donors and proves useful for countries facing non-binding commitments of official aid flows (Bourguignon and Platteau, 2015). It is also important to note that bilateral relations are constantly evolving, not just from the recipient perspective but also from the perspective of donors, with diverse policy and organizational changes in DAC members and emerging South–South partners contributing to the trend.

Global partnerships need translation into country-level interventions aligned with national priorities

i *Sector-wide coordination mechanisms*

Although recipient countries are often assumed to be in control of national development strategies, sector-themed support does not eliminate donor influence on sectoral agenda setting. Whether coordinated by donors or recipients, sector-themed coalitions only bring together the main actors according to their priorities, by sector. A national aid coordination mechanism is deemed successful when it brings together donors into one sectoral programme rather than aggregating separately conceived donor projects in a sector. Bilateral and multilateral donors use sector-themed support for various reasons, including alignment with their own policies, priorities or strategic visions; for engagement with recipients; and to maintain control over implementation and results (Boesen and Dietvorst, 2007; OECD, 2009).

Several LDCs have developed sectoral aid coordination protocols due to the large volumes received through project-type interventions. Some countries have interministerial and sectoral processes for coordinating aid, for example, Angola, Burundi, Ethiopia, the Lao People's Democratic Republic, Senegal, Tuvalu, Uganda and Vanuatu, and others have international cooperation policies that detail how sectoral support should be treated, such as Afghanistan, Kiribati, Malawi, Nepal, Sierra Leone and Rwanda. In arrangements such as these, joint consultation or programming is used to eliminate fragmented approaches, and common reporting and the use of country systems have been useful in aligning donor approaches to the financial cycles of recipients (Hart et al., 2015). For

6 See https://unstats.un.org/sdgs/report/2018/goal-17/.

7 For a goal by goal breakdown of registered partnerships at the global level, see https://sustainabledevelopment.un.org/partnership/browse/.

Box 4.1 Eritrea: Development cooperation

Eritrea receives aid mainly through project-type interventions, which accounted for 90.7 per cent of the aid received since 2013, and virtually no interventions through public budget processes. The United Nations Security Council, in its resolution 2444, decided to lift targeted sanctions on Eritrea, and this assists the ongoing normalization of relations between the nations in the region and external partners, in particular those that already support programmes in Eritrea through the Strategic Partnership Cooperation Framework 2017–2021. In the immediate past, only a few donors had bilateral agreements with Eritrea due to challenges in securing effective dialogue and maintaining relations. Eritrea relied on bilateral aid that was loosely aligned with its sectoral policies, yet failed to mobilize resources at the level required. A review of four donors that had close ties with Eritrea in the 1990s until about 2000 showed that the country favoured loan facilities over grants, and equipment and supplies over consultancies, as the funding situation became tight. The Strategic Partnership Cooperation Framework assists Eritrea in gaining control over key sectoral priorities through alignment with the National Indicative Development Plan 2014–2020 and other sectoral plans. In addition, support has been secured for at least 25.4 per cent of the required funding through eight United Nations funds, programmes and specialized agencies.

Aid coordination facilitated by the United Nations is critical in a country that is emerging from a situation of conflict or in the absence of institutional set-ups for coordinating support. However, caution must be exercised so that over the long term, the sectoral approach is not overplayed by donors to maintain control over support programmes in the recipient country. Sectoral aid allocation patterns show a lack of consistency in linking aid volume with the needs and constraints of developing countries, leading to unbalanced and ineffective support. Thematically linked donor support is low in Eritrea, and this example contrasts with the general trend in LDCs, whereby countries negotiate with donors based on thematic orientation rather than integrated national development plans. For example, the European Union has pledged €200 million for energy development and enhancing government and public finances in Eritrea. Without strong aid coordination strategies, project-type support remains the main vehicle for aid delivery, at the risk of achieving tangential alignment with broader national priorities. This also increases the fragmentation of aid and feeds aid dependency through uneven support for sectoral programmes. LDCs need strong human and institutional capacities for aid coordination, as well as proactive foreign policy directions that cement the role of national systems in national development. In addition, donors should streamline aid delivery processes to strengthen national systems, to ensure the effectiveness and alignment of donor support with national priorities.

Sources: Alonso, 2015; Dijkstra, 2013; European Commission, 2015; Haider, 2018; Michael et al., 2008; United Nations and Eritrea, 2017.

example, in the Lao People's Democratic Republic, several sectoral working groups led by the Government have been established, including on education, health, governance, infrastructure, agriculture and rural development and natural resources and the environment. The groups usually include development partners as co-chairs, as well as civil society and private sector representatives. Two-layer forums are used to coordinate with development partners, namely, a round table process of consultations held every five years according to the cycles of national development plans and annual coordination meetings to review progress on the implementation of the plans (Lao People's Democratic Republic, 2019). Box 4.1 provides an example of development cooperation in Eritrea.

ii Multi-partner trust funds

Multi-partner trust funds have been used in various contexts to coordinate donor efforts to mobilize support for specific global, regional and national-level agendas, including humanitarian agendas and those related to governance, gender equality, the environment and development. This approach works well in coordinating aid with regard to humanitarian crisis situations, when decisions must be made quickly and the needs and priorities of recipients are not in doubt. For example, about 80 per cent of United Nations multi-partner trust fund transfers to humanitarian funds take less than 36 hours to effect and most transactions, at 98 per cent, are concluded within five working days (United Nations Multi-Partner Trust Fund Office, 2017). Trust fund management is at the national level through the lead United Nations agency or a national coordination unit, such as the ministry of finance, and typically involves diverse partners with clearly defined roles and agreed governance structures, operations and implementation (United Nations, 2018e). The administrator holds and manages the funds in trust, providing tools for ensuring transparency, tracking results and reporting. Trust funds managed at the national level allow beneficiary countries to provide inputs into the planning and implementation process.

The multi-partner trust funds administered by the United Nations Development Programme are meant to support specific national plans, yet their global donor inputs also imply commitment to global-level strategic priorities. For example, the United Nations Sustainable Development Cooperation Framework and "Delivering as one" have been critical in translating national priorities into traceable actions that respond to global frameworks such as the Sustainable Development Goals and the Paris Agreement. However, most of the trust funds are allocated to countries in humanitarian crisis as originally intended, and Afghanistan, the Central African Republic, the Democratic Republic of the Congo, Somalia and South Sudan are among the top five recipients (United Nations Development Programme, 2019).

Despite its institutional strength, turning the trust fund process into viable support for national development strategies has generally proven difficult, either because resources are too low or a fund's thematic focus is too narrow to trigger such a shift (Dag Hammarskjöld Foundation and United Nations Multi-Partner Trust Fund Office, 2017; Downs, 2011). A brief review of trust funds and joint programmes that are ongoing or were completed in 2015–2019 shows that only the Climate Resilient Green Economy Facility in Ethiopia is supporting a national development programme and a few countries are implementing sectoral programmes, namely, the Democratic Republic of the Congo, on reducing emissions from deforestation and forest degradation in developing countries-plus; Mali, on agropastoral products and climate change; and Yemen, on rural resilience. The rest of the funds are typically for humanitarian needs or for narrowly defined projects. A few funds have a broadly defined goal to accelerate the implementation of global agendas such as the 2030 Agenda, such as in Kenya, Malawi and Rwanda. In Ethiopia, the Climate Resilient Green Economy Facility is a funding vehicle managed by the United Nations Development Programme for the transition towards an inclusive green economy based on four pillars, namely, agriculture; forests; energy; and transport, industrial sectors and infrastructure. The national development plan for 2015–2020, the Second Growth and Transformation Plan, fully integrates the climate resilient green economy strategy. However, based on approved trust fund budgets, the funding level in Ethiopia falls short of the required resources to implement the strategy, let alone the broad aims of the Second Growth and Transformation Plan.

b. Strengthening national systems

Lack of coherence between external support and public budget processes for the implementation of national development may be the main reason for the weak link between aid and structural transformation. Well-coordinated donor support is important in strengthening synergies and tracking complementarities among sectoral programmes and eliminating mismatches between donor-supported programmes when they are not jointly planned or delivered within national planning and budgeting processes. However, for solid transformative results, investments, whether funded from domestic resources or through external support, should be implemented in the context of national systems. Developing countries have stressed the need for well-functioning multilateral arrangements to align donor support and harmonize aid processes with national priorities. In the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, countries affirmed their commitment to supporting the national ownership of development processes, helping to strengthen capacities and reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner country priorities, systems and procedures. However, low levels of funding for investments in public budgets and sectoral plans do not support these commitments, as many LDCs receive less than a quarter of external support, including aid, through public budget processes (figure 4.13).

National systems that lead policy formulation and resource deployment yield alignment and effectiveness

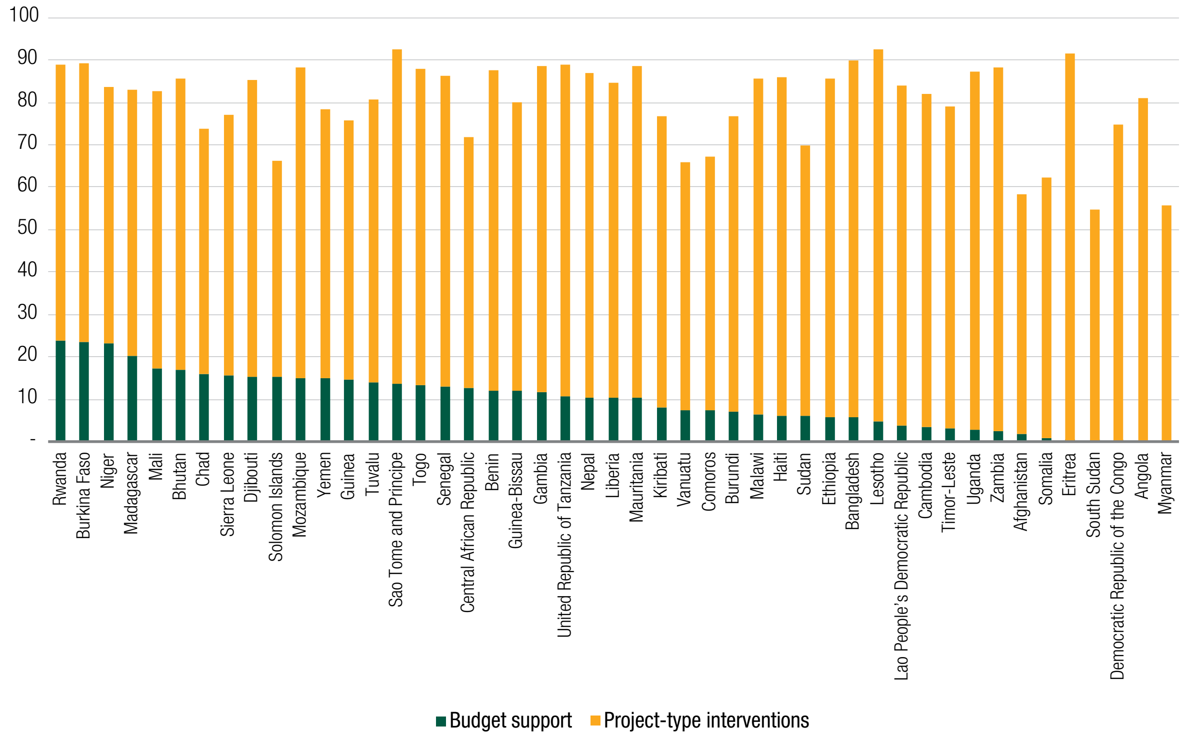
Rwanda has taken an institutional approach to aid coordination, shifting from a donor-dominated development agenda to a State-led development framework that places a high value on national ownership (box 4.2). Post-conflict reconstruction after 1994 involved many donor-supported programmes, including for rebuilding institutions, and policy reforms encompassing social and infrastructure sectors (World Bank, 2009). Human capital development, agriculture, transport, information and communications technologies, energy, housing and urban development were the main priorities. The Economic Development and Poverty Reduction Strategy 2007–2012 aimed to achieve high levels of human development, economic growth, rural development and good governance. In this period, the Government focused on building institutions and strengthening its planning, monitoring and evaluation systems, including financing and donor coordination mechanisms (Watson-Grant et al., 2016).

Where aid coordination is institutionalized through policy on international cooperation or donor coordination mechanisms, clear mapping exists between national development strategies,

Figure 4.13

Project-type interventions and budget support, average, 2013–2017

(Percentage of total official development assistance)



Source: UNCTAD calculations, based on creditor reporting system data from OECD.

external support received and national budget aggregates. However, the national ownership of development will remain a lofty objective if donors do not align themselves with national processes. A country-owned development process is one in which there is a significantly reduced role for project-type funding or core contributions and, critically, one in which national systems play a significant role in policy formulation and the deployment of resources. This is a radical shift from donor-centric definitions of the national ownership of development aid, which emphasize power, legitimacy, commitment, capacity and accountability (Watson-Grant et al., 2016).

i A social sector bias among donors

Aid allocation to LDCs shows that donors have a strong preference for the social infrastructure and services sector, which accounted for 59 per cent of aid to LDCs in 2014–2017. Aid to productive sectors and to economic infrastructure and services in LDCs remained low, at 8 and 12 per cent, respectively, and humanitarian assistance accounted for 10 per cent of aid in the same period. It is implicit that non-neutral processes determine bilateral and multilateral aid allocation to individual LDCs. Aid neutrality is the idea that aid takes a normative structural identity, as in the humanitarian field, rather than a positive or political stance that distorts its intended purpose (Drążkiewicz, 2017). Aid selectivity strategies have been part of the decision-making processes of both international financial institutions and bilateral donors. Donors need to justify and account for public resources to taxpayers in their countries and it has therefore been argued that there is a politicization of every amount spent abroad, reflected in the spread of preferred partner countries, themes and sectors that match the political and economic considerations of donors (Gulrajani, 2016). In addition, the initial and subsequent aid-related decisions in donor countries or among agencies depend on non-neutral considerations such as procurement rules that favour the source country or other factors that may facilitate or impede aid coordination and alignment efforts to achieve development (Williamson, 2010). A social sector bias may be justified if aid helps to increase human capital development, resulting in positive impacts on economic development and FDI performance. However, a focus on basic skills development, primary health care and basic education means that recipient countries cannot achieve balanced transformative development as intended under the 2030 Agenda.

Box 4.2 **Rwanda: Aid coordination framework**

Under structural adjustment programmes, most developing countries implemented reforms as a precondition for funding from the International Monetary Fund and World Bank under HIPC. As part of reforms, Rwanda began to install measures to promote accountability and the alignment of donor funding with national priorities. Vision 2020 provided a long-term strategy and was used as the basis for mobilizing foreign aid, setting targets for 2010 and 2020, with 2000 as the baseline year.

The Rwanda Aid Policy was approved by the Government in 2006 and sought to provide clear structures and guidelines for the mobilization and management of external assistance. By 2007, when the first poverty reduction strategy was launched, the Rwanda Aid Policy also provided the basis for monitoring progress and the medium-term expenditure framework guided donor monitoring of budgets (input and output) and strengthened relations. The Rwanda Aid Policy sets the boundaries for mobilizing external assistance in a form that does not undermine government autonomy and in a manner that strengthens the ownership and capacities of the Government and its ability to manage all of its resources effectively, further enhancing service delivery to citizens. Earmarked budget support is the preferred aid modality. However, the Policy stipulates conditions under which project-type support may be accepted. In such cases, preference is given to sectoral budget support, followed by stand-alone projects, which must be reflected in the government budget and demonstrate alignment with national plans. Further, pooled funding is strongly encouraged, rather than individual project support. The Policy mandates the Ministry of Finance and Economic Planning to perform aid coordination functions and, in this regard, the External Finance Unit was established with the primary responsibility to mobilize external financing from traditional partners and non-traditional partners through ODA, commercial loans to finance government priorities (sovereign bonds) and private sector finance from international financial institutions. The Unit also coordinates development partners through various forums, including sectoral working groups and joint sectoral reviews. In the implementation of the Economic Development and Poverty Reduction Strategy 2007–2012, joint sectoral reviews were held between the Government and development partners, at which individual ministries reported on key indicators and at which national results and outcomes were monitored, and the reviews were used as a basis for seeking greater donor harmonization and support. In this context, under the Strategy, resources were mobilized through high-level dialogues with strategic partners. Sectoral consultations were key entry points for donors, as they co-chaired the 19 sectoral working groups. Other actions taken by the Government included the strengthening of public financial management institutions and setting up of supportive infrastructures and systems.

At about this time, it became global practice, for mutual accountability, to hold partnership meetings to agree on priorities, such as in the Rome Declaration on Harmonization, the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, which emphasized the domestication of policies and the building of ownership. In Rwanda, further refinement to the coordination framework as a result of the interest of both the Government and its development partners in continuing to accelerate efforts to further streamline effective ways in which aid could be provided, and to enhance the utilization of aid for maximum development impacts, led to the launch in 2011 of single project implementation units in ministries, including the Ministry of Finance and Economic Planning. The mandate of the External Finance Unit was broadened and now encompasses the mobilization of other sources of external finance, including private finance.

In the implementation of the Economic Development and Poverty Reduction Strategy 2013–2018, an annual leadership retreat provided a forum for the official reporting of sectoral performance to the President and to peers. In addition, donor harmonization provided benefits in the form of lowering the Government's data and transaction costs and paved the way for further alignment of government and donor systems. The mobilization of external financing in Rwanda is designed to support State-building priorities and national strategies, to ensure the relevance of donor funds and, generally, coordination has yielded positive support in some sectors, for example, business development services, in which the Government has leveraged support for small and medium-sized enterprises. However, challenges remain in aligning donor support in other sectors such health, and the bulk of donor support remains skewed towards sectoral support rather than purely national budget support.

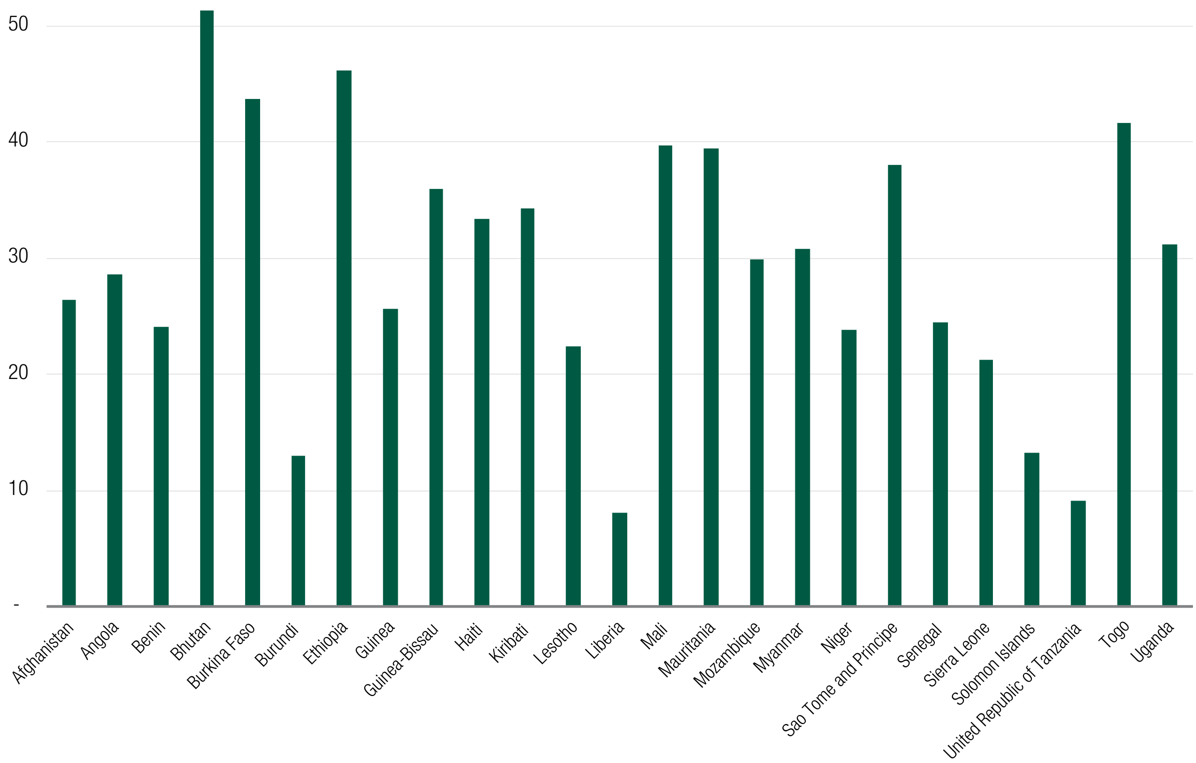
Sources: Rwanda, 2006; Rwanda, Ministry of Finance and Economic Planning, 2013; Rwanda, Ministry of Finance and Economic Planning, 2015; Rwanda, 2017; Rwanda, Ministry of Finance and Economic Planning, 2019.

