OECD
BETTER POLICIES FOR BETTER LIVES

Third International Conference on Financing for Development
Addis Ababa • July 2015

Taking stock of aid to least developed countries (LDCs)

Since the creation of the group of least developed countries over 40 years ago, these countries have received special and differentiated treatment in support of economic growth and escaping the poverty trap. Nevertheless, these efforts have fallen short of fostering inclusive development as only a handful of countries have managed to progress beyond LDC status. In the forthcoming era of the Sustainable Development Goals (SDGs), effective empowerment and enhanced economic and social opportunities will require continued strong support to the nearly one billion people living in LDCs to ensure no one is left behind.

Who are the LDCs?

Today there are 48 LDCs, representing 13% of the world's population and an estimated 35% of the world's extreme poor.[1] Despite rising income levels in many LDCs, the incidence of extreme poverty in these countries is still very high. On average, nearly half of the population in LDCs live in extreme poverty, compared to 14% in other developing countries. More than two-thirds of LDCs are located in Sub-Saharan Africa (34), while the remaining countries are spread over Asia (9), Oceania (4) and Central America (1).

There are three criteria for being classified as an LDC: low per capita gross national income (GNI), low level of human capital and high structural vulnerability to exogenous economic and environmental shocks.

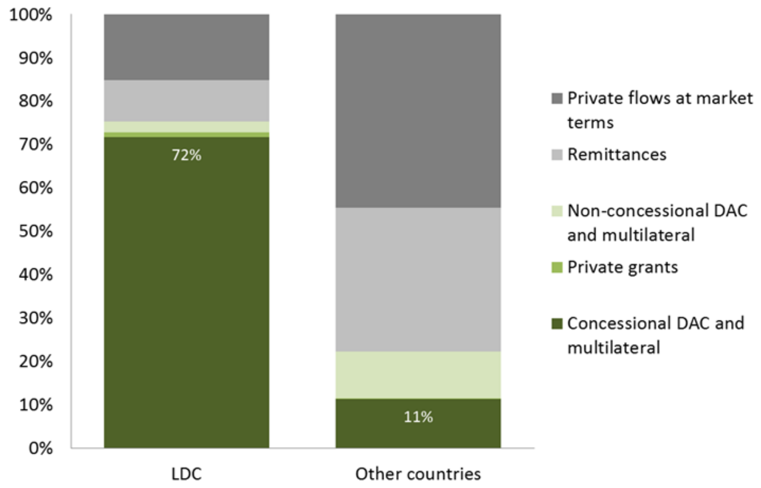
Brief history of the LDC category

The initiative to establish a country category of the least developed countries (LDCs) was first advocated for at the initial UN Conference on Trade and Development in 1964: the proposal was adopted at the second conference in 1968, followed by formal UN endorsement of the LDC category in 1971. The original list included 25 countries[2]; over the past 40 years many countries have since been added to the LDC category while only four countries have graduated.[3]

LDCs are heavily dependent on aid

While the growth in private finance has reduced the relative importance of aid in many countries, the capacity of LDCs to attract flows beyond aid remains limited. For these countries, concessional finance continues to represent the bulk of external financial resources, accounting for 72% of total external finance supplied by OECD economies in 2013. By contrast, in other countries, concessional finance represents only 11% of total external finance.

Composition of external finance in LDCs and other countries



Source: OECD DAC statistics and World Bank data on remittances

[1] Extreme poverty is here defined as the proportion of people living on less than USD 1.25 per day

[2] The original list was based on three criteria (per capita GDP of $100 or less, share of manufacturing in total GDP of 10 per cent or less; adult literacy rate of 20 per cent or less) and included the following countries: Afghanistan, Benin, Bhutan, Botswana, Burundi, Chad, Ethiopia, Guinea, Haiti, the Lao People's Democratic Republic, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Samoa, Sikkim (now part of India), Somalia, Sudan, Uganda, United Republic of Tanzania, Upper Volta (now Burkina Faso) and the Yemen Arab Republic.

