OECD

FACTSHEET

External financing to Least Developed Countries (LDCs): where we stand

2020

To inform DAC members about the current external financial situation in LDCs[1], this note compiles the most recent available information concerning external financing to these countries, e.g., concessional and non-concessional flows, private flows (foreign direct investments and other private flows at market terms) and remittances. It also updates information about bilateral aid targeting climate-related objectives and gender equality in LDCs.[2]

KEY FINDINGS:

- **The external financing mix in LDCs has historically been dominated by ODA flows; however, remittances have gained predominance in recent years (from 2012 onwards).**
- **Concessional finance (ODA) shows a moderate but steady growth over 2000-18. In 2017-18, ODA to LDCs reached 42% of total external inflows – compared to 12% for other developing countries.**
- **Bilateral ODA to LDCs remains below the UN target of providing at least 0.15% of DAC donors' GNI as ODA: in 2018 it represented 0.09% of OECD DAC countries' combined GNI.**
- **LDCs face significant challenges in attracting external private financing: FDIs and other private flows represent only 1% of total net foreign financing.**
- **Tax revenues are on average lower in LDCs than in other developing countries at similar levels of development.**
- **Aid targeting climate-related objectives in LDCs has dramatically grown between 2010 and 2015, but since then seems to have reached a plateau and even slightly decreased.**
- **The gender equality front shows good news: aid targeting gender equality is proportionally already greater in LDCs than in all developing countries.**

TAKING STOCK OF THE EXTERNAL FINANCING TO LDCS

ODA flows to LDCs have shown a steady growth over the period of analysis (+ 6.1% on average per year in 2000-18), being until 2014 the major source of external financing to these countries. Remittances have recently exceeded ODA amounts (from 2014 onwards) but staying close to ODA in volume terms. Non-concessional flows (OOF) and private inflows to LDCs even if showing a slight rising trend over the full

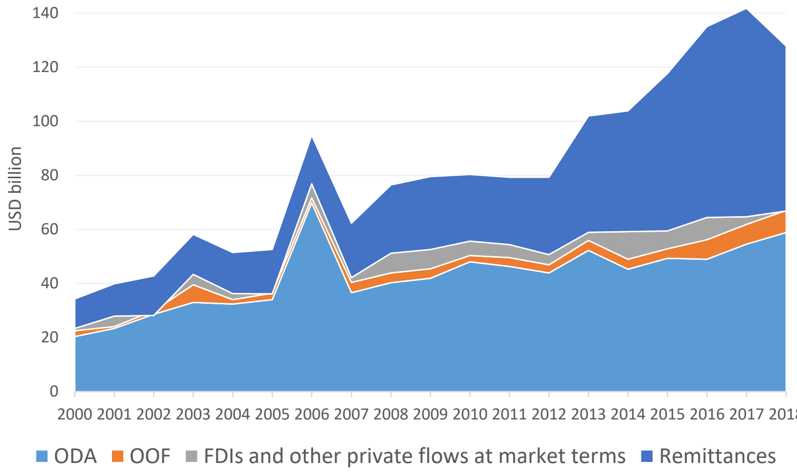
[1] The Least developed countries (LDCs) category currently contains 47 developing countries, representing 13% of the world's population and 38% of the world's extreme poor. These 47 countries are categorised as having long-term structural handicaps measured by three indicators, recorded simultaneously. A country can be included in the LDC category if at the moment of its examination: (i) its GNI per capita (Atlas method, World Bank) is lower than USD 1 230; (ii) it has a human asset index (HAI) lower than 60; and (iii) it has an economic vulnerability index (EVI) above 36.

[2] This note was authored by Cecilia Piemonte (cecilia.piemonte@oecd.org).

period, remain the least significant development financing source over the total external mix (representing together less than 7% of total external flows in 2017-18). See Figure 1.