One threat to the achievement of the Goals in LDCs is path dependency in the pattern of aid allocation. Donors have not shifted from a concentration in the social sector since the period of the Millennium Development Goals; for example, in 2006, the largest share of aid, at 53 per cent, was allocated to the social infrastructure sector, followed by economic infrastructure, at 19 per cent, and productive sectors, at 10 per cent (Anderson, 2008). These shares have significantly shifted in favour of the social sector and the fragmented bilateral channels of aid delivery have intensified this concentration. Institutions, governance and public administration are considered significant in the decisions of bilateral and multilateral donors,

Figure 4.14

Capital expenditure, selected least developed countries, average, 2013–2017

(Percentage of total expenditure)



Source: UNCTAD calculations, based on data from the open budgets database of the World Bank.

yet a critical component of the inefficiency in aid allocation arises from the static manner in which aid is structured vis-à-vis national priorities that change over time (Whitfield and Fraser, 2010).

ii Inadequate support for building productive capacities

Productive capacities in LDCs remain weak due to poor infrastructure and a lack of financial resources, entrepreneurship development and technological innovation and adaptation, among others (UNCTAD, 2006a; UNCTAD, 2011b). However, external support targeted towards economic infrastructure and productive sectors remains low.

Significant investments are needed in LDCs to trigger sustained, broad-based economic growth and poverty reduction and to increase resilience. Scaling up infrastructure investment is a key priority in developing countries and, in LDCs, the gap in economic infrastructure is considerable (Gurara et al., 2017). The national budgets in various LDCs indicate the importance of capital investments relative to other sectoral allocations and, in particular, with the exception of Burundi, Liberia, Solomon Islands and the United Republic of Tanzania, the common element among LDCs for which data is available is the high share of spending on capital investment; at least one fifth of total government appropriation, rising to at least 30 per cent of the budget in most of the LDCs considered (figure 4.14). Capital expenditures generally involve physical assets that have a life cycle of at least one year. There may be overlaps in capital and current expense records, yet the former usually consist of physical assets such as office buildings and vehicles, public goods such as roads and water and sanitation systems and intangibles such as education and research, which are generally considered investments (Jacobs, 2009). For example, Bhutan, with more than half of its total outlay directed to capital expenditure in 2013–2017, continues to place a high value on infrastructure development, and the preliminary fiscal projections in its twelfth five-year plan, for 2019–2023, provide for 38.3 per cent of the total outlay to be directed to capital expenditure (Bhutan, 2016). Burkina Faso, in its National Plan for Economic and Social Development 2016–2020 provides for 54.6 per cent of the total outlay to be directed to capital expenditure (Burkina Faso, 2016). Togo envisages raising about 35 per cent from public resources to deliver its National Development Plan 2018–2022 and, according to the estimates, will spend between $80 million and $120 million on an industrial park, $300 million on rural electrification and $620 million on improving the competitiveness of the corridor from the autonomous port of Lomé to Cinkassé (Togo, 2016). These examples demonstrate not only the commitment of the countries to developing productive capacities through meaningful capital investments but also the need for a shift in the way external resources are allocated to sectors. By contrast, in 2013–2017, inclusive of capital expenditure, expenditure on health ranged from 2 per cent of the total outlay in Guinea to 14 per cent in Solomon Islands, and on education, ranged from 8 per cent in Myanmar to 30 per cent in Burundi.

iii Misalignment of priorities deepening fiscal imbalances

The mismatch in resource allocations by donors and partners to the social infrastructure and services sectors and the economic infrastructure and productive sectors may be interpreted as complementary, yet a deeper analysis of the fiscal implications of the divergence between areas of domestic resource allocation in LDCs and the external support bias towards selective social sectors suggests that the alignment of country priorities is not being achieved and that the effectiveness of donor support is therefore debatable (Morrissey, 2015; Mosley, 2015). The inefficiency cost of such a misalignment imposes significant costs on LDCs that are only partially reflected by an increase in domestic and external borrowing and higher administrative overheads in aid management and undue wastage imposed on recipients coordinating fragmented donor support.

Even assuming that most aid is channelled through government spending, the impact on government tax efforts depends on how easily aid can substitute for domestic tax revenue. Monitoring and review is an important feedback mechanism for assessing how donor aid is aligned with national priorities. However, a key issue with DAC evaluations is the self-evaluation bias that donors may have when assessing their impacts.

The Global Partnership for Effective Development Cooperation supports mutual accountability efforts through the provision of data and evidence. In 2016, a survey conducted to assess the alignment of new interventions with national priorities showed that 86 per cent of interventions in LDCs stated that they were so aligned (table 4.2). However, closer analysis shows that only 32 per cent of the interventions drew their objectives from national development plans and that the proportion of those that drew from sectoral plans and strategies, at 22 per cent, and from development partner strategies, at 19 per cent, were close. This puts into perspective the risk of misalignment brought about by sector-themed support and project-type interventions. The data also show that, on average, aid allocated to each project ranged from $2.3 million to $53.7 million, with a median of $13 million, and the number of interventions ranged from 3 to 131.

Misaligned external support – mixed with fragmented donor delivery – creates unnecessary costs for LDCs

D. Conclusions

Domestic resource mobilization has a significant role in the achievement of the Sustainable Development Goals, yet the expectation placed on LDCs to mobilize adequate domestic resources for development should be tempered by reality. The domestic imbalances faced by LDCs are not going to diminish unless the fundamentals constraining their economic development are addressed. The analysis in this chapter and the literature on tax capacity and efficiency in LDCs suggest that they have limited scope for increasing public resources through taxation. Those countries with fiscal space, such as Angola, Bangladesh, Bhutan, Myanmar and Timor-Leste, are typically those that are close to graduation or technically eligible for graduation, having had consistently better performances in terms of per capita income, human assets and economic vulnerability scores. The lack of fiscal space affects the most economically vulnerable, such as Benin, Lesotho, Malawi, Nepal and Togo, which are already collecting more revenue compared with their capacity. In addition, small economies and a low share of world trade further limit the capacity of LDCs to generate domestic resources through savings, investments and the private sector.

At the current level of development, LDCs are not able to raise adequate resources to finance development. LDCs need to enhance capacity to mobilize domestic resources and this extends beyond tax-based resources. Key priority areas include strengthening tax administration systems and governance structures that impact on the independence of tax collection bodies. Natural resource-rich countries, for example, need to ensure fair and transparent taxation and an improved distribution of natural resource rents. Growing the tax base, which is the main component of domestic resources, hinges on fostering sustained economic growth in LDCs, building resilience and creating a macroeconomic environment for broader, sound taxation. Fiscal policies also play a key role

Table 4.2

The extent to which donors align new interventions with national priorities

	Number of interventions assessed	Amount	The objective of the development intervention is drawn from country and/or Government-led results framework(s)					
			Yes	From national development plans	From sectoral plans and strategies	From institutional or ministry plans	From other government planning tools	From development partner strategies agreed with the Government
		(Millions of dollars)	*(Percentage)*					
Afghanistan	39	1 659.8	77	10	18	18	13	18
Angola	17	867.6	94	35	–	59	–	–
Bangladesh	74	3 706.3	89	54	12	4	1	18
Benin	62	356.6	84	18	29	13	2	23
Bhutan	10	83.4	90	20	10	20	–	40
Burkina Faso	22	410.1	100	36	14	5	9	36
Burundi	15	195	27	20	–	–	7	–
Cambodia	67	873.3	100	100	–	–	–	–
Central African Republic	5	62.7	100	–	–	–	–	100
Chad	18	294.4	89	6	6	33	–	44
Comoros	10	40.2	90	50	20	–	10	10
Democratic Rep. of the Congo	81	1 366.7	100	47	27	4	5	17
Ethiopia	103	4 121.3	94	40	33	6	1	14
Gambia	11	41.5	82	36	36	–	9	–
Guinea	8	124.5	100	13	25	50	13	–
Kiribati	9	20.7	100	67	–	–	–	33
Lao People's Democratic Rep.	63	552.2	95	41	16	10	2	27
Liberia	17	913	100	94	6	–	–	–
Madagascar	57	517.6	81	40	26	4	5	5
Malawi	38	573.9	92	32	26	11	3	21
Mali	47	535.4	62	28	6	13	–	15
Mauritania	19	181.1	89	–	21	–	–	68
Mozambique	62	1 647.3	95	18	48	13	5	11
Myanmar	63	2 944.5	57	17	25	6	–	8
Nepal	51	1 633.1	84	47	6	2	14	16
Niger	10	144	50	10	10	–	20	10
Rwanda	47	962.4	89	30	38	2	2	17
Sao Tome and Principe	3	27.2	100	–	67	–	–	33
Senegal	53	747	94	8	60	4	4	19
Sierra Leone	30	135.3	90	27	–	30	27	7
Solomon Islands	13	64.7	38	15	15	–	–	8
Somalia	131	1 367.2	76	8	20	1	11	36
South Sudan	21	530.1	71	5	67	–	–	–
Sudan	57	220	88	19	61	2	5	–
United Republic of Tanzania	74	1 166.7	89	26	31	15	1	16
Timor-Leste	23	217.6	96	65	9	9	–	13
Togo	27	255.7	96	52	26	4	4	11
Tuvalu	7	19.7	100	86	–	14	–	–
Uganda	53	1 134.1	92	30	34	6	–	23
Vanuatu	14	111.6	86	43	14	–	–	29
Yemen	7	126.1	100	14	57	–	14	14
LDC total (or average shares)	**1 538**	**30 952**	**86**	**32**	**22**	**9**	**5**	**19**

Source: UNCTAD calculations, based on data from the Global Partnership for Effective Development Cooperation (available at http://dashboard.effectivecooperation.org/viewer).

in ensuring that public expenditure addresses other social development challenges, including inequality. In LDCs, the dynamic role of fiscal policies in stimulating growth is critical, but this requires continuous improvement to ensure that tax policies are supportive of the productive capacities of the countries, structural transformation, economic diversification and accelerated industrialization.

LDCs should also address limitations arising from external sources, to generate adequate domestic resources to finance their development agendas. Private investment flows to LDCs, predominantly in the natural resource sectors, have not been fully useful in building the conditions and capacities needed to support domestic resource mobilization. LDCs have also been affected by significant levels of illicit financial flows, which further erode the taxable base, and requires strengthened international cooperation on tax matters and the closing of loopholes, to contribute to domestic resource mobilization efforts in developing countries. This extends to special tax exemptions for contractors and procurement policies that controversially reduce domestic resource mobilization and undermine the growth of the domestic private sector excluded from donor transactions (Steel, 2018). The work of the Committee of Experts on International Cooperation in Tax Matters under the Economic and Social Council is particularly relevant in LDCs in enhancing and promoting international tax cooperation and providing recommendations on new and emerging issues of relevance to developing countries (United Nations, 2014; United Nations, 2019f).

The emergence of South–South partners has created more challenges. In this regard, several basics remain relevant in LDCs, including the need for better institutions, policy coherence and harmonization with donors and partners. LDCs face limitations in terms of institutional capacity for implementing projects and coordinating international support. The transaction costs of dealing with multiple development partners have risen with the increased number of actors and bilateral partners. It is likely that aid has been used to impose the narrow interest-driven external agendas of donors and partners rather than the agendas of recipient countries. New forms of cooperation may not represent additional financing but rather a mere trade-off between scanty official aid and costly private financial flows, such that additionality benefits are immediately wiped out by increased indebtedness, greater private liabilities and low-quality outcomes due to inappropriate disbursement modalities that are inconsistent with the long-term development agendas of recipient countries. Strong institutions are therefore needed to implement national development agendas and manage external relations with partners.

As shown by the experience of Rwanda, States that have insisted on country-coordinated aid processes have generally reduced the number of ad hoc donor projects that have no correspondence with national development priorities. Ownership over development agendas and benefiting from increased choice among development partners also requires human capacities for aid coordination, strong policies and proactive foreign policy positions that cement national control and creativity with regard to external support. There is a need for better policy coherence and the alignment of donor priorities with the national plans of LDCs and the greater use of budget support rather than project-type aid, as intended under the Paris Declaration on Aid Effectiveness. The rapidly growing divergence between ODA and public capital investment shows the need to boost productive capacities and accelerate structural transformation in LDCs. In Rwanda, the National Strategy for Transformation 2017–2024 exemplifies a departure from donor dependence, as aid receipts by sector have not directly enabled the country to directly achieve the transformative goals in its previous development plans, and the focus has shifted to private sector development, economic diversification and human capital and skills development that will reinforce its competitiveness in the global economy. External support will continue to play a role through sectoral working groups and joint reviews, yet domestic public resources will contribute 59 per cent of the cost of the plan and the rest will be mobilized from the private sector (Rwanda, 2017).

New forms of cooperation should complement ODA, not worsen ODA fragmentation and debt burden

The misalignment cost of divergence between the priorities of LDCs and those of development partners will escalate if domestic resource mobilization continues to fall short of the rising demand for development financing. Non-concessional borrowing, both domestic and external, has increased sharply compared with both ODA and domestic resource mobilization, despite rapid output gains in LDCs over the years. It is therefore critical to carefully assess whether the new forms of cooperation and emerging donor relations are complementing ODA or are merely costly private financial flows and additional public liabilities. Targeted aid earmarked for specific sectors, in particular infrastructure investments, can facilitate improved fiscal outcomes in LDCs and reduce debt burdens. Finally, there is a need for the greater integration of aid into various categories of government budget aggregates, to achieve positive impacts from aid on fiscal policy.


AID EFFECTIVENESS AGENDA 2.0
Proactive LDC coordination of partnerships
Clear role for different actors
Finish the business of original aid effectiveness agenda
Donor commitments
PARIS Declaration
Debt
Special drawing rights
International liquidity
Taxes
Climate finance
Illicit financial flows
LDC VOICE
AT MULTILATERAL FORUMS

CHAPTER 5

Policies to enhance the development impact and effectiveness of external financial resources

CHAPTER 5

Policies to enhance the development impact and effectiveness of external financial resources

A. Strengthening State capacity to steer structural transformation and its financing

1. Main issues

The Addis Ababa Action Agenda envisions the development process and the mobilization of the corresponding financial means along the following lines: countries have a responsibility to lead the national development process; countries should have national ownership of development; countries need to mobilize the resources required to finance the process; and the international community commits to supporting countries in their development, including with regard to its financing. The Agenda states that "cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts" and reiterates that "each country has primary responsibility for its own economic and social development" (United Nations, 2015b, para. 9). The Agenda thus implies a central role for States in steering the pursuit of the Sustainable Development Goals and in the mobilization of the financing required to provide the investment and current spending needed to achieve the Goals. Domestically, key elements in the implementation of the 2030 Agenda include capable Governments and public institutions, real partnerships and the formulation of country-specific plans and road maps to achieve the Goals and uphold long-term sustainability. This raises the question of the capacity of States to take on the responsibilities assigned to them.

State capacity is crucial in several ways. First, the 2030 Agenda assigns responsibility for the implementation of the Goals to States. The breadth and depth of the Goals and their indicators presuppose, and demand, a high degree of State capacity, required to design and put in place public policies in the economic, social and environmental fields, as part of long-term development strategies. This includes analytical, planning and financing skills, as well as the capacity to mobilize the necessary resources and monitor and evaluate policy implementation. Development-related policymaking comprises the design of long-term development plans, the formulation of clear national development strategies and the implementation of development policies. It therefore also requires building efficient institutions and the necessary bureaucratic capabilities that can mobilize the political, economic and financial resources required to roll out such development projects. Second, achieving the Goals requires the structural transformation of an economy, as previously emphasized in The Least Developed Countries Report (see, for example, UNCTAD, 2014b). In the context of underdevelopment, this transformation can best be achieved by means of the stewardship of a developmental State, that is, "a State whose ideological underpinnings are developmental and one that seriously attempts to deploy its administrative and political resources to the task of economic development" (UNCTAD, 2009, p. 29). This requires the capacity to design and implement structural, rural and industrial policies aimed at transforming the productive structure of the economy according to a normative concept of structural transformation (see chapter 1). Third, there is a link between State capacity and its ability to deliver on human rights in general and, more specifically, on the right to development. The United Nations High Commissioner for Human Rights states that "reforming policy with a people-centred approach means taking concrete action to strengthen State role and responsibilities to secure freedom from fear and want" (Bachelet, 2019).

The Goals assume, and demand, a high degree of State capacity

The structural transformation imperative is particularly strong in LDCs, most of which are in the initial phases of the process of transformative change. Therefore, the hurdles to be overcome are the highest in LDCs. Economic growth helps transition away from aid dependence, and spurring structural transformation remains the key long-term solution to redressing primary commodity dependence, boosting the development of productive capacities, improving competitiveness and enhancing domestic resource mobilization. Achieving this goal entails a development-friendly macroeconomic policy framework (UNCTAD, 2018c). There is a reciprocal influence between the level of State capacity and the stage of socioeconomic development (Besley and Persson, 2009; Besley and Persson, 2011; Dincecco, 2017; Singh and Ovadia, 2018). Thus, in general terms, State capacity in LDCs is constrained by the early phase of socioeconomic development in which most LDCs are located.

State capacity is understood in diverse ways in different contexts. It refers to the capacity of a State to ensure the sovereign functions of the State, such as enforcing security, peace and order and the rule of law. This is often the focus of assistance from donor countries to several LDCs (Kharas et al., 2014). However, such an emphasis on security tends to be reactive and short term, and does not entail a holistic and long-term vision of the development process. Security concerns require attention in several countries, yet the medium to long-term solutions of many of the problems that give rise to security concerns require the strengthening of States and their capacities in a holistic manner. This includes not only the sovereign functions of States but also, critically, their development functions. Aid and external assistance are therefore most effective if they help to build and strengthen developmental States, whether countries have serious security concerns or not at the time. This means building or strengthening State capacity to undertake economic planning, policy planning and execution (Singh and Ovadia, 2018; UNCTAD, 2009). It implies, critically, the bolstering of State capacity to mobilize financial resources for structural transformation, and development more broadly, from both domestic and external sources; the former is referred to as fiscal capacity (Besley and Persson, 2009; Besley and Persson, 2013; Bräutigam, 2008). This section focuses on State capacity to steer the process of structural transformation and, specifically, on the related need to mobilize and allocate the necessary financing for the investment and expenditure that can bring about structural transformation.

To achieve the structural transformation of their economies, LDCs need to mobilize and allocate the financing required for long-term investment in new productive sectors and activities, as well as investment in the technological and organizational upgrading of existing sectors and productive units. They also need to mobilize and allocate financing to current expenditure related to structural transformation. These financing requirements exist at the micro, meso and macro levels. State capacity is crucial to ensure, directly or indirectly, the availability at reasonable conditions of financing at these three levels. Ensuring availability at the micro level is the task of financial policies and, possibly, monetary policies. At the macro level, by contrast, it requires the capacity to put in place development-friendly macroeconomic policies, to formulate national development finance plans and strategies and to consider the options available to finance different areas, types of projects and Goals-related activities.

LDCs need proactive policies for national control over external support

LDCs need proactive foreign policy positions that cement creativity and national control over external support. The possibilities and instruments for negotiations between States and sources of external financing vary as a function of the different sources. For example, enhancing the development impact of worker remittances mostly depends on financial policies and regional and rural development policies, and the impact of policies is typically only indirect (UNCTAD, 2012). In addition, the contribution of FDI to the structural transformation of a host country largely depends on the innovativeness of the sectors and activities to which it is directed and on the linkages and embeddedness of multinational enterprises in the domestic economy of the host country. This, in turn, is influenced by the fiscal policies and policies on external investment in the host country as well as on the direct negotiations that often take place between prospective external investors and national, regional or local governments, resulting in deals or agreements. State capacity is therefore important in steering FDI towards developmental outcomes. In LDCs, State capacity is critical in influencing the contribution of official external financing to structural transformation, given the state of aid dependence as analysed in this report. The importance of the role of the State refers to the crucial role of traditional aid, other development finance associated with non-State actors under the new aid architecture and development finance channelled through South–South cooperation. States need to have the institutional capabilities and skills to assess and evaluate the development impact of alternative external financial flows, their financial, institutional and political costs and their explicit and implicit liabilities, in order to evaluate their relative merits.

Based on such assessments of alternative financial flows, LDCs need to negotiate with source institutions. The corresponding financial flows are typically the result of negotiations between source institutions and domestic recipient institutions and of the decision-making process, both of which determine priorities and where and how external official resources will be allocated (Whitfield and Fraser, 2010). This process shapes the terms and conditions under which external resources enter an economy, as well as the ensuing outflows in the form of factor payments, capital repatriation, etc. There is a virtuous circle between developmental leadership and a strong negotiating position vis-à-vis sources of external finance; governments that place a strong emphasis on development achieve a better level of human and economic development performance and thereby reach stronger negotiating positions (Whitfield and Fraser, 2010). Having a stronger negotiating position in turn allows Governments to negotiate better deals, that is, obtain external financing aligned with their national development priorities and with better conditions.

The importance of State capacity in LDCs has become even more critical in the context of the evolution of the aid architecture. As suggested in this report, this architecture has become more complex, less transparent and more difficult to deal with, given the increasing number of agents, instruments and financing modalities and the growing complexity, which often blurs the distinctions between concessional and non-concessional finance or between private and official funds, potentially hampering the adequate monitoring of different transactions. LDC institutional capacities are also faced with the growing complexity involved in dealing with unfinished progress with regard to the aid effectiveness agenda, in particular in terms of the persistent volatility and unpredictability of aid flows, the prevalence of tied or informally tied aid and fragmentation, among others. There is a risk that the advantages of accessing a broader range of financial instruments in international markets may be outweighed by capacity constraints in assessing, monitoring and managing the related risks. Moreover, given the modus operandi of the new aid architecture, the allocation of external resources often escapes the influence and awareness of recipient States, as decisions are often taken without involving the latter, often in the context of private sector engagement. Such developments raise the stakes in building capable and efficient LDC State institutions with the required skills to understand the trends in aid architecture and international flows of resources and that can implement strategies and put in place institutions to steer flows to their countries so as to enhance or maximize development impacts.

Despite the crucial role that States need to have in mobilizing and steering development finance, the new aid architecture is largely silent on recipient State agency and there is little evidence of systematic involvement by recipient countries in private sector engagement design or implementation. This not only undermines the role of LDC Governments in their national development but could further weaken their capacity. It could negatively impact their effectiveness in domestic resource mobilization, while also eroding the social contract between States and citizens that underlies taxation systems (Bräutigam, 2008). The need for inclusiveness is often interpreted as including an increased voice for domestic civil society and the private sector, yet the effectiveness and meaningful outcome of such a strategy rests on a responsive and capable State. Finally, on the domestic front, ensuring financing for sustainable development requires strengthening State capacity to mobilize domestic resources, including in particular institutions and bureaucracies to design and implement fiscal policies.

The new aid architecture could weaken State capacity

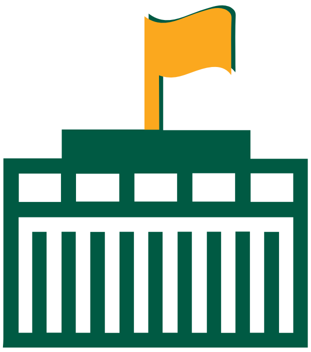
2. Policy options

In order to strengthen State capacity, in particular in the area of structural transformation and mobilizing the required financing, the following options may be considered by LDCs and their development partners.

a. Enhance development policymaking capacity in the least developed countries

LDC authorities need to adopt structural transformation as a major policy objective in the economic field. This should be the basis of major elements of development policymaking, namely, drawing up national development plans on the basis of domestic consensus-building, designing the related financial analysis and planning and mobilizing financial and political resources for such plans. UNCTAD has capacity-building activities related to strengthening LDC capacity in the field of development policy and implementation.[1] Given its track record in this field,

[1] For example, UNCTAD has launched a project on South–South integration and the Goals – enhancing structural transformation in key Belt and Road Initiative partner countries The project aims to strengthen developing country capacity in designing and implementing development policies in the context of South–South cooperation. In recognition of the fact that Governments in many partner countries of the Belt and Road Initiative face limitations in their capacity to effectively design, manage, coordinate, implement and evaluate strategic economic interventions that are the key policy levers of structural transformation, the project targets national institutional capacity-building in key policy areas. The project draws lessons from the development strategy of China, to assist the pilot partner countries of Ethiopia, Indonesia and Sri Lanka. In 2019, UNCTAD commissioned a series of papers that will discuss in detail the policy framework in China for aligning financial sector development, macroeconomic policy, trade, value chains and the digital economy with the overall objectives of structural transformation.



Strengthen LDC State **capacities**

UNCTAD should pursue this work in the medium and long terms.

b. Set up capacity-building and training programmes for least developed country policymakers in development planning, financial analysis and understanding of the aid architecture evolution

The beneficiaries of such training should be officials from central banks and ministries of planning and finance, as well as other ministries such as those of agriculture and industry. Greater attention by donors to building State capacity is a prerequisite of sustainable development and effective multi-stakeholder partnerships in development cooperation. In an unequal world, a narrative of equal partnerships can be counterproductive and/or disingenuous. Technical cooperation activities undertaken in the context of South–South cooperation can be particularly valuable, since partner developing countries have faced, in the not-so-distant past, development challenges similar to those faced at present in LDCs. Therefore, the institutional memory of successful development policymaking is available in many other developing countries, along with the potential for experience and knowledge-sharing (UNCTAD, 2011a). The financing for development component of such capacity-building should assist LDCs to build up human and institutional capacities for aid management and coordination.

LDC public sectors need assistance with regard to the implications of and ways to leverage opportunities that may be offered under the new aid architecture. Projects with such an aim will be critical in the era of the new programme of action for LDCs, to be adopted in 2021 at the Fifth United Nations Conference on the Least Developed Countries. LDCs stand to gain considerably, for example from capacity-building in the area of debt data quality and transparency and from enhanced technical assistance in debt management. Given their increasing exposure to commercial and bilateral non-Paris Club creditors, LDCs need to enhance understanding of the implications that such a shift in the composition of external debt could have on debt servicing, rollover risks and the costs of negotiating potential restructuring. This entails strengthening debt management practices and learning how to best engage bilateral lenders in ways that enhance overall debt sustainability and minimize costs in the event of restructuring.

UNCTAD is well positioned to have a leading role, given its track record in both the research and technical assistance aspects of financing for development, financial and macroeconomic policies and debt management. This work is reflected in the technical assistance provided by UNCTAD. For example, the Debt Management and Financial Analysis System programme currently supports 21 LDCs using the programme's software in building capacity to effectively manage their central government and government-guaranteed debt and to achieve sustainable debt levels. The programme has improved the availability of timely, reliable debt records, which are essential for prudent risk analysis and the elaboration of strategies for ensuring debt sustainability.[2]

c. Establish a unit in charge of the financial planning of national development plans

State capacity to design a development plan needs to go hand in hand with strengthening capacity for the planning and execution of the financing of sustainable development. This implies the mobilization and allocation of the necessary financing, particularly in the medium and long terms, given the typically long maturation period of development projects. It is essential for LDCs to strengthen domestic systems and accountability frameworks with a view to: learning how to best harness complementarities and synergies across development partners and engage them in the most effective manner while retaining ownership

[2] As at early 2019, 95 per cent of the supported countries had a comprehensive central government and government-guaranteed debt database and nearly 67 per cent had complete domestic debt records using the programme's software. In addition, 70 per cent of the LDC users that have also subscribed as participants in the quarterly external debt statistics database of the International Monetary Fund and the World Bank have reported on time. With regard to improved analysis, seven countries publish a debt portfolio analysis report on a regular basis.

of their own development agendas; putting in place strong measurement and monitoring frameworks to better measure the concessional resources obtained; gauging the development footprint of an increasingly complex array of transactions, involving both official and private actors, as well as official external sources from developed and developing countries; and strengthening the monitoring of financing, including by means of good data sets. A monitoring framework should appropriately take into account the distinct nature of the various types of funds (for example, concessional or non-concessional and private, blended or purely public, among others) and assess their development impacts accordingly. Such functions are usually carried out in different institutional settings, which may include a ministry of finance or planning, a national planning commission or an interministerial task force (see chapter 4). Whatever the institutional arrangement, it is important to ensure the strengthening of bureaucratic capabilities in the field of financial planning and the management of national development plans.

d. Eliminate State-weakening features in the present aid architecture

Some important practices under both the traditional and the new aid architecture weaken national ownership and thereby also impact State capacity. First, there tends to be a vicious circle of aid dependence, weak recipient country institutions and diminished bureaucratic competence, resulting in low State capacity. This is not inevitable, and its emergence depends critically on how ODA is managed and delivered (Bräutigam, 2000; Bräutigam and Knack, 2004; Knack and Rahman, 2007). This circle needs to be broken and aid system actors, including donor countries, have a crucial role in doing so. Second, under the traditional aid architecture, donors have often taken a project-based approach to aid and set up independent implementation units and accountability procedures that fall outside the scope of official State structures and often lead to human capital flight (Bräutigam and Knack, 2004; UNCTAD, 2008). This feature tends to go along with recent emphasis away from budget support towards projects as a mode of aid delivery (Lundsgaarde and Engberg-Pedersen, 2019). Ironically, donors have tended to move away from country systems despite recognized improvements in the quality of recipient country systems (OECD, 2012; OECD and United Nations Development Programme, 2019). Third, the recent evolution of the aid architecture has included a shift away from the focus on national government ownership towards a multi-stakeholder approach that accepts the role of different levels of government and actors beyond the State in addressing development challenges. This tends to dilute the scope for learning and institution-building among central governments and bureaucracies in recipient countries. Fourth, a similar effect results from the decision-making process often adopted with regard to ODA or private sector engagement. LDC Governments are frequently not involved in decision-making concerning project selection and aid allocation, which typically involves donor country Governments or agencies and the private sector in donor countries, but not beneficiary country institutions (Bhattacharya and Khan, 2019; see box 3.4). For solid transformative results, public investments, whether funded from domestic resources or through external support, should be implemented in the context of national systems, rather than being channelled through structures that bypass government institutions by setting up parallel structures (see chapter 4). Acquiring the capacity to do so is a long-term process that requires investment in capacity-building, learning by doing and the strengthening of bureaucratic capabilities.

Transformative results are best achieved through national systems

B. Revamping international development partnerships and building up aid management systems

1. Main issues

An increasing number of voices in the international community highlight the need for renewed action to face the challenges related to sustainable development, revamping the international cooperation framework and sustaining global demand, through concerted efforts to finance much-needed investments and redress inequality. The need for such different policy actions is even more acute because of the insufficiency of private sector engagement in delivering on the leveraging of ODA to mobilize significantly greater amounts of private finance for investment in the Goals (see chapter 3). The traditional aid system was beset by challenges and inefficiencies, including weak country ownership, misalignment between aid and recipient-country priorities, policy conditionality, insufficient aid flows with regard to country needs

Box 5.1 The rise and fall of the aid effectiveness agenda

Origins

The aid effectiveness agenda developed as a reaction to critiques made since the 1990s by recipient developing countries, development practitioners in donor countries, civil society organizations and other development stakeholders of the shortcomings, inefficiencies and adverse effects of the traditional ODA system. The concept emerged in 2002 at the first International Conference on Financing for Development and has evolved through a series of declarations and plans of action, as well as accompanying implementation mechanisms that were the result of negotiations between donor and recipient countries and multilateral institutions, later broadened to include new actors under the aid architecture.

Objectives and processes

The objectives of the aid effectiveness agenda were to reduce aid fragmentation and conditionalities, improve the impact of aid and correct the inefficiencies and negative aspects of the existing aid architecture. However, throughout the process, the results achieved have been far less than intended under the initial targets. Crucially, the intentions and priorities of the agenda have changed since the initial agreements. The first phase evolved through the High-level Forum on Harmonization and the High-level Forum on Aid Effectiveness, held in Rome in 2003, Paris in 2005, Accra in 2008 and Busan, Republic of Korea, in 2011. The Rome Declaration on Harmonization had as its objective the harmonization of the operational policies, procedures and practices of donor institutions with those of developing country systems, to improve the effectiveness of development assistance. The Paris Declaration on Aid Effectiveness was built around the five principles of ownership, alignment, harmonization, managing for results and mutual accountability. It was expected to provide a tool for donor countries and developing countries to hold each other accountable and thereby significantly increase the impact of aid. It set hopes for a radical shift in the donor–recipient relationship and in the aid-related decision-making process, as well as a shift from a donor-driven aid paradigm to a partner-driven one. The agenda continued to evolve in the Accra Agenda for Action, which reiterated the Paris Declaration principles and set out three further principles on which to concentrate efforts, namely, inclusive partnerships, delivering results and capacity development. The Accra Agenda has been termed “a high point of the aid effectiveness paradigm [when] recipients appeared to have genuinely (if still partially and problematically) asserted a stronger voice”. It began the broadening of stakeholders under the agenda by encouraging the engagement of new stakeholders, in particular civil society organizations, the private sector and diverse national actors. Since the Paris Declaration, the aid effectiveness agenda has been accompanied by quantitative targets of achievement and monitoring mechanisms. Donor and recipient countries set ambitious targets to be achieved by 2010, yet progress was below the levels expected. Donors globally met only 1 of 13 targets, namely, the coordination of technical assistance, but made progress in development strategies and results frameworks. They achieved limited progress in putting aid into the government sector on budget, common donor procedures for joint missions and analytical work, reducing fragmentation and the predictability of aid.

The limited and uneven progress is due to three main reasons. First, some difficulties in implementing the Paris Declaration stemmed from the fact that it was presented as a universal agenda while its implementation varied considerably according to national conditions, such as the degree of aid dependence in beneficiary countries, which weakens the negotiating power of recipients vis-à-vis donors. Second, the Paris Declaration implied that the principles reinforced each other, yet pursuing them proved to involve trade-offs, for example between ownership, harmonization and results. Another critical trade-off was between the will to reach short-term results and the need for long-term capacity-building and institutional development in recipient States, a time-consuming and resource-intensive process. Third, donors generally lacked the willingness to bear the economic and political costs associated with the implementation of effective development cooperation.

Reorientation

Since the High-level Forum in Accra, the aid effectiveness agenda has taken a different direction with regard to its objective, focus and actors. Under the Busan Partnership for Effective Development Cooperation, donors and developing countries collectively decided to broaden the aid effectiveness agenda. Focus was given to the effectiveness of the global partnership on development, welcoming contributions made through other initiatives, such as South–South cooperation, or from the private sector, as well as other financial flows, such as remittances, trade and investment, in promoting development strategies in developing countries. The Busan Partnership marked a paradigm shift from aid effectiveness to development effectiveness centred on the broadening of the agenda to involve new actors and shifting the focus away from the driving role of recipient countries as foreseen in the Paris Declaration. The Busan Partnership put less emphasis on some core principles of the Paris Declaration, in particular, alignment and harmonization, which were replaced in the Busan Partnership by the principles of transparency, inclusiveness and flexibility. Moreover, the Busan Partnership presented the private sector as a development driver.

Box 5.1 (continued)

Since the High-level Forum in Busan, monitoring of the aid effectiveness agenda has been undertaken by the Global Partnership for Effective Development Cooperation. The outcome document of the second High-level Meeting of the Global Partnership for Effective Development Cooperation, held in 2016, goes in the same direction. It reaffirms the principles of national ownership of development priorities and a focus on inclusive partnerships, transparency and accountability and results. It acknowledges the importance of new actors in the evolving aid architecture by emphasizing multi-stakeholder partnerships and attributes differentiated commitments to effective development cooperation according to stakeholder groups, recognizing different roles in and contributions towards shared effectiveness principles. Crucially, it confirms the downplaying of the Paris Declaration principles of alignment and harmonization, as already done in the Busan Partnership.

Since the High-level Forum in Accra, the aid effectiveness agenda along the lines of the Paris Declaration has lost momentum among donors. As the 2030 Agenda was being formulated, effectiveness fatigue was perceived as contributing to declining commitments to improve performance in areas such as donor coordination and the use of country systems. Donor agendas shifted further away from defining aid as guided by partner interests, as in the Paris Declaration, to emphasizing the contribution of development cooperation to advancing the national interests of donors. This reflected the return of national interest as a rationale for development cooperation and increasingly adopting a discourse of mutual benefit in defining relations with partners. It was in line with the effects of austerity measures following the global financial crisis of 2008/09 and with demands for a value-for-money approach to external aid, and was part of a movement towards greater integration between external aid and other policy areas such as trade, investment and migration.

Sources: Brown, 2016; Lundsgaarde and Engberg-Pedersen, 2019; Keijzer and Janus, 2016; Mawdsley et al., 2014; OECD, 2006; OECD, 2012; OECD, 2015.

and low levels of efficiency in the aid delivery system. Dealing with such long-standing problems has been a major challenge for the limited institutional capacities of LDCs, in particular given the asymmetry between their capacities and those of traditional development partners. The problems under the traditional aid system have given rise to proposals to simply eliminate it rather than taking action to improve its functioning and effectiveness (Easterly, 2006; Moyo, 2009). Such a drastic measure could, however, have negative economic, social and political effects in beneficiary countries, in particular those that are the most dependent on aid. Moreover, following decades of enquiry into the effects of ODA, researchers have concluded that it has a positive effect on the growth and development of recipient countries, despite the problems and inefficiencies. This has given rise to proposals to improve the workings of the aid system and enhance its development effectiveness. These issues are continuously discussed in development policy circles and have been taken up under the aid effectiveness agenda (UNCTAD, 2008). Despite improvements in terms of practices and modalities, the aid effectiveness agenda remains unfinished business and there is a need for better policy coherence and the alignment of priorities between LDCs and donors to avoid the wasteful allocation of resources and, in particular, to enhance the development impact of aid (box 5.1).