Figure 1. The external financing mix in LDCs has historically been dominated by ODA flows but remittances have gained predominance in recent years

DAC and multilateral USD net disbursements, 2000-18, 2018 prices

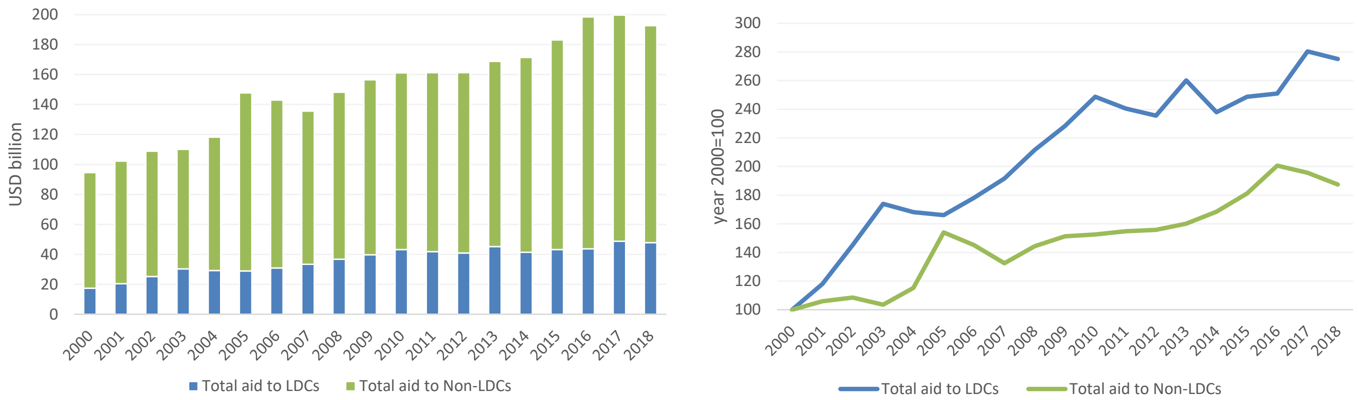


Note: a special debt relief operation took place in 2006, explaining the extraordinary ODA peak that year.
Source: Author's calculations based on OECD/Creditor Reporting System and DAC databases (2020) (ODA, OOF flows and private flows) https://stats.oecd.org/Index.aspx?DataSetCode=crs1, https://stats.oecd.org/Index.aspx?ThemeTreeId=3 , and World Bank data (2018) on migration and remittances https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT .

In 2018 the share of bilateral ODA to LDCs represented 0.09% of DAC countries' combined GNI, remaining below the UN target of providing at least 0.15% of total DAC donors' GNI as ODA to LDCs. Furthermore, this share has stagnated from 2016 onwards. Nevertheless, in a longer-term view (2000-18) and when including multilateral agencies' outflows, total ODA disbursements to LDCs show an average steady rising trend in volume terms (global ODA to LDCs reaching USD 47.9 billion[3] in 2018, Figure 2/left), its rate of growth surpassing the overall increase in ODA to other (non-LDCs) developing countries (Figure 2/right).

Figure 2. ODA from DAC members and multilateral agencies' outflows to LDCs: volume of ODA (left chart) and trends (indexed, year 2000 = 100, right chart) to non-LDCs and LDCs

Net disbursements, 2018 prices



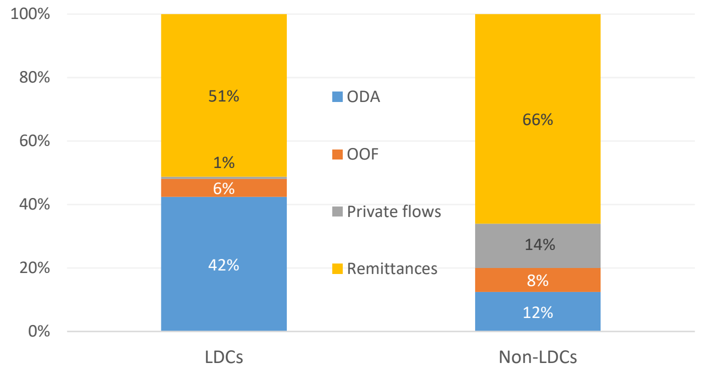
Source: Author's calculations based on DAC1 and DAC2a tables (2020) https://stats.oecd.org/Index.aspx?ThemeTreeId=3 .