Ongoing discussions on the modernization of ODA respond to the need to better measure the resources made available for sustainable development purposes including, in some cases, by addressing long-standing criticisms, for example with regard to capturing the grant equivalent of ODA loans. However, such discussions risk lessening the significance of the aid effectiveness agenda by redefining the contours of financial flows that qualify as ODA. There is a risk that related decisions may undermine transparency and statistical rigour, weakening the principle of aid concessionality, conflating ODA and other official flows and, ultimately, defining a variable that lends itself more to politicization than to effective monitoring. For example, the inclusion of private sector instruments in the modernized measurement of ODA potentially entails a wide range of implications, not only in terms of concessionality, but by blurring key notions underpinning the aid effectiveness agenda, such as that of tied aid, further complicating the task of assessing alignment and the development footprint of any given intervention. The new aid architecture and its profusion of actors and instruments raises questions of how emerging development partnerships are managed and how LDCs can best make use of new opportunities, while at the same time minimizing the challenging or negative aspects of the changing landscape. As the pool of development actors expands, the ways in which development cooperation is being implemented are becoming increasingly opaque, even with regard to traditional ODA. The need for increased transparency has so far been focused on South–South cooperation, for which quantitative measurements are recognized as more complicated, yet greater transparency is equally

The new aid architecture requires new policy responses

relevant to other actors under the new aid architecture, such as philanthropic organizations, non-governmental organizations, the broader spectrum of civil society and, crucially, agencies using private sector instruments. This includes the beneficiaries of such instruments, for example business and investment funds that are intermediaries, with ownership structures that are often obscure. The lack of transparent and reliable information undermines planning and coordination functions in recipient States, hinders their ability to deliver on accountability for development and, ultimately, lessens democratic credentials. Put together, such developments point to the need to redefine the terms of the development partnerships of LDCs. This amounts to the transformation of the terms of the partnership between LDCs and development partners, both traditional and new. Specific ways and means of reaching this goal are discussed in this section.

2. Policy options

a. Implement policies for the new aid architecture

LDCs need to successfully manage their insertion into the new aid architecture. This means reviewing the terms and modalities of their relationships with sources of external finance, whether public or private. Crucially, LDCs need to occupy a central position and have a driving role in the decision-making processes of aid allocation and management. The immediate objective is to significantly strengthen aid effectiveness and boost its contribution to sustainable development by targeting structural transformation. In the medium to long term, enhanced development efficiency in aid allocation and administration will strengthen the capacity of LDCs to mobilize domestic resources and tap into other sources of external funds on commercial terms, leading to reduced dependence on aid.

i Revamp development partnerships

LDCs and their development partners could review the terms and modalities of their development partnerships, which could be (re)shaped around the following precepts:

- Recipient country ownership of decision-making concerning the allocation of financial resources, project selection and the determination of priority areas and issues;
- Alignment of programmes, projects and activities with national development plans and priorities;
- Standards of efficiency in financial resource disbursement, allocation and use;
- Mutual accountability in practices, data collection and reporting, standards of transparency and monitoring;
- Transparency in the origin and destination of funds and the relationship between funding sources and executing agencies and organizations;
- Mutually agreed methodologies and measurements to evaluate the development impact of external financing for development, as it is essential for LDCs to be actively involved in the formulation of methodologies, rules and data collection and in carrying out evaluation exercises; apart from being a precept in itself, enforcement has two desirable effects, namely, strengthening ownership and capacity-building in LDCs;
- Mutually agreed mechanisms to monitor the implementation of the above precepts.

Several of these elements were included in discussions on the effectiveness of traditional aid and form part of the Paris Declaration and the Accra Agenda, yet there are currently two major differences. First, it is necessary to return to the unfinished business of the aid effectiveness agenda. Second, contrary to the traditional aid effectiveness agenda, the precepts above refer to a broader range of LDC partners. Beyond traditional donors, they also apply to the new actors under the aid architecture, in particular, the private sector, philanthropic organizations and non-governmental organizations. The precepts should be common to all actors, yet their implementation and corresponding mechanisms should be differentiated according to the different types of actors.

There are fundamental qualitative differences in the relationship between LDCs and different external sources of finance. Traditional ODA is qualitatively different from development finance arising in the context of South–South cooperation, as it has different motivations, decision-making processes, modus operandi and delivery channels, among others. In particular, the application of these precepts to South–South cooperation should be done in a manner that ensures that these precepts serve to implement the principles of such cooperation as agreed by the international community, in particular that South–South cooperation and its agenda "should continue to be guided by the principles of respect for national sovereignty, national ownership and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit" as reflected in more than one resolution of the General Assembly of the United Nations.[3] Similarly, philanthropic development financing differs from traditional ODA and South–South development finance and should therefore be subject to different mechanisms in the implementation of the above-mentioned precepts. Given lingering dependence on aid in LDCs and the importance of the changes in the aid architecture, the evolving terms of development partnerships should receive greater policy attention when the international community discusses the new programme of action for LDCs in the process of the Fifth United Nations Conference on the Least Developed Countries and in the final phase of implementation of the 2030 Agenda in LDCs.

ii Establish or reinforce aid coordination mechanisms

Aid coordination is a crucial element in implementing the principles of ownership and alignment of external financial flows with national development plans and priorities. Effective aid management and coordination policies are required for LDCs to maintain ownership of their development agendas and harness the benefits from the increased availability of development partners. However, this is one of the principles of the Paris Declaration that has seen the least effective progress in implementation. Aid coordination can be enforced through different mechanisms, such as the following: interministerial and sectoral processes for coordinating aid (as adopted in Angola, Burundi, Ethiopia, the Lao People's Democratic Republic, Senegal, Tuvalu, Uganda and Vanuatu); international cooperation policies that spell out how sectoral support should be treated (as implemented in Afghanistan, Kiribati, Malawi, Nepal, Rwanda and Sierra Leone); the channelling of aid through existing institutions such as a ministry of finance; and United Nations mechanisms such as multi-donor trust funds or the United Nations Sustainable Development Cooperation Framework, a "strategic, medium-term results framework that describes the collective vision and response of the United Nations system to national development priorities and results on the basis of normative programming principles" (see chapter 4).[4] These are ways of strengthening LDC ownership of financial resources and allocation, as well as the alignment of allocation and disbursement with domestic development plans. In some instances, establishing strong national aid management systems has led countries to reject funding offers that are not aligned with national priorities. This is a difficult

[3] See paragraph 11 in United Nations (2010b) and paragraph 8 in United Nations (2019d), both of which echo paragraph 13 of United Nations (1978).

[4] See https://undg.org/document/2017-undaf-guidance.

LDC V
Conference, 2021
International actions for LDCs

decision for countries subject to resource and foreign exchange constraints, but it has served to signal beneficiary country commitment to strengthening national ownership. The experience of LDCs in which aid coordination has been successfully implemented shows that strong recipient country systems contribute to ensuring donor coordination, even in situations where donors do not give priority to the principle of coordination. The channelling of ODA through budget support rather than projects and/or parallel structures also contributes to aid coordination (Bräutigam, 2000).

b. Implement Aid Effectiveness Agenda 2.0

The present relationship between traditional donors and beneficiary countries is largely a result of two factors, namely, lingering issues on the original aid effectiveness agenda on which progress has been limited or incomplete; and rapid changes in the aid architecture, which present new challenges to recipient countries. To take into account both lingering and emerging issues, traditional donors and beneficiary countries are advised to launch a new agenda, namely, Aid Effectiveness Agenda 2.0. This agenda should have two components, namely, addressing the unfinished business of the original agenda and dealing with the challenges that have emerged from ongoing changes in the aid architecture. The implementation of Aid Effectiveness Agenda 2.0 should therefore effect changes to the existing aid architecture and correct for many of the challenges faced by LDCs under the traditional system.

i Deal with unfinished business

Over 10 years after the signing of the Paris Declaration and the Accra Agenda, their principles remain relevant, as does the principle of putting recipient countries

Support for transformative national development has to be strengthened

and their priorities at the centre of the aid system. This is consistent with the role attributed to States by the 2030 Agenda and the Addis Ababa Action Agenda. Developing country policymakers still place a higher priority on ownership, alignment with national priorities and effective delivery, for example, the speed of project delivery, in raising project finance (Prizzon et al., 2016). Yet, to a great extent, these principles have not been implemented and have decreased priority in mainstream aid policymaking. Therefore, a core element of Aid Effectiveness Agenda 2.0 is to reaffirm these principles and address the unfinished business of the original aid effectiveness agenda. There is a need to fully implement international commitments made following previous negotiations and affirmed in major international declarations.

(a) Implement previous commitments on the volume of official development assistance

Donor country commitments on the volume of ODA were made before aid effectiveness became a key issue on the international development agenda. However, given that most donor countries have not delivered on their commitments, this issue remains as part of the pending items on the traditional aid agenda. It is critical for traditional partners to deliver on long-standing commitments and the ODA targets reaffirmed in target 17.2 under the 2030 Agenda, in relation to both developing countries and LDCs. The additional inflow of development finance this would have brought to LDCs in 2017 was $32.5 billion–$58.3 billion (see chapter 2). ODA resources fall short of investment needs to achieve the Goals, yet such a step is critical in mobilizing additional resources, in particular in vulnerable countries such as LDCs, and in reinforcing mutual accountability. Such an increase in ODA might accentuate dependence on ODA in LDCs yet, while this may occur in the short term, on the contrary, the desired effect in the medium and long terms would be to lessen such dependence, as may be expected on the path towards economic development. At present, ODA remains a key tool in enhancing the development and long-term prospects of poor countries, in particular LDCs (Arndt et al., 2010). For an increase in aid dependence in the short term to lead to the end of aid dependence in the long term in LDCs, one condition is that a significant portion of the additional resources should be directed towards the development of productive capacities, in particular, to productive investment that leads to structural transformation. This would help to create good quality employment, which is a precondition for achieving several of the Goals, including Goal 1. Moreover, structural transformation in LDC economies would shrink chronic current account deficits, reducing their external indebtedness and lessening their dependence on external resources and, by the same token, gradually eliminating aid dependence. In other words, such a long-term process presupposes the rebalancing of the allocation of traditional aid in favour of productive sectors in such a way as to accelerate structural transformation. Targeted aid earmarked for specific sectors, in particular infrastructure investments, can facilitate improved fiscal outcomes in LDCs and reduce debt burdens. Development partners should therefore increase support for transformative national development agendas to maximize the effectiveness of aid. It is important for commitments on ODA volume to be implemented ahead of the Fifth United Nations Conference on the Least Developed Countries, in order that they may form part of the basis for the planning of the financing for development landscape for LDCs for the next decade. Such developments should be reflected in the next plan of action.

(b) Ensure donors align with national priorities

A crucial aspect of the aid effectiveness agenda has been the alignment of donors with beneficiary country priorities. The divergence between the concentration of donor resources on social sectors and the neglect of productive sectors and infrastructure shows that alignment remains an issue in traditional aid delivery that needs to be addressed. Critically, LDCs receiving aid above 50 per cent of government expenditure but with a similarly high tax revenue-to-government expenditure ratio face significant aid alignment problems. A threat to the achievement of the Goals in LDCs is path dependency in the pattern of aid allocation, whereby a concentration in the social sector remains prevalent. It is therefore important to align aid allocation with recipient country priorities and development plans.

ii Tackle new challenges

Private sector engagement implies an increased reliance on FDI and public–private partnerships. Negative experiences with such partnerships are common in both the global North and South. Many of the donor countries championing such partnerships abroad through the strategies of their development finance institutions are changing their approaches to domestic public–private partnerships, but similar developments are lagging in recipient countries.

Giving primary consideration to the singular issue of accountability can help LDCs affect private sector engagement in ways that enhance its contribution to structural transformation and sustainable development. Regardless of the outcomes of the modernization of the ODA architecture, the redefinition of what counts as ODA warrants a careful assessment of development impacts, to determine whether the evolving notion of ODA is appropriate in the era of the 2030 Agenda. For Aid Effectiveness Agenda 2.0 to be meaningful, it is important that DAC members strengthen ODA-linked private sector engagement accountability in beneficiary countries including, in particular, LDCs, which are the most dependent on ODA among all beneficiary countries. The need for accountability and transparency applies across all development cooperation actors in private sector engagement, and the following elements are critical.

(a) Collaborate on private sector engagement in development cooperation

Recipient governments and beneficiaries have, to date, not been a party to the ODA modernization process and the design of private sector engagement in development cooperation. The direction of accountability in the operationalization of private sector engagement also tends to flow backwards to donors, rather than to beneficiary developing countries. There are no agreed or standard definitions of most concepts related to private sector engagement and blending. In order to enhance development cooperation, donors may create a platform for joint decision-making with recipient countries on a range of issues, such as the following:

- All applicable definitions and methodologies of measurement relevant to the new ODA architecture and private sector engagement;
- Minimum standards of transparency in the use of private sector instruments and additionality;
- Expediting decisions on the unfinished business of ODA modernization;
- Effectively addressing current gaps in the accountability of the private sector as an actor in development cooperation;
- Reaching an agreement to reserve the right of recipient countries to have the final say on the scope and limits of private sector engagement in development cooperation.

(b) Enhance transparency in project selection and implementation

Private sector engagement in development cooperation emphasizes corporate and commercial solutions. Decision-making tends to involve donor agencies and the private sector and can often exclude recipient country institutions, contrary to the principle of ownership. This is in contrast to traditional development finance, which typically results from a process of negotiations between external sources of financing and beneficiary countries (Whitfield and Fraser, 2010). LDC Governments may consider the following:

The scope and limitations of private sector roles need to be well defined

- Proactively delineating the scope and limits of the roles of the public and private sectors in the delivery of public services, in line with heterogenous interests and socioeconomic contexts at the national and sectoral levels, as well as guarantees and contingent liabilities included in private sector engagement projects that might entail fiscal implications;
- Putting in place the necessary institutional frameworks, laws and regulations to align private sector engagement with national development priorities and goals, that is, implementing the principle of alignment, which may be achieved by, among others, requiring consistency with national development plans; requiring transparency in the ownership information of investees; and establishing the role of the State in assessing the development impact of Goals-aligned investments in the context of private sector engagement in development cooperation.

(c) Develop the endogenous entrepreneurial base in the least developed countries

Fostering domestic entrepreneurship can have a major development impact and is a critical part of inclusive and sustainable economic development (UNCTAD, 2018b). LDC Governments need to proactively engage with private sector engagement in ways that define the role and space of the domestic private sector and its interface with the external private sector. They also need to structure investment incentives in domestic economies accordingly. LDC Governments may consider the following:

- Identifying strategic national interests or sectors in their economies as, for example, countries in the European Union have done following the increased investment by China in their countries;

Development finance should boost

domestic entrepreneurship

- Preserving the necessary space for domestic private sector participation in the most profitable segments of economies, for example by securing access to an equitable distribution of aid-based support for the domestic private sector, which can provide a window for international agreements and/or best practice principles for win-win formulas in addressing the commercial interests of both donors and recipients;
- Exploring innovative ways to enhance linkages with FDI, for example by setting up secondary industrial zones for domestic suppliers, whether at separate sites or adjacent to formal export processing zones that often target FDI (Moran et al., 2018);
- Revisiting entrepreneurship strategies in line with the contribution of different types of entrepreneurship to structural transformation and wealth generation, including with regard to the higher propensity of medium-sized and larger domestic companies to link with external investors in win-win scenarios, compared with smaller counterparts (UNCTAD, 2011c; UNCTAD, 2018b).

(d) Develop an internationally agreed development impact evaluation framework for non-State actors

Accountability for achieving the Goals currently lies only with States, which are constrained in exercising this responsibility by the use of commercial solutions to development that do not have binding and rigorous development impact evaluation frameworks for non-State actors. The need to develop and implement methodologies, metrics and mechanisms for development impact evaluations is an integral and critical gap in the new aid architecture. It raises the risk that development effectiveness and impact will be aligned with commercial and financial metrics rather than the lived experience of development in beneficiary countries. Some Goals are more easily invested in than others. The evidence points to heightened risks of concentration by private sector engagement on a few of the Goals, with other Goals, such as quality public education, in danger of remaining severely underfunded. Moreover, many LDCs remain unattractive to private investment beyond the traditional areas targeted by FDI, in particular in the primary sector. Therefore, a closer alignment of private sector engagement with Aid Effectiveness Agenda 2.0 is desirable. Donors and beneficiary LDC Governments may consider the following:

- Jointly developing indicators and guidelines for measuring and reporting on the development impact of private sector engagement projects to strengthen mutual accountability frameworks for achieving the Goals;
- Limiting the expansion of the share of private sector engagement in total ODA to LDCs, contingent on clear and evidence-based evaluations of the impact and additionality of private sector engagement on recipient country development, given that available evidence does not point conclusively to the acceleration of sustainable development in beneficiary countries;
- Considering the implications of increased incentives for accelerated fragmentation in development cooperation and cross-sectoral impacts as part of development impact assessments of private sector engagement;
- Effectively addressing the issue of implicit subsidies when private companies invest in beneficiary countries, given the potentially negative effects on market structure and competition;
- Agreeing on a common definition of ODA, along with jointly agreed guidelines and boundaries for private sector engagement in development cooperation.

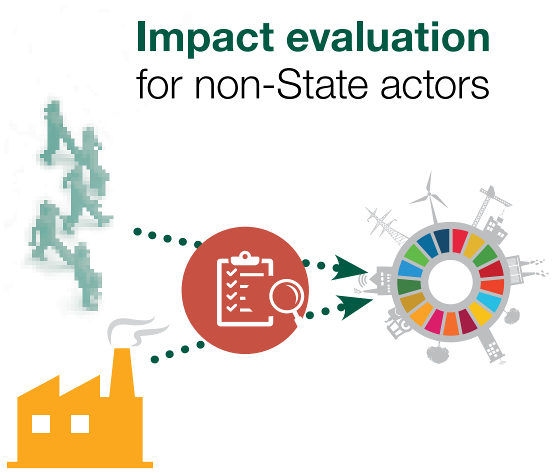
The idea of promoting responsible business conduct and promoting and facilitating investment aligned with the Goals is a major component of private sector engagement. Donor countries can promote business investment in projects and sectors that promote the structural transformation of LDC economies, in order for aid resources to be the most effective in terms of development impacts. In addition, the international community may promote new forms of business and investment for shared value that boosts productivity, inclusiveness and development and that replicates and scales up best practices; and traditional donors have suggested that they are increasing coherence between domestic policies and development objectives by using evidence of the development impacts of their policies in developing countries (OECD, 2018a). This should be an element of Aid Effectiveness Agenda 2.0.

(e) Ensure additionality

A central issue of the unfinished business of aid effectiveness agenda which has become increasingly important under the new aid architecture is additionality. The trends in external financing, in particular the emergence of new donors, private actors and blended resources, are creating additional coordination problems in LDCs, and it is not clear how much additional external financing is being provided. Countries should ensure that the new forms of cooperation are bringing additional financing that complements domestic resources and are not substitutes that entail costly private financial flows and additional public liabilities.

c. Expand and strengthen South–South cooperation

The relevance of South–South and triangular cooperation has increased in recent years and could have a critical role with regard to sustainable development prospects in both LDCs and other developing countries. Given the development needs of the former, increased South–South development cooperation by non-traditional partners in a position to do so could bring considerable benefits. It is critical to adequately reflect LDC needs in existing frameworks for economic integration among developing countries at regional or interregional levels. Challenges remain, in particular with regard to regional imbalances in access to development finance by beneficiary countries, along with the need for increased clarity in the definition of concessional and non-concessional lending, given the present lack of a common definition among sources of development finance in the South. These issues should be addressed through the revamping of development partnerships and enacting of general precepts, including mutual accountability and development impact evaluations. Development partners in the South have not yet agreed on a single definition and methodology for reporting on South–South cooperation, yet it is important to build upon existing country-level efforts to improve the transparency and monitoring of sustainable development footprints. This would be consistent with the outcome document of the second High-level United Nations Conference on South–South Cooperation, which encourages the development of "country-led systems to evaluate and assess the quality and impact of South–South and triangular cooperation programmes and improve data collection at the national level" (United Nations, 2019d, para. 25). In this context, the engagement of beneficiary countries, including LDCs, could prove particularly promising in progressively building institutional capacities to monitor development cooperation activities and enhance their quality, as well as taking into account the specificities of LDC economies. The United Nations has traditionally had an important role in fostering South–South cooperation and has been requested to pursue and strengthen its action in this field (United Nations, 2019d, para. 27). A United Nations system-wide strategy on South–South cooperation is being developed.



C. Bolstering the fiscal systems of the least developed countries

1. Main issues

It is crucial for LDCs to place the strengthening of their fiscal systems at the centre of their development strategies, for two main reasons. First, building fiscal systems is an integral part of State-building and there is a reciprocal relation between the quality of a fiscal system and State capacity. In order to finance the building of institutions and the formation of bureaucratic capabilities, States need to mobilize resources. Along the development trajectory of countries, there is typically a transition from dependence on external finance towards domestic resource mobilization, as noted in this report. In addition, State capacity to raise and allocate fiscal revenue in a sustainable way depends on a social contract that confers legitimacy to the fiscal system, in both developed countries and as part of the ongoing development process in developing countries (Bräutigam, 2008). State-building

It is vital that LDCs expand their tax bases

and the strengthening of State capacity is in turn required for a State to be able to steer the process of structural transformation and, thereby, sustainable development. Second, there is a relationship between taxation and aid dependence. It is often argued that aid dependence prevents the development of fiscal capacity in recipient countries, as well as State capacity more generally, and that it tends to perpetuate a low-level equilibrium that characterizes underdevelopment traps (Bräutigam, 2000). Aid and taxation are often seen as imperfect substitutes, on the grounds that the availability of ODA is a disincentive to the construction and strengthening of a domestic fiscal system. However, the extent of such negative side effects is questionable and, moreover, they may be the consequence of problems in the system of aid itself. In addition, multilateral and regional development banks have traditionally been active in the fiscal field through the implementation of capacity-building programmes on fiscal policy and budget management, which have resulted in building islands of high-level bureaucratic competence in LDCs, typically within ministries of finance and central banks. Yet such capacity-building activities have often largely been oriented towards fiscal prudence and decreased expenditure, rather than raising taxes and managing the longer term development impacts of fiscal policy (Therkildsen, 2002).

2. Policy options

a. Strengthen fiscal capacity

If correctly used, aid can become an instrument for breaking the vicious circle between aid dependence and weak State capacity, if it is applied to strengthening bureaucratic capacity in recipient countries, in particular with regard to tax collection and public expenditure allocation and management. Partner countries and institutions have an important role in this endeavour. They should have not merely a technocratic approach to building fiscal capacity in LDCs but a focus on the development impacts of fiscal policy. Strengthening LDC fiscal capacity is warranted on the following grounds:

- Gradually reducing aid dependence in LDCs and progressively attenuating the negative features of aid dependence;
- Strengthening ownership of development policies and thereby providing the resources required to boost the investment needed to accelerate structural transformation in LDCs;
- Bolstering LDC negotiating positions vis-à-vis external public and/or private sources of financing;
- Helping LDCs attenuate the missing-middle trap of development finance as they graduate from the LDC category or as income levels rise.

Sources of bilateral development finance and technical assistance can also be mobilized to strengthen fiscal systems in LDCs with regard to both human and institutional capabilities. This presupposes synergies between ODA and domestic taxes. Aid can be targeted to strengthening domestic fiscal systems, in particular through capacity-building among public officials and strengthening the related institutions, such as the ministry of finance, tax authorities and tax legislators. Aid should be used to bolster bureaucratic capacities on both the revenue and expenditure sides, as efficiency gains are required in allocation, spending and fiscal resource management. It is important to build fiscal capacity in most developing countries and even more critical in LDCs. However, the expectation placed on LDCs to mobilize adequate domestic financial resources for their development should be tempered by reality. Low levels of diversification in economies limit the extent to which LDCs can rely on taxes on income and profits. Moreover, due to its procyclical nature, tax revenue in LDCs is bounded by the weak growth potential of their economies. Macroeconomic shocks and structural vulnerabilities in LDCs also contribute to underperformance in tax revenue collection, in particular in countries with weak institutions. Most LDC economies have a large informal sector, which limits the scope for strengthening taxation. Therefore, it is important to strengthen State capacity in mobilizing and managing both domestic and external sources of financing for development and to ensure that aid is geared towards gradually reducing aid dependence.

b. Expand the tax base

The limits of domestic resource mobilization in LDCs are due to the narrow productive base and low levels of income, although there are income and wealth sources that have typically been underexploited by policymakers in LDCs, traditionally in the following areas (UNCTAD, 2010):

- Natural resources, for example, the low level of taxation of mining activities is a traditional shortcoming in LDC fiscal policy, in particular in resource-rich LDCs;

- Tax loopholes and exemptions given to transnational corporations, expatriates and private sector engagement projects; over 80 per cent of low-income countries and lower-middle-income countries offer tax incentives and exemptions on investment, yet tax incentives are often not among the most important factors in investment and location decisions and LDCs should therefore consider revising the terms of their FDI policies and bilateral investment treaties (OECD, 2018a);
- Urban property, which is typically taxed at low levels or not taxed at all;
- Luxury consumption, which typically faces the same shortcomings as urban property as a taxable base.

These sources of income have traditionally been accessed by LDCs to a low extent. The development of a new aid architecture and the significant increase in the number of agents active in the economies of LDCs implies that there are other potential sources of taxation that should be considered but are typically neglected, including taxing private sector engagement projects and aid workers, closing ODA loopholes and tax exemptions and participating in the profits of public–private partnerships.

D. Reinforcing the voice of the least developed countries in international financial forums and restoring the primacy of multilateralism

1. Main issues

LDCs should renew efforts to reassert the importance of the global partnership for sustainable development and take a more assertive and proactive role in engaging development partners, articulating their needs and stakes with regard to systemic issues at the bilateral and, in particular, at the multilateral level. With regard to broader issues on the international agenda, LDCs have a particularly strong vested interest in preserving and strengthening multilateralism. This is the sphere where the voice and interests of smaller countries and weaker actors in the international community are best represented and defended (Kahler, 1992; Súilleabháin, 2014). Multilateralism is, moreover, a means of pursuing the realization of human rights, including the right to development (box 5.2). Yet the current economic and geopolitical conjuncture is placing an enormous strain on the multilateral system and it has recently come under criticism in the fields of trade, finance and geopolitics.

Multilateralism has to be safeguarded and strengthened

With regard to specific issues on the aid effectiveness agenda, the United Nations system has effectively promoted the Paris Declaration principles of ownership and alignment, with a commitment to promoting State capacity and decision-making on development priorities and strategies, in contrast to the shifts in the priorities of traditional donor countries away from a beneficiary country-centric approach (Lundsgaarde and Engberg-Pedersen, 2019). This broader movement away from multilateralism seems to be reflected in the current trend in the aid architecture to target the increased use of bilateral development finance institutions. This may ultimately elevate bilateral engagement and intensify unilateral action by a variety of actors that are not necessarily equipped to address all or any development challenges. This change should not come at the expense of the multilateral sector, including the critical role of the United Nations in providing concrete evidence-based guidance on development cooperation for policymakers and practitioners at all levels. The United Nations development system constitutes an essential forum to create greater solidarity across all countries and sectors and to ease tensions between competing national interests. This is an additional reason for the international community to resist the drive away from multilateralism. Among systemic issues of critical interest to LDCs, with increasingly visible impacts, is climate change. Growing evidence has shown that, although LDCs have contributed only marginally to greenhouse gas emissions, they will be disproportionately affected by the consequences of climate change and related extreme weather events, which threaten to exacerbate global inequalities and undermine progress towards sustainable development and poverty eradication (UNCTAD, 2010). Laying the foundations for sustainable development in LDCs entails investing in climate-resilient infrastructure and diversifying economies into sectors and activities with higher productivity and less exposure to climate-related risks. This hinges on the availability of adequate funds for climate change adaptation and mitigation, as well as on bold and concerted efforts to foster technology transfer. Against this background, resources mobilized by donor countries for environmental sustainability objectives are largely not on track to meet the commitment in the context of the Paris Agreement of $100 billion per year by 2020 and less than 20 per

Box 5.2 Multilateralism, international cooperation and the right to development

International cooperation is vital to realizing the transformative vision of the 2030 Agenda, which is grounded in the international human rights framework and informed by the Declaration on the Right to Development. The responsibility of States is anchored in articles 1, 55 and 56 of the Charter of the United Nations, which also highlight the need for multilateralism, as "all Members pledge themselves to take joint and separate action in cooperation with the Organization for the achievement of the purposes set forth in article 55" (article 56). These principles are reaffirmed by the Declaration on the Right to Development, which declares that States should cooperate effectively to provide developing countries with appropriate means and facilities to foster their comprehensive development and should take steps to eliminate obstacles to development. States acting individually and collectively bear primary responsibility for guaranteeing the right to development, which includes an appropriate political, social and economic order for development, appropriate national and international development policies and appropriate economic and social reforms to eradicate social injustice. Resonant with the principles of special and differential treatment and common but differentiated responsibilities, the Declaration on the Right to Development affirms that sustained action is required to promote more rapid development of developing countries. As a complement to the efforts of developing countries, effective international cooperation is essential in providing the appropriate means and facilities to foster their comprehensive development. Moreover, international cooperation is a binding legal obligation in several human rights treaties, including the International Covenant on Economic, Social and Cultural Rights, the Convention on the Rights of the Child and the Convention on the Rights of Persons with Disabilities. This obligation has been further elaborated by the respective treaty bodies. The human rights principles of equality, non-discrimination, participation, accountability and transparency must guide decision-making processes at all levels, including global governance. States, international and regional organizations and all other stakeholders must cooperate to reduce inequalities, in line with Goal 10, including through financing development and debt relief. Policy coherence requires trade and investment agreements to be aligned with human rights obligations and ensuring policy space requires redressing structural and systemic asymmetries. North–South, South–South and triangular cooperation, including to mobilize resources and close technology gaps and digital divides, can help realize human rights, in particular economic, social and cultural rights, including health and education.

Sources: United Nations, 1945; United Nations, 1986.

cent of bilateral ODA commitments by DAC members are reported as focusing on environmental objectives.

2. Policy options

In their quest for development finance, LDCs have a considerable stake in discussions related to systemic issues, notably reserve currency and debt sustainability. Their economic weight may be marginal when assessed on a global scale, but the terms of their integration into the global market are significantly affected by measures in this regard agreed by the international community. It is therefore all the more important that LDC interests be adequately considered and reflected in global forums and debates on systemic issues. A multilateral forum that provides a platform for LDCs to raise concerns to the international community is the Committee of Experts on International Cooperation in Tax Matters, currently working on several issues of particular interest to LDCs, such as transfer pricing, extractive industries, ODA projects and capacity development. This section focuses on such issues.

a. Combat illicit financial flows and international tax evasion

LDCs have experienced significant illicit financial outflows that further erode their taxable bases, in particular LDCs with extractive industries as an important sector of economic activity (Le Billon, 2011; UNCTAD, 2014e). Combating illicit flows requires strengthening international cooperation on tax matters and closing loopholes, to contribute to the domestic resource mobilization efforts in developing countries. This responsibility should be shared by all actors in development. International cooperation is therefore important, in particular at multilateral forums at which all countries, including LDCs, are represented.

b. Agree on a multilateral framework for debt restructuring

The proposal to establish an independent, multilateral and transparent debt restructuring mechanism has been included in international discussions on financing for development for decades, given the cyclical nature of foreign debt crises in developing countries, despite different initiatives taken to address them, such as HIPC. However, an international consensus has not yet been reached, although the need for it is becoming stronger in the present context, in both LDCs and other developing countries, in particular in view of the growing complexity of the aid architecture and the financing for development landscape. LDCs stand to benefit the most from such a mechanism, given their structural current account deficits and the recent deterioration of their external debt situations (see chapters 1 and 2). Ideally, such a framework should go beyond the strict debt sustainability criteria currently in place, and take into account human rights, gender inequalities and climate-related vulnerabilities. UNCTAD had a critical role in assisting the discussions that led to the adoption by the General Assembly of a resolution on basic principles on sovereign debt restructuring processes (United Nations, 2015a). This important step needs to be followed by implementation mechanisms for the agreed principles.

c. Facilitate access to long-term and climate-related finance

Macroeconomic fundamentals and the specific vulnerabilities in LDCs suggest that greater access to long-term development finance could prove vital in addressing infrastructure gaps and investing in technological upgrading and skills accumulation. The current trend in international finance is towards even greater private sector engagement through public–private partnerships, yet it is important to reaffirm the central role of public finance in sustainably financing infrastructure and thereby providing the basis for structural transformation. With regard to climate-related finance, beyond concerns about the additionality of resources provided for environmental sustainability purposes, it is imperative that developed countries step up the mobilization of official development finance in line with international commitments. It is also important to expand the share of such resources provided in grant or grant-equivalent forms and increase in particular the portion targeting climate change adaptation, as it is the type of climate finance most relevant to LDCs.

d. Restore the primacy of multilateralism

LDC have a limited voice at key discussions at which systemic issues are treated and limited chances to articulate their needs and see them adequately considered. Based on historical experience, this lack of representation is unlikely to be addressed in the near future, yet it is important that LDC concerns be adequately taken into account, if the pledge to leave no one behind is to be taken seriously. The need to reinvigorate multilateralism and strengthen global cooperation is increasingly being recognized, not only by the United Nations and UNCTAD, but also by the International Monetary Fund and OECD (International Monetary Fund, 2019; OECD, 2018a; Project Syndicate, 2019b; UNCTAD, 2017b). With regard to aid allocation and delivery, it is crucial to reinforce the role of the United Nations in the evolving aid architecture, given that development is one of the three pillars of the United Nations and given its strong track record with regard to ownership and alignment with national priorities. The United Nations commitment to the principles of the Paris Declaration is confirmed by the ongoing reform of its development pillar, a major element of which is the strengthening of the United Nations Sustainable Development Cooperation Framework. All sources of financing under the new aid architecture can therefore consider strengthening multilateralism by boosting the financing of programmes that give the United Nations system a leading role in collaborating with country authorities.

References

African Development Bank (2013). Private sector development policy of the African Development Bank Group. Available at https://www.afdb.org/en/documents/document/private-sector-development-policy-of-the-afdb-group-31737 (accessed 24 September 2019).

African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund and World Bank Group (2015). From billions to trillions: transforming development finance. Post-2015 financing for development: multilateral development finance. Development Committee Discussion Note DC2015-0002. World Bank and International Monetary Fund. Available at https://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf.

African Union Commission and United Nations Economic Commission for Africa (2015). *Illicit Financial Flows: Report of the High-Level Panel on Illicit Financial Flows from Africa*.

Akgun O, Bartolini D and Cournède B (2017). The capacity of Governments to raise taxes. OECD Economics Department Working Paper No. 1407.

Akhtar J (2018). Exchange of information: Indian experience, developing country implications. Tax Cooperation Policy Brief No. 4. South Centre.

Alesina A and Dollar D (2000). Who gives foreign aid to whom and why? *Journal of Economic Growth*. 5(1):33–63.

Alonso JA (2015). Supporting LDCs' Transformation: How can ODA contribute to the Istanbul Programme of Action in the post-2015 era? Committee for Development Policy Background Paper No. 28. United Nations Department of Economic and Social Affairs.

Anderson E (2008). Practices and implications of aid allocation. Available at https://www.un.org/ecosoc/en/content/dcf-publications-%E2%80%93-selection (accessed 24 September 2019).

Andreff W (2016). Outward foreign direct investment from BRIC [Brazil, Russian Federation, India, China] countries: Comparing strategies of Brazilian, Russian, Indian and Chinese multinational companies. *The European Journal of Comparative Economics*. 12(2):79–131.

Arndt C, Jones S and Tarp F (2010). Aid, growth and development: Have we come full circle? *Journal of Globalization and Development*. 1(2), article 5.

Ashley C (2018). What should and shouldn't development finance institutions be doing and reporting? Available at https://www.inclusivebusiness.net/ib-voices/what-should-and-shouldnt-development-finance-institutions-be-doing-and-reporting (accessed 15 August 2019).

Attridge S, Calleja R, Gouett M and Lemma A (2019). *The Impact of Development Finance Institutions: Rapid Evidence Assessment*. Department for International Development). London.

Attridge S and Engen L (2019). *Blended Finance in the Poorest Countries: The Need for a Better Approach*. Overseas Development Institute. London.

Atwood JB, Manning R and Riegler H (2018). Don't undermine the basic architecture of OECD/DAC statistics: A Letter of warning. Brookings Institution.

Bachelet M (2019). The ripple effect of rights-based approaches: Creating waves of positive change. SDG [Sustainable Development Goals] Knowledge Hub. 9 July. Available at http://sdg.iisd.org/commentary/guest-articles/the-ripple-effect-of-rights-based-approaches-creating-waves-of-positive-change/ (accessed 10 October 2019).

Bandura R (2017). Rethinking private capital for development. Centre for Strategic and International Studies.

Bartenev V and Glazunova E, eds. (2013). *International Development Cooperation: Set of Lectures*. World Bank. Moscow.

Basnett Y and Bhattacharya D (2015). Exploring spaces for economic transformation in the Sustainable Development Goals. Overseas Development Institute. London.

Bermeo SB (2017). Aid allocation and targeted development in an increasingly connected world. *International Organization*. 71(4):735–766.

Besharati NA (2018). The quest to measure South–South cooperation. Southern Voice. Available at http://southernvoice.org/the-quest-to-measure-south-south-cooperation/ (accessed 24 September 2019).

Besharati N and MacFeely S (2019). Defining and quantifying South–South cooperation. UNCTAD Research Paper No. 30 (United Nations publication. Geneva).

Besley T and Persson T (2009). The origins of State capacity: Property rights, taxation and politics. *American Economic Review*. 99(4):1218–1244.

Besley T and Persson T (2011). Fragile States and development policy. *Journal of the European Economic Association*. 9(3):371–398.

Besley T and Persson T (2013). Taxation and development. In: Auerbach AJ, Chetty R, Feldstein M and Saez E, eds. *Handbook of Public Economics*. Elsevier. Amsterdam:51–110.

Bhattacharya D and Khan SS (2019). Is blended finance trending in the LDCs? Perspectives from the ground. Occasional Paper Series No. 49. Southern Voice.

Bhushan A, Samy Y and Medu K (2013). Financing the post-2015 development agenda: Domestic revenue mobilization in Africa. The North-South Institute.

Bhutan (2016). Twelfth five-year plan 2018–2023 guideline. Available https://www.gnhc.gov.bt/en/?page_id=9 (accessed24 September 2019).

Bickenbach F, Mbelu A and Nunnenkamp P (2019). Is foreign aid concentrated increasingly on needy and deserving recipient countries? An analysis of Theil indices, 1995–2015. *World Development*. 115:1–16.

Blockmans S and Hu W (2019). Systemic rivalry and balancing interests: Chinese investment meets EU [European Union] law on the Belt and Road. Policy Insights No. 4. Centre for European Policy Studies.

Blue Orchard (2018). *Blended Finance 2.0: Giving Voice to the Private Sector*. Zurich, Switzerland.

Bodenstein T, Faust J and Furness M (2017). European Union development policy: Collective action in times of global transformation and domestic crisis. *Development Policy Review*. 35(4):441–453.

Boesen N and Dietvorst (2007). Sector wide approaches: From an aid delivery to a sector development perspective. Available at https://europa.eu/capacity4dev/public-pub.sector-reform-decentralisation/document/europeaid-2007-swaps-motion-sector-wide-approaches-aid-delivery-sector-development-perspect (accessed 24 April 2019).