[3] Net bilateral ODA amounted to USD 32.8 billion in 2018 and is expected to rise in 2.6% in 2019 (see 2019 Communiqué https://www.oecd.org/development/oecd-and-donor-countries-working-to-focus-development-efforts-on-covid-19-crisis-building-on-a-rise-in-official-aid-in-2019.htm; https://www.oecd-ilibrary.org/sites/16bc821c-en/index.html?itemId=/content/component/16bc821c-en

LDCs face significant challenges in attracting external private financing. In 2017-18 ODA to LDCs reached 42% of their total external inflows, while FDIs and other private financing only 1%. (Figure 3).

Figure 3. FDIs and other private flows represent only 1% of total foreign financing in LDCs

DAC and multilateral USD net disbursements, 2017-18, 2018 prices



Note: Non-LDCs includes regional/unspecified data.

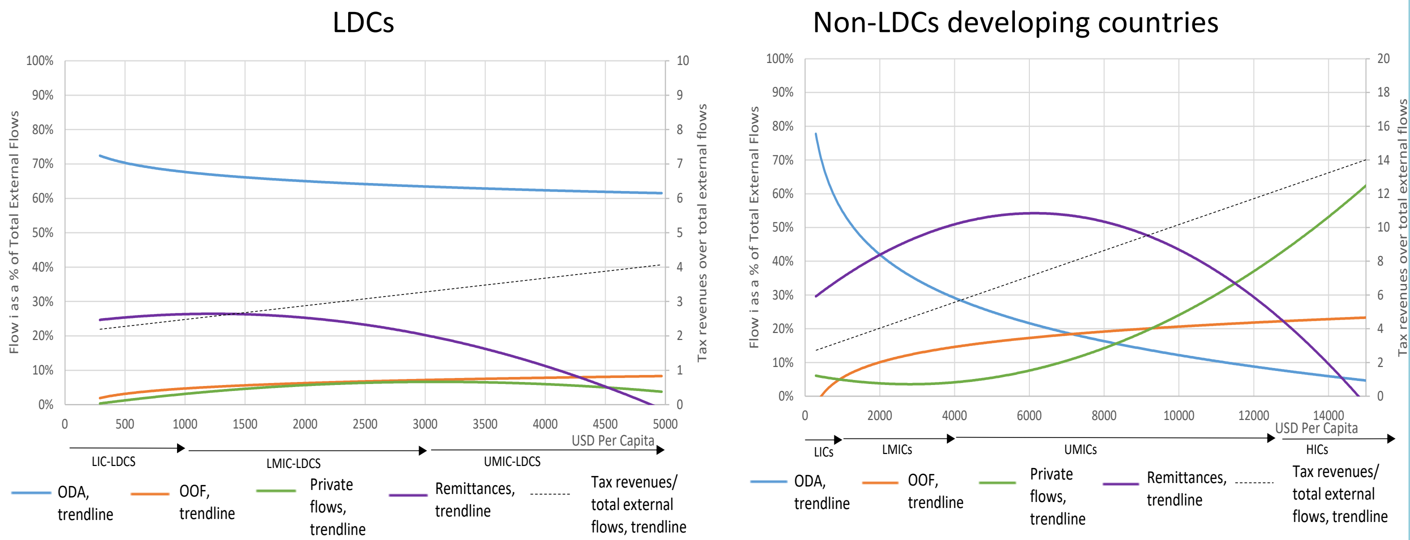
Source: Author's calculations based on OECD/Creditor Reporting System and DAC databases (2020) (ODA, OOF flows and private flows) https://stats.oecd.org/Index.aspx?DataSetCode=crs1, https://stats.oecd.org/Index.aspx?ThemeTreeId=3 , and World Bank data (2018) on migration and remittances https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT.

EXTERNAL FINANCING TO LDCS IN A TRANSITION FINANCE CONTEXT

Across the development continuum, ODA dominates the total external financing mix in LDCs, much more so than in peer countries – that is, compared to other developing countries of similar levels of GNI per capita. Indeed, other sources of the external financing mix, that is, non-concessional funding, private inflows and remittances, are all relatively less significant vis à vis peers. In another no-less-important front, LDCs show critically low tax revenue levels (between 2 and 3 times the total external inflows received, while levels range from 3 to 6 in non-LDCs developing countries, at similar level of income). See Figure 4.