Bourguignon F and Platteau J-P (2015). The hard challenge of aid coordination. *World Development*. 69:86–97.

Boussichas M and Guillaumont P, eds. (2015). *Financing Sustainable Development: Addressing Vulnerabilities*. Fondation pour les études et recherches sur le développement international. Paris.

Bräutigam DA (2000). Aid dependence and governance. Expert Group on Development Issues. Available at https://deborahbrautigam.files.wordpress.com/2013/04/2000-aid-dependence-and-governance.pdf accessed 10 October 2019).

Bräutigam DA (2008). Taxation and State-building in developing countries. In: Bräutigam DA, Fjeldstad O-H, and Moore M, eds. *Taxation and State-Building in Developing Countries: Capacity and Consent*. Cambridge University Press. Cambridge:1–33.

Bräutigam DA and Knack S (2004). Foreign aid, institutions and governance in sub-Saharan Africa. *Economic Development and Cultural Change*. 52(2):255–285.

Bretton Woods Project (2019). What are the main criticisms of the World Bank and IMF [International Monetary Fund]? Available at https://www.brettonwoodsproject.org/2019/06/what-are-the-main-criticisms-of-the-world-bank-and-the-imf/ (accessed 12 September 2019).

Brown S (2016). Whatever happened to the aid effectiveness agenda? Centre for International Policy Studies. Available at https://www.cips-cepi.ca/2016/12/06/whatever-happened-to-the-aid-effectiveness-agenda/ (accessed 10 October 2019).

Brunswijck G (2019). Flawed conditions: The impact of the World Bank's conditionality on developing countries. European Network on Debt and Development.

Bulíř A and Hamann AJ (2008). Volatility of development aid: From the frying pan into the fire? *World Development*. 36(10):2048–2066.

Bulloch G and James L (2014). The convergence continuum: Towards a "4th sector" in global development? Accenture.

Burkina Faso (2016). Overview: National plan for economic and social development 2016–2020. Available at http://www.pndes2020.com/pdf/06-en.pdf (accessed 24 September 2019).

Byiers B, Grosse-Puppendahl S, Huyse H, Rosengren A and Vaes S (2016). Principles for public–private partnerships: Towards sustainability? Discussion Paper No. 194. European Centre for Development Policy Management.

Cagé J (2009). Growth, poverty reduction and governance in developing countries: A survey. Centre pour la recherche économique et ses applications.

Capria (2019). Are tax havens becoming irrelevant for emerging market funds? Available at https://capria.vc/newsletter/are-tax-havens-becoming-irrelevant-for-emerging-market-funds/ (accessed 27 August 2019).

Carcelli SP (2019). Distributive politics and bureaucratic foreign aid fragmentation. Available at https://static1.squarespace.com/static/59948415f43b55af66b13635/t/5cdc77297817f70b286925c5/1557952298166/Crossnational519.pdf (accessed 24 September 2019).

Carter P (2015). *Why Subsidize the Private Sector? What Donors are Trying to Achieve, and What Success Looks Like*. Overseas Development Institute. London.

Carter P (2017a). Solving the private sector imbroglio. Available at https://www.cgdev.org/publication/solving-private-sector-imbroglio (accessed 6 August 2019).

Carter P (2017b). *Why Do Development Finance Institutions Use Offshore Financial Centres?* Overseas Development Institute. London.

Carter P (2017c). Wanted: Mechanism for additionality. Available at https://oecd-development-matters.org/2017/05/10/wanted-mechanism-for-additionality/ (accessed 16 August 2019).

Carter P, Van de Sijpe N and Calel R (2018). The elusive quest for additionality. Working Paper No. 495. Centre for Global Development.

Cavallo E, Eichengreen B and Panizza U (2018). Can countries rely on foreign saving for investment and economic development? *Review of World Economics*. 154(2): 277–306.

Cervo AL (2010). Brazil's rise on the international scene: Brazil and the world. *Revista Brasileira de Política Internacional*. 53:7–32.

Chartered Institute of Building and Centre for Economics and Business Research (2019). *From Silk Road to Silicon Road: How the Belt and Road Initiative Will Transform the Global Economy*. London.

Chatterjee S, Giuliano P and Kaya I (2012). Where has all the money gone? Foreign aid and the composition of government spending. *The B. E. Journal of Macroeconomics*. 12(1):1–36.

Chenery HB and Bruno M (1962). Development alternatives in an open economy: The case of Israel. *The Economic Journal*. 72(285):79–103.

Cheng C (2019). The logic behind China's foreign aid agency. Carnegie-Tsinghua Center for Global Policy. Available at https://carnegieendowment.org/2019/05/21/logic-behind-china-s-foreign-aid-agency-pub-79154 (accessed 13 June 2019).

Cheng CS and Zaum D, eds. (2013). *Corruption and Post-Conflict Peacebuilding: Selling the Peace?* Routledge. London.

Cobham A, Janský P and Meinzer M (2018). A half-century of resistance to corporate disclosure. In: UNCTAD. *Transnational Corporations: Investment and Development* (United Nations publication. Sales No. ETN253. New York and Geneva). [DB CH3]

Coggins BL (2015). Does state failure cause terrorism? An empirical analysis (1999–2008). *Journal of Conflict Resolution*. 59(3):455–483.

Colin S (2014). A matter of high interest: Assessing how loans are reported as development aid. European Network of Debt and Development. Brussels.

Collier P, Besley T and Khan A (2018). *Escaping the Fragility Trap*. London School of Economics and Political Science-Oxford Commission on State Fragility, Growth and Development. London.

Committee for Development Policy, Subgroup on Accountability (2015). Transitioning from the MDGs [Millennium Development Goals] to the SDGs [Sustainable Development Goals]: Accountability for the post-2015 era. Committee for Development Policy Background Paper No. 25. United Nations Department of Economic and Social Affairs.

Convergence (2018). *The State of Blended Finance 2018*. Toronto, Canada.

Cornish L and Saldinger A (2019). Profilling 17 development finance institutions. Available at https://www.devex.com/news/profiling-17-development-finance-institutions-94405 (accessed 24 September 2019).

Crawford G and Kacarska S (2019). Aid sanctions and political conditionality: Continuity and change. *Journal of International Relations and Development*. 22(1): 184–214.

Cui W (2016). Comparison between North–South aid and South–South cooperation: Based on the analysis of the new development finance institutions. *Journal of Shanghai Jiaotong University*. 21(1):25–32.

Dag Hammarskjöld Foundation and United Nations Multi-Partner Trust Fund Office (2017). Financing the UN [United Nations] development system: Pathways to reposition for Agenda 2030. Available at https://www.daghammarskjold.se/publication/financing-unds-2017/ (accessed 18 August 2019).

Davies P (2011). The role of the private sector in the context of aid effectiveness. Consultative findings document. 2 February.

Delalande G and Gaveau V (2018). Senegal's perspective on TOSSD [Total Official Support for Sustainable Development]. Working Paper No. 43. OECD.

Dempsey S (2017). Commercial creep in the classroom. *Education: Journal of the New South Wales Teachers Federation*. 98(5).

Development Reimagined (2019). China's debt relief along the Belt and Road – what's the story? 25 April. Available at https://developmentreimagined.com/2019/04/25/chinas-debt-relief-along-the-belt-and-road-whats-the-story/ (accessed 26 April 2019).

Devex (2019a). "Haphazard" White House crackdown on human trafficking disrupts aid. 9 May.

Devex (2019b). Hewlett Foundation's Ruth Levine on how donors can stop "undercutting chances of success". 1 April.

Devex (2019c). Development finance institutions grapple with their growing role. 19 March.

Devex (2019d). What does the data tell us about DFIs [development finance institutions]? 19 March.

Devex (2019e). What will it take to fix flailing SDG [Sustainable Development Goal] funding? 23 April.

Di Ciommo M, Sherriff A and Bossuyt J (2019). The dynamics of EU[European Union] budget negotiations for external action: Towards a "single" instrument? In: Sherriff A, ed. *Investing in Europe's Global Role: The Must-Have Guide for the Negotiations of the Multiannual Financial Framework 2021–2027*. European Centre for Development Policy Management. Maastricht, Netherlands:41–55.

Dijkstra G (2013). The new aid paradigm: A case of policy incoherence. Working Paper No. 128. United Nations Department of Economic and Social Affairs. New York. [DB CH4]

Dincecco M (2017). *State Capacity and Economic Development: Present and Past*. Cambridge University Press. Cambridge.

Diongson D (2018). OPIC [Overseas Private Investment Corporation] eyes mandate change with direct equity investments. Available at https://www.privateequityinternational.com/opic-eyes-mandate-change-with-direct-equity-investments/ (accessed 15 August 2019).

Divakaran S, McGinnis PJ and Shariff M (2014). Private equity and venture capital in SMEs [small and medium-sized enterprises] in developing countries: The role for technical assistance. Policy Research Working Paper No. 6827. World Bank.

Donoghue D and Khan A (2019). Achieving the [Sustainable Development Goals] SDGs and "leaving no one behind": Maximizing synergies and mitigating trade-offs. Working Paper No. 560. Overseas Development Institute. London.

Dornan M (2017). How new is the "new" conditionality? Recipient perspectives on aid, country ownership and policy reform. *Development Policy Review*. 35(51): 46–63.

Downs C (2011). Operational effectiveness of the UN MDTF [United Nations multi-donor trust fund] mechanism. Available at http://mdtf.undp.org/document/download/6916 (accessed 24 September 2019).

Drążkiewicz E (2017). Neutrality in foreign aid. *Focaal Journal of Global and Historical Anthropology*. 77:90–102.

Dreher A and Fuchs A (2011). Rogue aid? The determinants of China's aid allocation. Scholarly Paper No. ID 1926471. Social Science Research Network. Rochester (New York), United States.

Dreher A, Fuchs A, Parks B, Strange AM and Tierney MJ (2017). Aid, China and growth: Evidence from a new global development finance dataset. Working Paper No. 46. Aid Data, A Research Lab at William and Mary.

Dreher A, Fuchs A, Parks B, Strange AM and Tierney MJ (2018). Apples and dragon fruits: The determinants of aid and other forms of State financing from China to Africa. *International Studies Quarterly*. 62(1): 182–194.

Easterly W (2006). *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. Penguin Press. New York.

Eaton J (1989). Foreign public capital flows. In: Chenery HB and Srinivasan TS, eds. *Handbook of Development Economics*, vol. 2. Elsevier. Amsterdam: 1305–1386.

European Development Finance Institutions (2016). *Flagship Report 2016: Investing to Create Jobs, Boost Growth and Fight Poverty. Brussels.*

European Development Finance Institutions (2018). Principles for responsible tax in developing countries. Available at https://www.edfi.eu/news/edfi-members-endorse-principles-responsible-tax-developing-countries/ (accessed 12 September 2019).

European Development Finance Institutions (2019). Standing together for impact. 14 May. Available at https://www.edfi.eu/news/standing-together-impact/ (accessed 24 June 2019).

Edwards S (2014). How effective is foreign aid? Available at https://www.weforum.org/agenda/2014/11/how-effective-is-foreign-aid/ (accessed 29 June 2019).

El Khanji S (2018). An empirical exploration of relationships between official development assistance and advances in water and sanitation subsectors. *Cogent Economics and Finance*. 6(1):1437661.

Elbers W and Schulpen L (2015). Reinventing international development NGOs [non-governmental organizations]: The case of ICCO [Interchurch Organization for Development Cooperation]. *The European Journal of Development Research*. 27(1):1–18.

Emerging Markets Private Equity Association (2017). 2017 Annual Report. Washington, D.C.

Emerging Markets Private Equity Association (2018). The road ahead for African private equity. Brief.

Engen L and Prizzon A (2018). *A Guide to Multilateral Development Banks*. Overseas Development Institute. London.

European Commission (2015). National indicative programme 2014–2020 for Eritrea. Available at https://ec.europa.eu/europeaid/national-indicative-programme-2014-2020-eritrea_en (accessed 24 September 2019).

European Commission (2018). Communication from the Commission on new requirements against tax avoidance in EU [European Union] legislation governing in particular financing and investment operations. C(2018) 1756. Brussels. 21 March.

European Commission and High Representative of the Union for Foreign Affairs and Security Policy (2019). Joint communication to the European Parliament, the European Council and the Council: EU [European Union]-China: A strategic outlook. JOIN (2019) 5. Strasbourg, France.

European Court of Auditors (2014). The effectiveness of blending regional investment facility grants with financial institution loans to support EU [European Union] external policies. Special Report No. 16.

European Union (2018). *Public–Private Partnerships in the EU [European Union]: Widespread Shortcomings and Limited Benefits*. European Court of Auditors Special Report. Luxembourg.

Faraz U, Jeuland M and Pattanayak SK (2018). NGOs [non-governmental organizations] and the effectiveness of interventions. Working Paper No. 59. United Nations University World Institute for Development Economic Research.

Feeny S and McGillivray M (2009). Aid allocation to fragile States: Absorptive capacity constraints. *Journal of International Development*. 21(5):618–632.

Feeny S and McGillivray M (2010). Aid and growth in small island developing States. *The Journal of Development Studies*. 46(5):897–917.

de Felice D (2015). Diverging visions on political conditionality: The role of domestic politics and international socialization in French and British aid. *World Development*. 75:26–45.

de Felice D (2016). Europeanization should meet international constructivism: The Nordic plus group and the internalization of political conditionality by France and the United Kingdom. *European Politics and Society*. 17(1): 58–73.

Fengler W and Kharas H (2010). Overview: Delivering aid differently. In: Fengler W, and Kharas H, eds. *Delivering Aid Differently*. Brookings Institution Press. Washington. D.C.:1–41.

Fengler W and Kharas H (2011). Delivering aid differently: Lessons from the field. Economic Premise No. 49. World Bank.

Fenochietto R and Pessino C (2013). Understanding countries' tax effort. International Monetary Fund Working Paper. No. 244.

Financial Times (2012). World Bank: An exercise of influence. 2 April.

Financial Times (2018). US [United States] to set up $60bn [billion] agency to counter China in developing world. 23 September.

Financial Times (2019a). The Asian century is set to begin. 26 March.

Financial Times (2019b). Household food spending divides the world. 8 January.

Food and Agriculture Organization of the United Nations (2019). *South–South and Triangular Cooperation in FAO [Food and Agriculture Organization of the United Nations]: Strengthening Partnerships to Achieve the Sustainable Development Goals. Rome.*

Forstater M (2018) [Illicit financial flows, trade misinvoicing and multinational tax avoidance: The same or different? Centre for Global Development.

Foster M and Keith A (2003). The case for increased aid: Final report to the Department for International Development. Available at https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/4817.pdf (accessed 24 September 2019).

Freedman L (2006). The new security equation. In: Picciotto R and Weaving R, eds. *Security and Development: Investing in Peace and Prosperity. Routledge. London:27–41.*

Freire C (2017). Promoting structural transformation: Strategic diversification vs. laissez-faire approach. Working Paper No. 151. United Nations Department of Economic and Social Affairs.

Freire-González J (2018). Environmental taxation and the double dividend hypothesis in CGE [computable general equilibrium] modelling literature: A critical review. *Journal of Policy Modelling*. 40(1):194–223.

Frenkel R and Rapetti M (2008). Five years of competitive and stable real exchange rate in Argentina, 2002–2007. *International Review of Applied Economics*. 22(2): 215–226.

Fukuda-Parr S (2012). Should global goal setting continue, and how, in the post-2015 era? Working Paper No. 117. United Nations Department of Economic and Social Affairs.

Gehrke T (2019). Redefining the EU [European Union]–China economic partnership: Beyond reciprocity lies strategy. Security Policy Brief No. 104. Egmont.

German Corporation for Development Cooperation (2019). Supporting tax authorities in Nepal. Available at https://www.giz.de/en/worldwide/17876.html (accessed 9 August 2019).

German Development Institute (2018). From damage control to sustainable development: European development policy under the next EU [European Union] budget. Briefing Paper No. 7.

Global Financial Integrity (2019). *Illicit Financial Flows to and from 148 Developing Countries: 2006–2015*. Washington, D.C.

Global Impact Investing Network (2018). Annual Impact Investor Survey. New York.

Global Justice Now (2016). *Gated Development: Is the Gates Foundation Always a Force for Good?* London.

Global Partnership for Education (2019). Private sector engagement strategy. BOD/2019/06-06. Stockholm. 11–13 June.

Gomes GZ and Esteves P (2018). The BRICS [Brazil, Russian Federation, India, China, South Africa] effect: Impacts of South–South cooperation in the social field of international development cooperation. *Institute of Development Studies Bulletin*. 49(3):129–144.

Gottschalk R and Poon D (2017). Scaling up finance for the Sustainable Development Goals: Experimenting with models of multilateral development banking. Background paper prepared for the first session of the Intergovernmental Group of Experts on Financing for Development. Geneva. 8–10 November.

Gourevitch PA, Lake DA and Gross Stein J, eds. (2011). *The Credibility of Transnational NGOs [Non-Governmental Organizations]: When Virtue Is Not Enough*. Cambridge University Press. Cambridge, United Kingdom.

Gu J (2009). China's private enterprises in Africa and the implications for African development. *The European Journal of Development Research*. 21(4):570–587.

Gu J and Kitano N (2018). Beyond aid: The future of development cooperation. *Institute of Development Studies Bulletin*. 49(3): 1–12.

The Guardian (2019). Leaked documents reveal Russian effort to exert influence in Africa. 11 June.

Guillaumont P and Wagner L (2014). Aid effectiveness for poverty reduction: Lessons from cross-country analyses, with a special focus on vulnerable countries. *Revue d'economie du developpement*. 22(HS01):217–261.

Gulrajani N (2016). Bilateral versus multilateral aid channels: Strategic choices for donors. Overseas Development Institute.

Gulrajani N (2017). Bilateral donors and the age of the national interest: What prospects for challenge by development agencies? *World Development*. 96:375–389.

Gunatilake HM, Fabella RV and Lagman-Martin A (2015). Foreign aid, aid effectiveness and the new aid paradigm: A review. *Sri Lankan Journal of Agricultural Economics*. 12(13):39–81.

Gupta S and Plant M (2019). Enhancing domestic resource mobilization: What are the real obstacles? Centre for Global Development. 30 April.

Gurara D, Klyuev V, Mwase N, Presbitero A, Xu XC and Bannister G (2017). Trends and challenges in infrastructure investment in low-income developing countries. International Monetary Fund Working Paper No. 233.

Gutman J and Horton C (2015). Accessibility and effectiveness of donor disclosure policies when disclosure clouds transparency. Global Economy and Development Working Paper No. 85. Brookings Institution.

Haider H (2018). Donors influencing other donors and development outcomes. Department for International Development.

Hart T, Hadley S and Welham B (2015). Use of country systems in fragile States. Overseas Development Institute.

Haughton JH (1998). Available at https://www.researchgate.net/profile/Jonathan_Haughton (accessed 24 September 2019).

Hay I and Muller S (2014). Questioning generosity in the golden age of philanthropy: Towards critical geographies of super-philanthropy. *Progress in Human Geography*. 38(5)635–653.

Heinrich-Fernandes M (2019). Donor engagement in innovative finance: Opportunities and obstacles. Donor Committee for Enterprise Development.

Hernandez D (2017). Are "new" donors challenging World Bank conditionality? *World Development*. 96:529–549.

Hulme D (2013). Poverty and development thinking: Synthesis or uneasy compromise? Brooks World Poverty Institute Working Paper No. 180. University of Manchester.

Hurley, J, Morris S and Portelance G (2018). Examining the debt implications of the Belt and Road Initiative from a policy perspective. Policy Paper 121. Center for Global Development. Washington D.C.

Hynes W and Scott S (2013). The evolution of official development assistance: Achievements, criticisms and a way forward. Development Cooperation Working Papers No. 12. OECD Publishing. Paris.

Independent Commission for Aid Impact (2019). *The Current State of UK [United Kingdom] Aid: A Synthesis of Findings from 2015 to 2019*. London.

Intergovernmental Panel on Climate Change (2014). *Climate Change 2014: Mitigation of Climate Change. Working Group III Contribution to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change*. Cambridge University Press. New York.

International Finance Corporation (2018). Blended finance: A stepping stone to creating markets. Note 51.

International Financial Reporting Standards Foundation (2019). Speech: IASB [International Accounting Standards Board] chair on what sustainability reporting can and cannot achieve. Available at https://www.ifrs.org/news-and-events/2019/04/speech-iasb-chair-on-sustainability-reporting/ (accessed 29 June 2019).

International Labour Organization (2018). *World Employment Social Outlook: Trends 2018. Geneva*.

International Labour Organization (2019). The working poor, or how a job is no guarantee of decent living conditions. Spotlight on Work Statistics No. 6.

International Monetary Fund (2016). International Monetary Fund survey: Fiscal capacity development can boost inclusive growth. Available at https://www.imf.org/en/News/Articles/2015/09/28/04/53/sopol041616a (accessed 29 May 2019).

International Monetary Fund (2018). The IMF [International Monetary Fund] and Fragile States: Evaluation Report 2018. Independent Evaluation Office. Washington, D.C.

International Monetary Fund (2019). The managing director's global policy agenda: Joint responsibility shared rewards. Policy Paper.

International Trade Centre (2015). *SME [Small and Medium-Sized Enterprise] Competitiveness Outlook 2015: Connect, Compete and Change for Inclusive Growth. Geneva.*

Jacobs DF (2009). Capital expenditures and the budget. Public financial management technical guidance note. International Monetary Fund.

Jespersen S and Curtis M (2016). Development finance institutions and responsible corporate tax behaviour. Joint agency briefing paper. Oxfam International.

Jones B and Taussig T (2019). Democracy and disorder: The struggle for influence in the new geopolitics. Brookings Institution, Foreign Policy.

Kahler M (1992). Multilateralism with small and large numbers. *International Organization*. 46(3):681–708.

Karam A (2019). Religion and development: An enhanced approach or a transaction? Inter Press Service. 12 April.

Keijzer N and Janus H (2016). Revitalising the development effectiveness agenda: Seeking creativity and controversy. Global Partnership for Effective Development Cooperation. Available at http://effectivecooperation.org/2016/11/revitalising-the-development-effectiveness-agenda-seeking-creativity-and-controversy/ (accessed 10 October 2019).

Kenny C, Kalow J, Leo B and Ramachandran V (2018). Comparing five bilateral development finance institutions and the IFC [International Finance Corporation]. Policy Paper No. 116. Centre for Global Development.

Kharas H, Prizzon A and Rogerson A (2014). *Financing the Post-2015 Sustainable Development Goals: A Rough Roadmap*. Overseas Development Institute. London.

Khwaja MS and Iyer I (2014). Revenue potential, tax space and tax gap: A comparative analysis. Policy Research Working Paper No. 6868. World Bank.

Kindornay S, Kocaata Z and Boehler T (2018). *Private Sector Engagement Through Development Co-operation in Bangladesh*. Global Partnership for Effective Development Cooperation. Paris.

Kiribati, Ministry of Finance and Economic Development (2015). Annual Report 2015. Available at http://www.mfed.gov.ki/publications/mfed-annual-report-2015 (accessed 31 May 2019).

Klein A, Sangaré C and Semeraro GM (2014). The growing development potential of other official flows. In: OECD, *Development Cooperation Report 2014: Mobilising Resources for Sustainable Development*. OECD Publishing. Paris: 59–69.

Klingebiel S, Negre M and Morazán P (2017). Costs, benefits and the political economy of aid coordination: The case of the European Union. *European Journal of Development Research*. 29(1):144–159.

Klomegah KK (2019). Kremlin announces Russia–Africa Summit. *Modern Diplomacy*. 29 May.

Knack S and Rahman A (2007). Donor fragmentation and bureaucratic quality in aid recipients. *Journal of Development Economics*. 83(1):176–197.

Koch S (2015). A typology of political conditionality beyond aid: Conceptual horizons based on lessons from the European Union. *World Development*. 75:97–108.

Lao People's Democratic Republic (2019). Round table process meeting. Available at https://rtm.org.la/about/round-table-process-2/ (accessed 24 September 2019).

Le Billon P (2011). Extractive sectors and illicit financial flows: What role for revenue governance initiatives? Issue No. 13. Anti-Corruption Resource Centre. Available at https://www.cmi.no/publications/4248-extractive-sectors-and-illicit-financial-flows (accessed 10 October 2019).

Lee N (2017). Billions to trillions? Issues on the role of development banks in mobilizing private finance. Centre for Global Development.

Lesotho Revenue Authority (2018). Annual Report 2017–2018. Available at http://www.lra.org.ls/annual-reports (accessed 31 May 2019).

Lledo VD, Dudine P, Eyraud L and Peralta-Alva A (2018). How to select fiscal rules: A primer. International Monetary Fund.

Lundsgaarde E and Engberg-Pedersen L (2019). The aid effectiveness agenda: Past experiences and future prospects. Report No. 5. Danish Institute for International Studies. Copenhagen.

Macau Hub (2017). China announces partial pardon of Angola's debt. 6 June. Available at https://macauhub.com.mo/2017/06/06/pt-china-anuncia-perdao-parcial-da-divida-de-angola/ (accessed 25 April 2019).

Mahn Jones T (2017). Accountability for development cooperation under the 2030 Agenda. Discussion Paper No. 10. German Development Institute.

Mandalaki E and O'Sullivan P (2016). Organizational indulgences or abuse of indulgences: Can good actions somehow wipe out corporate sins? *Management*. 19(3):203–227.

Markandya A, Ponczek V and Yi S (2010). What are the links between aid volatility and growth? Policy Research Working Paper No. 5201. World Bank. Washington D.C.

Martin M (2015). Private and blended development cooperation: Assessing their effectiveness and impact for achieving the SDGs [Sustainable Development Goals]. 2016 Development Cooperation Forum Policy Brief No. 7. United Nations Department of Economic and Social Affairs.

Mascagni G and Timmis E (2017). The fiscal effects of aid in Ethiopia: Evidence from CVAR [cointegrated vector autoregressive] applications. *The Journal of Development Studies*. 53(7):1037–1056.

Mawdsley E (2014). A new development era? The private sector moves to the centre. Norwegian Peacebuilding Resource Centre.

Mawdsley E (2017). Development geography 1: Cooperation, competition and convergence between "North" and "South". *Progress in Human Geography*. 41(1):108–117.

Mawdsley E, Savage L and Kim S-M (2014). A "post-aid world"? Paradigm shift in foreign aid and development cooperation at the 2011 Busan High-Level Forum. *The Geographical Journal*. 180(1):27–38.

Mayer Brown (2013). The business of development. Available at https://www.mayerbrown.com/files/uploads/Documents/PDFs/The_business_of_development2.pdf (accessed 24 September 2019).

Maza Martelli JA (2017). Statement at event on human rights and the 2030 Agenda for Sustainable Development. Satigny, Switzerland. 29 June. Available at https://www.ohchr.org/EN/HRBodies/HRC/Pages/NewsDetail.aspx?NewsID=21814&LangID=E (accessed 16 August 2019).

McGillivray M, Naudé W and Santos-Paulino AU (2010). Vulnerability, trade, financial flows and State failure in small island developing States. *Journal of Development Studies*. 46(5):815–827.

McLure CE (2004). Transfer pricing and tax havens: Mending the LDC revenue net. Andrew Young School of Policy Studies.

McMillan M, Rodrik D and Sepulveda C, eds. (2017). *Structural Change, Fundamentals, and Growth: A Framework and Case Studies*. International Food Policy Research Institute. Washington D.C.

McMillan M, Rodrik D and Verduzco-Gallo Í (2014). Globalization, structural change, and productivity growth, with an update on Africa. *World Development*. 63:11–32.

Meeks P (2018). *Development, Untied: Unleashing the Catalytic Power of Official Development Assistance through Renewed Action on Untying*. European Network of Debt and Development. Brussels.

Michael T, Ooichen R, Slob A and Jerve AM (2008). Managing aid exit and transformation: Eritrea country case study. Swedish International Development Cooperation Agency.

Mirchandani R (2017). Development finance institutions "a proven theory of change". Available at https://www.cgdev.org/blog/development-finance-institutions-proven-theory-change-podcast-heads-opic-and-cdc (accessed 15 August 2019).

Molenaers N, Dellepiane S and Faust J (2015). Political conditionality and foreign aid. *World Development*. 75:2–12.

Moore M, Prichard W and Fjeldstad O-H (2018). *Taxing Africa: Coercion, Reform and Development*. Zed Books. London.

Moran M and Stone D (2016). The new philanthropy: Private power in international development policy? In: Grugel J, and Hammett D, eds. *The Palgrave Handbook of International Development*. Palgrave Macmillan. London: 297–313.

Moran T, Görg H, Serič A and Krieger-Boden C (2018). Attracting FDI in middle-skilled supply chains. *Economics*. 12:1–9.

Morgan P and Zheng Y (2019). Old bottle new wine? The evolution of China's aid in Africa 1956–2014. *Third World Quarterly*. 1–20.

Morris M and Staritz C (2017). Industrial upgrading and development in Lesotho's apparel industry: global value chains, foreign direct investment, and market diversification. *Oxford Development Studies*. 45(3): 303–320.

Morrissey O (2012). Aid and government fiscal behaviour: What does the evidence say? Working Paper No. 1. United Nations University-World Institute for Development Economics Research.

Morrissey O (2015). Aid and government fiscal behaviour: Assessing recent evidence. *World Development*. 69:98–105.

Mosley P (2015). Fiscal composition and aid effectiveness: A political economy model. *World Development*. 69: 106–115.

Moyo D (2009). *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*. Farrar, Straus and Giroux. New York.

Musselli I and Bürgi Bonanomi E (2018). Curbing illicit financial flows in commodity trading: Tax transparency. Working Paper No. 4. Centre for Development and Environment, Bern University (accessed 16 August 2019).

N'Diaye A (2010). Influence des stratégies locales dans les chaînes globales de valeur. *Revue française de gestion*. (201):141–159.

Neanidis KC and Varvarigos D (2009). The allocation of volatile aid and economic growth: Theory and evidence. *European Journal of Political Economy*. 25(4):447–462.

New York Times (2019). Is China the world's loan shark? 26 April.

OECD (n/d). Recommendation on terms and conditions of aid. Available at http://www.oecd.org/dac/stats/31426776.pdf.

OECD (2005). *Paris Declaration on Aid Effectiveness*. OECD Publishing. Paris.

OECD (2006). *Development Cooperation Report 2005*. OECD Publishing. Paris.

OECD (2009). *Managing Aid: Practices of DAC Member Countries*. OECD Publishing. Paris.

OECD (2012). *Better Aid: Aid Effectiveness 2011– Progress in Implementing the Paris Declaration*. OECD Publishing. Paris.

OECD (2014). *Development Cooperation Report 2014: Mobilizing Resources for Sustainable Development*. OECD Publishing. Paris.

OECD (2015). *Multilateral Aid 2015: Better Partnerships for a Post-2015 World*. OECD Publishing. Paris.

OECD (2016a). Understanding key terms and modalities for private sector engagement in development cooperation. Private Sector Peer Learning Peer Inventory No. 1.

OECD (2016b). ODA [Official development assistance] modernization of private sector instruments: Way forward following the consultation with the Export Credit Group. DCD/DAC(2016)51. 25 November.

OECD (2016c). *States of Fragility 2016: Understanding Violence*. OECD Publishing. Paris.

OECD (2017). Enhancing the Contributions of SMEs [Small and Medium-Sized Enterprises] in a Global and Digitalized Economy. OECD Publishing. Paris.

OECD (2018a). *Global Outlook on Financing for Sustainable Development 2019: Time to Face the Challenge*. OECD Publishing. Paris.

OECD (2018b). Converged statistical reporting directives for Creditor Reporting System and the annual DAC questionnaire. DCD/DAC/STAT(2018)9/FINAL. Available at https://one.oecd.org/document/DCD/DAC/STAT(2018)9/FINAL/en/pdf.

OECD (2018c). 2018 Report on the DAC Untying Recommendation. DCD/DAC(2018)12/REV2. Available at https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DCD-DAC(2018)12-REV2.en.pdf.

OECD (2018d). *Development Cooperation Report 2018: Joining Forces to Leave No One Behind*. OECD Publishing. Paris.

OECD (2018e). The next step in blended finance: Addressing the evidence gap in development performance and results. Workshop report prepared for the consultation on the OECD DAC blended finance principles for unlocking commercial finance for the SDGs [Sustainable Development Goals]. Copenhagen. 22 October.

OECD (2018f). Continued work on measuring the mobilization effect of official development finance interventions. DCD/DAC/STAT(2018)31. 29 May.

OECD (2018g). *Making Blended Finance Work for the Sustainable Development Goals*. OECD Publishing. Paris.

OECD (2018h). *OECD Development Cooperation Peer Reviews: European Union.* OECD Publishing. Paris.

OECD (2018i). *States of Fragility 2018*. OECD Publishing. Paris.

OECD (2018j). Detailed Comments on the TOSSD [Total Official Support for Sustainable Development] Reporting Instructions. Issues paper prepared for the consultation with civil society organizations. 31 May. Available at https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/tossd-task-force.htm (accessed 13 September 2019).

OECD (2019a). Official development assistance. Available at https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm (accessed 13 September 2019).

OECD (2019b). Development aid drops in 2018, especially to neediest countries. Available at http://www.oecd.org/development/development-aid-drops-in-2018-especially-to-neediest-countries.htm (accessed 20 June 2019).

OECD (2019c). DAC Recommendation on Untying Official Development Assistance. OECD/LEGAL/5015. Available at https://legalinstruments.oecd.org/public/doc/140/140.en.pdf.

OECD (2019d). Official development assistance: What is ODA? April. Available at https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm (accessed 13 September 2019).

OECD (2019e). Amounts mobilized from the private sector by development finance interventions in 2012–17: Preliminary insights from the data, February. Available at https://www.slideshare.net/OECDdev/torbydevelopmentfinanceinterventionsin201217?from_action=save (accessed 29 June 2019).

OECD, Development Assistance Committee (2018). Reporting methods for private sector instruments. DCD/DAC(2018)47/Final. Paris. 12 December.

OECD and United Nations Capital Development Fund (2018). *Blended Finance in the Least Developed Countries. OECD Publishing. Paris.*

OECD and United Nations Development Programme (2016). *Making Development Cooperation More Effective: 2016 Progress Report*. OECD Publishing. Paris.

OECD and United Nations Development Programme (2019). *Global Partnership for Effective Development Cooperation: Making Development Cooperation More Effective – How Partner Countries are Promoting Effective Partnerships; Part I of the Global Partnership 2019 Progress Report.*

OECD and World Trade Organization (2013). *Aid for Trade at a Glance 2013: Connecting to Value Chains*. World Trade Organization, Geneva/OECD Publishing, Paris.

OECD and World Trade Organization (2017). *Aid for Trade at a Glance 2017: Promoting Trade, Inclusiveness and Connectivity for Sustainable Development*. OECD Publishing. Paris.

Ouattara B (2006). Aid, debt and fiscal policies in Senegal. *Journal of International Development*. 18(8):1105–1122.

Overseas Development Institute (1967). Aid coordination. Briefing paper.

Overseas Development Institute (1978). Basic needs. Briefing paper No. 5.

Overseas Private Investment Corporation (2019). Active projects. Available at https://www.opic.gov/opic-action/active-opic-projects (accessed 24 June 2019).

Oxfam International (2016). *Climate Finance Shadow Report: Lifting the Lid on Progress towards the $100 Billion Commitment*. Oxford.

Oxfam International (2018). *Climate Finance Shadow Report 2018: Assessing Progress Towards the $100 Billion Commitment*. Oxford.

Panizza U (2015). Debt sustainability in low-income countries: The grants versus loans debate in a world without crystal balls. Working Paper No. 120. Foundation for Studies and Research on International Development.

Patrick S (2011). *Weak Links: Fragile States, Global Threats and International Security*. Oxford University Press. Oxford.

Pereira J (2017a). Blended finance for development. Background paper prepared for the first session of the Intergovernmental Group of Experts on Financing for Development. Geneva. 8–10 November.

Pereira J (2017b). Blended finance: What it is, how it works and how it is used. Oxfam International.

Piemonte C, Cattaneo O, Morris R, Pincet A and Poensgen K (2019). Transition finance: Introducing a new concept. OECD Development Cooperation Working Papers No. 54). OECD Publishing. Paris.

Pieterse JN (1998). My paradigm or yours? Alternative development, post-development, reflexive development. *Development and Change*. 29(2):343–373.

Pillay N (2013). Foreword. In: United Nations. *Realizing the Right to Development: Essays in Commemoration of 25 Years of the United Nations Declaration on the Right to Development* (United Nations publication. Sales No. E.12.XIV.1. New York and Geneva): iii–v.

Piron L-H (2002). The right to development: A review of the current state of the debate for the Department for International Development. Overseas Development Institute. London.

Prebisch R (1959). Commercial policy in the underdeveloped countries. *The American Economic Review*. 49(2):251–273.

Presbitero AF (2016). Too much and too fast? Public investment scaling-up and absorptive capacity. *Journal of Development Economics*. 120:17–31.

Prizzon A, Greenhill R and Mustapha S (2016). *An Age of Choice for Development Finance: Evidence from Country Case Studies*. Overseas Development Institute. London.

Project Syndicate (2019a). Philanthropy vs. democracy. 12 July.

Project Syndicate (2019b). Toward[s] a global green new deal. 9 April.

Publish What You Fund (2019). Aid Transparency Index 2018. London.

Raine G (2007). Commercial activities in primary schools: A quantitative study. *Oxford Review of Education*. 33(2):211–231.

Reality of Aid (2012). *Aid and Private Sector: Catalysing Poverty Reduction and Development?* The Reality of Aid International Coordinating Committee. Quezon City, Philippines.

Remmer KL (2004). Does foreign aid promote the expansion of Government? *American Journal of Political Science*. 48(1):77–92.

Ring DM (2017). Transparency, disclosure and developing countries. Boston College Law School Faculty Papers.

Rodrik D (2018). New technologies, global value chains and the developing economies. Background Paper No. 1. Pathways for Prosperity Commission, University of Oxford.

Rogerson A (2011). What if development aid were truly "catalytic"? Background Note. Overseas Development Institute.

de la Rosa Reyes D (2017). The Sustainable Development Goals and the dangers of policy reductionism. *International Journal of Policy Studies*. 8(1):23–43.

Rosenstein-Rodan PN (1943). Problems of industrialization of Eastern and South-Eastern Europe. *Economic Journal*. 53(210/211):202–211.

Rudolph A (2017). The concept of SDG [Sustainable Development Goal]-sensitive development cooperation: Implications for OECD DAC members. Discussion Paper No. 1. German Development Institute.

Rwanda (2006). Rwanda aid policy. Available at http://www.devpartners.gov.rw/fileadmin/templates/docs/Aid_policy/Aid_Policy.pdf (accessed 24 September 2019).

Rwanda (2017). 7 National strategy for transformation 2017–2024. Available at http://www.minecofin.gov.rw/fileadmin/user_upload/NST1_7YGP_Final.pdf (accessed 24 September 2019).

Rwanda, Ministry of Finance and Economic Planning (2013) Economic development and poverty reduction strategy II 2013–2018. Available at http://www.minecofin.gov.rw/fileadmin/templates/documents/NDPR/EDPRS_2.pdf (accessed 24 September 2019).