Figure 4. LDCs are highly dependent on ODA and show more difficulties in mobilising tax revenues relative to peer countries

DAC and multilateral agencies USD net disbursements, 2014-18, 2018 prices

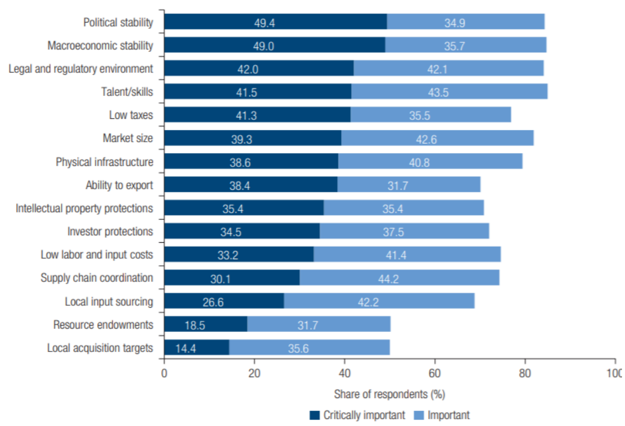


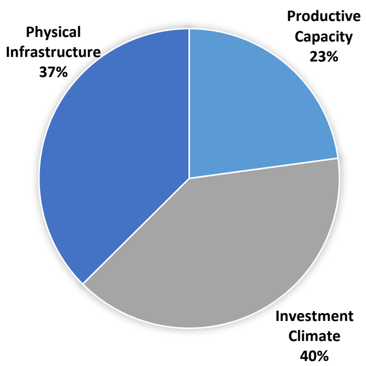
Source: Author's calculations based on OECD/Creditor Reporting System and DAC databases (2020) (ODA, OOF flows and private flows) https://stats.oecd.org/Index.aspx?DataSetCode=crs1, https://stats.oecd.org/Index.aspx?ThemeTreeId=3 , and World Bank data (2018) on migration and remittances https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DThttps://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT

Box 1. LDCs face significant challenges in attracting external private financing

A strong investment climate is a prerequisite to contain and increase investment flows in transition economies and should be promoted from an early stage of development [OECD (2015, Policy Framework for Investment, 2015 Edition, OECD Publishing, https://www.oecd.org/investment/pfi.htm]. Indeed, a recent World Bank survey (World Bank's 2019 Global Investment Competitiveness Survey in World Bank 2020) lists the critical factors for investors considering investment decisions. Results show that the first factors are a country' stability and clear legal frameworks (Figure 5, left), followed by productive capacity (skills), tax conditions and market size, and later the country's physical infrastructure.

Figure 5. Factors determining the decisions to invest (left figure) and DAC community efforts to facilitate Private Sector Development in LDCs (right figure)





Note: Figure at the left: Share of affiliates of foreign MNEs considering a given factor as (critically) important for their decisions to invest; Affiliates of MNEs were surveyed in 10 developing countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey and Viet Nam.
Source: Left figure: World Bank's 2019 Global Investment Competitiveness Survey in World Bank (2020); right figure: OECD based on Creditor Reporting System (CRS) database, https://stats.oecd.org/Index.aspx?DataSetCode=CRS1 based on the Private sector development definition as stated in Miyamoto and Chiofalo, 2017.