Rwanda, Ministry of Finance and Economic Planning (2015). Documentation of Rwanda's Good Practices in Aid Coordination and Management Since 2004. Available at http://www.devpartners.gov.rw/fileadmin/user_upload/Aid_Coord_Practices_Final_report.pdf (accessed 24 September 2019).

Rwanda, Ministry of Finance and Economic Planning (2019). Single project implementation unit. Available at http://www.minecofin.gov.rw/index.php?id=127 (accessed 24 September 2019).

Rwanda Revenue Authority (2018). Annual Activity Report 2017/18. Available at https://www.rra.gov.rw/index.php?id=356&L=1 (accessed 9 August 2019).

Saldinger A, Andreason SP and Cornish L (2019). Funding insights: A deeper look at European development finance institutions. 3 April. Devex. Available at https://pages.devex.com/funding-insights-a-deeper-look-at-european-dfis.html#NULL (accessed 13 September 2019).

Salifu A and Abdulai A-G (2018). Corruption and international aid. In: Farazmand A, ed. *Global Encyclopedia of Public Administration, Public Policy and Governance*. Springer. Cham, Switzerland.

Savoy CM, Carter P and Lemma A (2016). Development finance institutions come of age: Policy engagement, impact and new directions. Centre for Strategic and International Studies.

Schick A (2009). Budgeting for fiscal space. *OECD Journal on Budgeting*. 2:7–24.

Schmidt-Traub G and Sachs JD (2015). Implementing the SDGs [Sustainable Development Goals] through effective investment strategies and partnerships. Sustainable Development Solutions Network.

Semrau FO and Rainer T (2017). Brazil's development cooperation: Following in China's and India's footsteps? *Journal of International Development*. 29(3):287–307.

Semrau FO and Thiele R (2016). Why emerging donors give foreign aid and what this implies for the global aid system. Policy Brief No. 15. Nopoor.

Sengupta AK (2013). Conceptualizing the right to development for the twenty-first century. In: United Nations. *Realizing the Right to Development: Essays in Commemoration of 25 Years of the United Nations Declaration on the Right to Development* (United Nations publication. Sales No. E.12.XIV.1. New York and Geneva): 67–87.

Severino J-M and Ray O (2009). The end of ODA: Death and rebirth of a global public policy. Working Paper No. 167. Center for Global Development. Washington, D.C.

Sindzingre A (2007). Financing the developmental State: Tax and revenue issues. *Development Policy Review*. 25(5):615–632.

Singh JN and Ovadia JS (2018). The theory and practice of building developmental States in the global South. Third World Quarterly. 39(6):1033–1055.

Skott P and Ros J (1997). The "big push" in an open economy with non-tradable inputs. *Journal of Post Keynesian Economics*. 20(1):149–162.

Spratt S and Collins LR (2012). Development finance institutions and infrastructure: A systematic review of evidence for development additionality. Private Infrastructure Development Group Trust.

Sraieb MM (2016). What is behind foreign aid ineffectiveness? *Reflets et perspectives de la vie économique*. 2:61–73.

Staritz C and Morris M (2013). Local embeddedness, upgrading and skill development: global value chains and foreign direct investment in Lesotho's apparel industry. Working Paper No. 21. Capturing the Gains (University of Manchester).

Steel I (2018). Should donors pay taxes in the countries they support? Available at https://www.odi.org/blogs/10647-should-donors-pay-taxes-countries-they-support (accessed 17 June 2019).

Storm S (2015). Structural change. *Development and Change*. 46(4):666–699.

Strange AM, Dreher A, Fuchs A, Parks B and Tierney MJ (2017). Tracking underreported financial flows: China's development finance and the aid–conflict nexus revisited. *Journal of Conflict Resolution*. 61(5):935–963.

Súilleabháin AÓ (2014). *Small States at the United Nations: Diverse Perspectives, Shared Opportunities*. International Peace institute. New York.

Sun Y (2019). China's changing approach to Africa. Foresight Africa 2019. Brookings Institution.

Swedlund HJ (2017). Is China eroding the bargaining power of traditional donors in Africa? *International Affairs*. 93(2):389–408.

Therkildsen O (2002). Keeping the State accountable: Is aid no better than oil? *Institute of Development Studies Bulletin*. 33(3):1–17.

Thirlwall AP (1979). The balance of payments constraint as an explanation of international growth rate differences. *BNL Quarterly Review*. 32(128).

Thirlwall AP (2011). Balance of payments constrained growth models: History and overview. *PSL Quarterly Review*. 64(259):307–351.

Thornton J (2014). Does foreign aid reduce tax revenue? Further evidence. *Applied Economics*. 46(4):359–373.

Togo (2016). National development plan of Togo 2018–2022. Available at http://togoembassylondon.com/pnd-togo/ (accessed 24 September 2019).

Trade Union Development Cooperation Network (2016). The development effectiveness of supporting the private sector with ODA [official development assistance] funds. Research Paper.

Ulleberg I (2009). *The Role and Impact of NGOs [Non-Governmental Organizations] in Capacity Development: From Replacing the State to Reinvigorating Education*. International Institute for Educational Planning, United Nations Educational, Scientific and Cultural Organization. Paris.

UNCTAD (2006a). *The Least Developed Countries Report 2006: Developing Productive Capacities* (United Nations publication. Sales No. E.06.II.D.9. New York and Geneva).

UNCTAD (2006b). *Economic Development of Africa Report 2006: Doubling Aid – Making the "Big Push" Work* (United Nations publication. Sales No. E.06.II.D.10. New York and Geneva).

UNCTAD (2008). *The Least Developed Countries Report 2008: Growth, Poverty and the Terms of Development Partnership* (United Nations publication. Sales No. E.08.II.D.20. New York and Geneva).

UNCTAD (2009). *The Least Developed Countries Report 2009: The State and Development Governance* (United Nations publication. Sales No. E.09.II.D.9. New York and Geneva).

UNCTAD (2010). *The Least Developed Countries Report 2010: Towards a New International Development Architecture for LDCs* (United Nations publication. Sales No. E.10.II.D.5. New York and Geneva).

UNCTAD (2011a). *The Least Developed Countries Report 2011: The Potential of South–South Cooperation for Inclusive and Sustainable Development* (United Nations publication. Sales No. E.11.II.D.5. New York and Geneva).

UNCTAD (2011b). *From Brussels to Istanbul: Key Development Challenges Facing the Least Developed Countries.* United (United Nations publication. New York and Geneva).

UNCTAD (2011c). *Best Practices in Investment for Development: How to Create and Benefit from FDI–SME [Small and Medium-Sized Enterprise] Linkages – Lessons from Malaysia and Singapore* (United Nations publication. Sales No. E.10.II.D.12. New York and Geneva).

UNCTAD (2012). *The Least Developed Countries Report 2012: Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities* (United Nations publication. Sales No. E.12.II.D.18. Geneva and New York).

UNCTAD (2014a). *World Investment Report 2014: Investing in the [Sustainable Development Goals] SDGs – An Action Plan*. (United Nations publication. Sales No. E.14.II.D.1. New York and Geneva).

UNCTAD (2014b). *The Least Developed Countries Report 2014: Growth with Structural Transformation – A Post-2015 Development Agenda* (United Nations publication. Sales No. E.14.II.D.7. New York and Geneva).

UNCTAD (2014c). *UNCTAD at 50: A Short History* (United Nations publication. New York and Geneva).

UNCTAD (2014d). *Economic Development of Africa Report 2014: Catalysing Investment for Transformative Growth in Africa* (United Nations publication. Sales No. E.14.II.D.2. New York and Geneva).

UNCTAD (2014e). *Trade and Development Report, 2014: Global Governance and Policy Space for Development* (United Nations publication. Sales No. E.14.II.D.4. New York and Geneva).

UNCTAD (2015a). *The Least Developed Countries Report 2015: Transforming Rural Economies* (United Nations publication. Sales No. E.15.II.D.7. New York and Geneva).

UNCTAD (2015b). *Trade and Development Report 2015: Making the International Financial Architecture Work for Development* (United Nations publication. Sales No. E.15.II.D.4. New York and Geneva).

UNCTAD (2015c). *World Investment Report 2015: Reforming International Investment Governance* (United Nations publication. Sales No. E.15.II.D.5. New York and Geneva).

UNCTAD (2016a). *The Least Developed Countries Report 2016: The Path to Graduation and Beyond – Making the Most of the Process* (United Nations publication. Sales No. E.16.II.D.9. New York and Geneva).

UNCTAD (2016b). *Trade and Development Report 2016: Structural Transformation for Inclusive and Sustained Growth* (United Nations publication. Sales No. E.16.II.D.5. New York and Geneva).

UNCTAD (2016c). *Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa* (United Nations publication. Sales No. E.16.II.D.3. New York and Geneva).

UNCTAD (2017a). *The Least Developed Countries Report 2017: Transformational Energy Access* (United Nations publication. Sales No. E.17.II.D.6. New York and Geneva).

UNCTAD (2017b). *Trade and Development Report 2017: Beyond Austerity – Towards A Global New Deal* (United Nations publication. Sales No. E.17.II.D.5. New York and Geneva).

UNCTAD (2017c). *Solidarity and the South: New Directions in Long-Term Development Finance (United Nations publication. New York and Geneva).*

UNCTAD (2018a). *Selected Sustainable Development Trends in the Least Developed Countries 2018*. UNCTAD/ALDC/2018/1. Geneva.

UNCTAD (2018b). *The Least Developed Countries Report 2018: Entrepreneurship for Structural Transformation – Beyond Business as Usual* (United Nations publication. Sales No. E.18.II.D.6. New York and Geneva).

UNCTAD (2018c). *Achieving the Sustainable Development Goals in the Least Developed Countries: A Compendium of Policy Options* (United Nations publication. New York and Geneva).

UNCTAD (2018d). *World Investment Report 2018: Investment and New Industrial Policies* (United Nations publication. Sales No. E.18.II.D.4. New York and Geneva).

UNCTAD (2018e). *Trade and Development Report 2018: Power, Platforms and the Free Trade Delusion* (United Nations publication. Sales No. E.18.II.D.7. New York and Geneva).

UNCTAD (2018f). Financing for development: Debt and debt sustainability and interrelated systemic issues. TD/B/EFD/2/2. Geneva. 5 October.

UNCTAD (2019a). *World Investment Report 2019: Special Economic Zones* (United Nations publication. Sales No. E.19.II.D.12. Geneva).

UNCTAD (2019b). *Selected Sustainable Development Trends in the Least Developed Countries – 2019*. UNCTAD/ALCD/2019/1. Geneva.

UNCTAD (2019c). *Economic Development in Africa Report 2019: Made in Africa – Rules of Origin for Enhanced Intra-African Trade* (United Nations publication. Sales No. E.19.II.D.7. Geneva).

UNCTAD (2019d). *State of Commodity Dependence 2019* (United Nations publication. Sales No. E.19.II.D.8. Geneva).

UNCTAD (2019e). *Commodity Dependence: A Twenty-Year Perspective*. (United Nations publication. Sales No. E.19.II.D.16. Geneva).

United Kingdom, Department for International Development (2017). Capital increase to CDC [Group], the UK [United Kingdom]'s development finance institution, to deliver increased development impact in Africa and South Asia (2017–2022). Corporate report.

United Nations (1945). Charter of the United Nations. San Francisco. 26 June.

United Nations (1948). Universal Declaration of Human Rights. General Assembly resolution 217 (A) III. New York. 10 December.

United Nations (1978). *Report of the United Nations Conference on Technical Cooperation among Developing Countries. Buenos Aires. 30 August to 12 September 1978* (Sales No. E.78.II.A.11. New York). Part I, chapter 1, Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries.

United Nations (1986). Declaration on the Right to Development. A/RES/41/128. New York. 4 December.

United Nations (1993). *Report of the United Nations Conference on Environment and Development. Rio de Janeiro. 3–14 June 1992. Vol. I. Resolutions Adopted by the Conference (Sales No. E.93.I.8. New York).*

United Nations (2010b). Resolution adopted by the General Assembly on 21 December 2009. A/RES/64/222, annex, Nairobi outcome document of the High-level United Nations Conference on South–South Cooperation. New York.

United Nations (2010a). Report of the high-level task force on the implementation of the right to development on its sixth session – Addendum: Right to development criteria and operational sub-criteria. A/HRC/15/WG.2/TF/2/Add.2. Geneva. 8 March.

United Nations (2011). Programme of Action for the Least Developed Countries for the Decade 2011–2020. A/CONF.219/3/Rev.1. Istanbul. 23 May.

United Nations (2013). *Realizing the Right to Development: Essays in Commemoration of 25 Years of the United Nations Declaration on the Right to Development*. (United Nations publication. Sales No. E.12.XIV.1. New York and Geneva).

United Nations (2014). *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing*. A/69/315. New York. 15 August.

United Nations (2015a). Basic principles on sovereign debt restructuring processes. A/RES/69/319. New York. 29 September.

United Nations (2015b). Addis Ababa Action Agenda of the Third International Conference on Financing for Development. A/RES/69/313. Addis Ababa. 17 August.

United Nations (2015c). Transforming our world: the 2030 Agenda for Sustainable Development. A/RES/70/1. New York. 25 September.

United Nations (2015d). Committee for Development Policy: Report on the seventeenth session. Official Records of the Economic and Social Council, Supplement No. 13. E/2015/33. New York.

United Nations (2016). "Development cooperation: lever for effective implementation of the 2030 Agenda." Official summary prepared by the President of ECOSOC. Development Cooperation Forum, Economic and Social Council. New York.

United Nations (2017). The evolution of South–South development cooperation: Its role in the implementation of the 2030 Agenda and the Paris Agreement on climate change. Development Cooperation Forum Policy Brief 17. Available at https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/dcf/brief%201_SSC%20and%202030_final_01_09_17.pdf.

United Nations (2018a). *Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures*, 3rd ed. (Sales No. E.18.II.A.1. New York).

United Nations (2018b). State of South–South cooperation. Report of the Secretary-General. A/73/321. New York. 13 August.

United Nations (2018c). Extreme poverty and human rights. A/73/396. New York. 26 September.

United Nations (2018d). Preparatory process of the second High-Level United Nations Conference on South–South Cooperation. A/72/711. New York. 29 January.

United Nations (2018e). UN [United Nations] inter-agency pooled funds. Explanatory note. Available at https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/qcpr/6_%20UN%20Inter-agency%20pooled%20funds.pdf (accessed 5 May 2019).

United Nations (2019a). *Financing for Sustainable Development Report 2019. Report of the Inter-Agency Task Force on Financing for Development (Sales No. E.19.I.7.* New York).

United Nations (2019b). Climate change and poverty. Report of the Special Rapporteur on extreme poverty and human rights. A/HRC/41/39. Geneva. 17 July.

United Nations (2019c). *World Economic Situation and Prospects*. (United Nations publication. Sales No. E.19.II.C.1. New York).

United Nations (2019d). Resolution adopted by the General Assembly on 15 April 2019. A/RES/73/291, annex, Buenos Aires outcome document of the second High-level United Nations Conference on South–South Cooperation. New York. 30 April.

United Nations (2019e). Right to education: The implementation of the right to education and Sustainable Development Goal 4 in the context of the growth of private actors in education. A/HRC/41/37. Geneva. 10 April.

United Nations (2019f). Follow-up note on the role of taxation and domestic resource mobilization in achieving the Sustainable Development Goals. E/C.18/2019/2. New York. 11 February.

United Nations Development Programme and Centre for Policy Dialogue (2016). Concessional financial flows among Southern countries: conceptualizing design principles, operational modalities and an assessment framework. New York.

United Nations Development Programme (2019). Multi-partner Trust Fund Office world map: Where the funds are going. Available at http://mptf.undp.org/tools/map/outgoing (accessed 5 May 2019).

United Nations, Economic Commission for Africa (2013). *Building Trade Capacities for Africa's Transformation: A Critical Review of Aid for Trade*. Addis Ababa.

United Nations, Economic Commission for Africa (2015a). *Economic Report on Africa 2015: Industrializing through Trade*. Addis Ababa.

United Nations, Economic Commission for Africa (2015b). *Illicit Financial Flows: Why Africa Needs to "Track It, Stop It and Get It"*. Addis Ababa.

United Nations, Economic Commission for Africa, African Union and African Development Bank (2017). *Assessing Regional Integration in Africa VIII: Bringing the Continental Free Trade Area About* (United Nations publication. Sales No. E.17.II.K.4. Addis Ababa).

United Nations, Economic and Social Council (2018). Trends and progress in international development cooperation. E/2018/55. New York. 10 April.

United Nations and Eritrea (2017). The strategic partnership cooperation framework between the Government of the State of Eritrea and the United Nations 2017–2021. Available at https://extranet.who.int/nutrition/gina/sites/default/files/ERI%202017%20SPCF.pdf (accessed 24 September 2019).

United Nations Multi-Partner Trust Fund Office (2017). *2017 Annual Report*. New York.

United Nations Office for the Coordination of Humanitarian Affairs (2017). *The Business Case: A Study of Private Sector Engagement in Humanitarian Action*.

United Nations Population Fund (2019). World population dashboard: Nepal. Available at https://www.unfpa.org/data/world-population/NP (accessed 9 August 2019).

Vaes S and Huyse H (2015). Mobilizing private resources for development: Agendas, actors and instruments. Working Paper No. 2. Belgian Policy Research Group on Financing for Development.

van der Does de Willebois E, Halter EM, Harrison RA, Park JW and Sharman JC (2011). *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It*. World Bank. Washington, D. C.

te Velde DW (2013). Shifting the development debate to jobs, productivity change and structural transformation. Overseas Development Institute.

Watson-Grant S, Xiong, K and Thomas JC (2016). Country ownership in international development: Toward a working definition. Working Paper No. 164. Measure Evaluation, University of North Carolina at Chapel Hill.

Weil D (2019). Fiscal policy. Available at https://www.econlib.org/library/Enc/FiscalPolicy.html (accessed 29 June 2019).

Welle K, Nicol A and van Steenbergen F (2008). Why is Harmonization and alignment difficult for donors? Lessons from the water sector. Project Briefing No. 6. Overseas Development Institute.

Werker E and Ahmed FZ (2008). What do non-governmental organizations do? *Journal of Economic Perspectives*. 22(2):73–92.

Whitfield L and Fraser A (2010). Negotiating aid: The structural conditions shaping the negotiating strategies of African Governments. *International Negotiation*. 15(3):341–366.

Williamson CR (2010). Exploring the failure of foreign aid: The role of incentives and information. *The Review of Austrian Economics*. 23(1):17–33.

Wolf M (2019). The IMF [International Monetary Fund]: Today and tomorrow. *Finance and Development*. 56(2):4–8.

World Bank (2009). Rwanda: From post-conflict reconstruction to development. Brief No. 51957.

World Bank (2011). *Global Development Horizons 2011: Multipolarity – The New Global Economy*. Washington, D.C.

World Bank (2016). Forward look: A vision for the World Bank Group in 2030. Report No. 108572.

World Bank (2017). Board update: Domestic resource mobilization and illicit financial flows.

World Bank (2018). Maximizing finance for development. Available at http://documents.worldbank.org/curated/en/168331522826993264/Maximizing-Finance-for-Development-MFD (accessed 24 September 2019).

World Bank (2019). Update: The forward look and IBRD [International Bank for Reconstruction and Development]–IFC [International Finance Corporation] capital package implementation. DC2019-0003/P. Washington, D.C. 22 March.

World Bank and Pricewaterhouse Coopers (2015). Paying Taxes 2016: Ten Years of In-Depth Analysis on Tax Systems in 189 Economies. Washington, D.C.