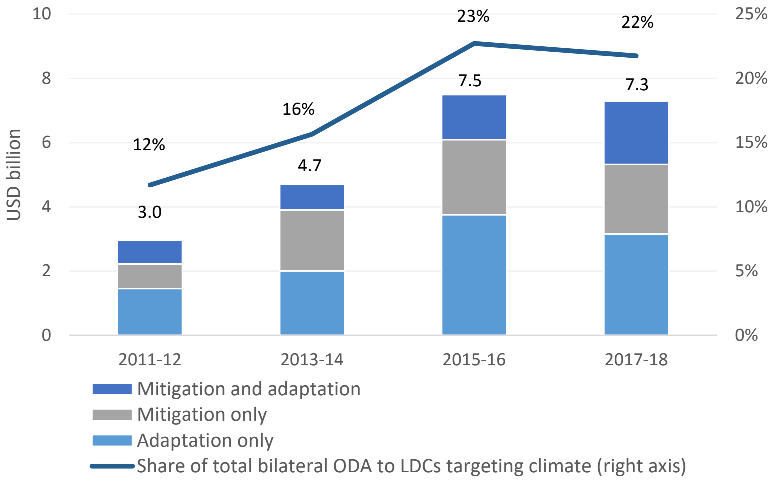
What is the DAC doing to help facilitate private sector development (PSD) in LDCs? Figure 5, right, shows that the DAC aligns quite well with private sector prerequisites for investment. Indeed, "investment climate" activities represent 40% of total PSD expenditures, followed by "productive capacity" (23%) and "physical infrastructure" (37%). In terms of volume total PSD assistance to LDCs totalled USD 48.5 billion on average per year in 2017-18, or 78% of total ODF to LDCs. However, and even if quantitative figures look consistent and responsive to the demand, foreign private investment inflows represent only 1% of total external flows in LDCs (Figure 3). In this sense, it would be important for the DAC to further analyse the quality of such assistance in order to secure efficiency and focus of the involved expenses.

CLIMATE-RELATED AID TO LDCS

Aid targeting climate-related objectives in LDCs has dramatically grown between 2010 and 2015, but since then seems to have reached a plateau and even slightly decreased (totalling USD 7.3 billion on average per year in 2017-18). (Figure 6). V*is-à-vis* all developing countries (26% of total sector allocable aid targets climate objectives), aid targeting climate-related objectives is lower in LDCs (22%).

Figure 6. Bilateral Climate-related funding to LDCs after having dramatically increased have reached a plateau in volume terms, from 2015 onwards

2011-18, bilateral USD commitments, 2018 prices



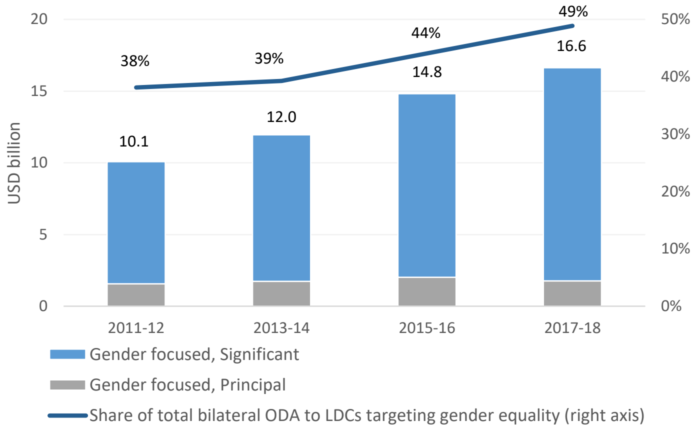
Source: Author's calculations based on OECD/Creditor Reporting System (CRS) database (2020) https://stats.oecd.org/Index.aspx?DataSetCode=CRS1

AID TARGETING GENDER EQUALITY

Aid targeting gender equality is already greater in LDCs than in all developing countries (in 2017-18, 49% of total sector allocable aid focused on gender equality in LDCs compared to 42% in all developing countries). Figure 7.

Figure 7. Gender-focused aid to LDCs has recently exceeded the one targeting gender equality in all developing countries

2011-18, bilateral USD commitments, 2018 prices



Source: Author's calculations based on OECD/Creditor Reporting System (CRS) database (2020) https://stats.oecd.org/Index.aspx?DataSetCode=CRS1

WHAT'S NEW? THE GRANT ELEMENT MEASURE **With the objective to create incentives for providing more concessional loans to countries most in need, a new system has become the standard for reporting from 2018 flows in the 2019 DAC reporting.** In December 2014, OECD DAC members agreed to modernise reporting practices regarding ODA loans. Indeed, until then the threshold for ODA eligibility was set at a grant element of 25%, and under the new system, loans to LDCs and other LICs must reach a grant element of at least 45% to be reportable as ODA[4] while lower middle-income countries (LMICs) will require only a minimum 15% grant element and upper middle-income countries (UMICs) a minimum 10% grant element.

[4] https://www.oecd.org/dac/financing-sustainable-development/Addis%20flyer%20-%20ODA.pdf