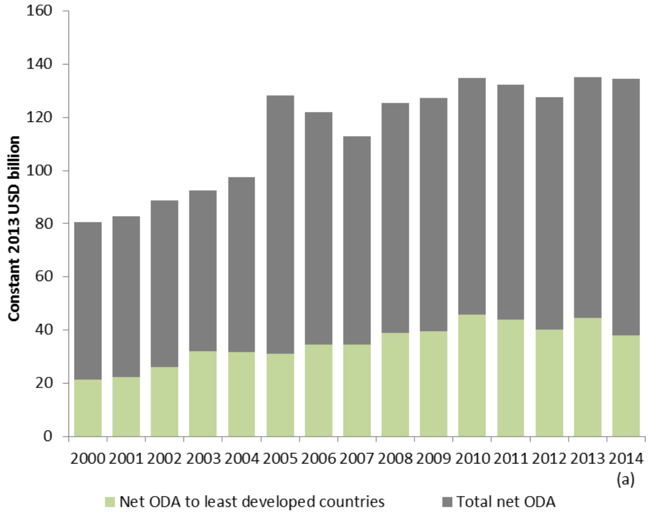
[3] The graduating countries are: Botswana (1994), Cape Verde (2007), Maldives (2011) and Samoa (2014). Equatorial Guinea and Vanuatu are currently in the process of graduation and Angola was recommended for graduation in at the triennial review in 2015.

Global aid remains high but the share to LDCs is falling

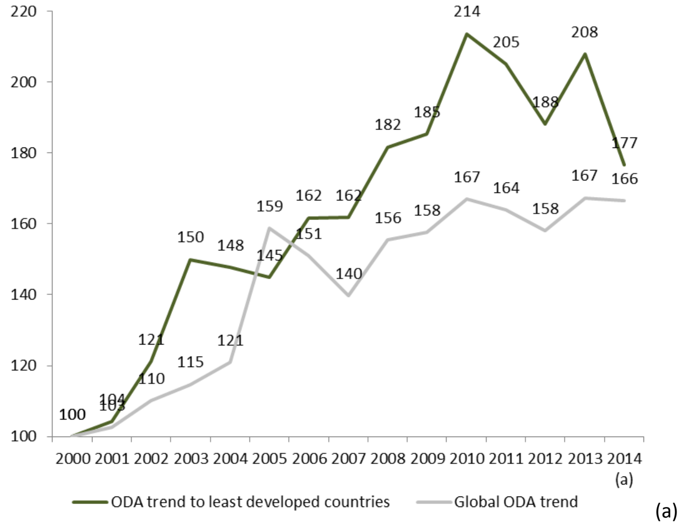
Official development assistance (ODA) increased steadily from the end of the 1990s up to 2010. Despite the lingering recession in several countries which has triggered cutbacks in their aid budgets, global aid rose to reach an all-time high in 2013. In 2014, aid from OECD Development Assistance Committee (DAC) countries totalled USD 135.2 billion, a slight decline of 0.5% in real terms from 2013.

While the increase in aid to LDCs surpassed the overall increase in global aid up to 2010, this trend has begun to reverse. Recent figures indicate an estimated overall decline in aid to LDCs – from USD 46 billion in 2010 to 38 billion in 2014. The drop is mainly due to decreases in bilateral aid, in part because of overall budget pressures in a few OECD DAC countries and changed priorities in OECD DAC countries' overall aid allocations. In 2013, ODA to LDCs represented 0.10% of OECD DAC countries' combined GNI, well below the UN target of providing at least 0.15% of their GNI as ODA to LDCs.[4]

Global net ODA and net ODA to LDCs



Trend in net ODA (indexed, year 2000 = 100)



2014 preliminary estimates

Source: OECD DAC statistics

The LDCs show very different patterns in terms of aid flows and the extent to which provider countries consider them a focus, or priority, country. For example, while Afghanistan, Ethiopia and Mozambique are a priority to 14 or more OECD DAC members, a number of LDCs only enjoy priority status with one or two OECD DAC members, *e.g.* Guinea-Bissau, Madagascar, and Togo. A few of these countries have also been identified as aid orphans by the OECD.[5]

Positive outlook

In December 2014, OECD DAC members agreed to reverse the declining trend of ODA to LDCs and reached a historic agreement to modernise reporting practices regarding ODA loans, creating incentives for providing more highly concessional loans to LDCs. The OECD DAC will monitor ODA flows to track progress in reversing the decline in ODA. Members will hold one another to account individually through the OECD peer review process, and additionally on a collective basis on the occasion of the annual Senior Level Meeting.

The 2015 Survey on Forward Spending Plans also indicates that country-level aid to LDCs should recover over the next few years after several years of declines, in line with the OECD DAC pledge. Two-thirds of the LDCs are expected to see increases in aid over the medium-term.[6]

Providing resources to those with the greatest needs is crucial for giving LDCs the means to generate sustainable and inclusive growth and effectively tackle the forthcoming SDG agenda. Providers of development co-operation are playing a critical and active role in supporting these countries to address the many challenges they face, and can make a decisive difference in enabling further graduation from the LDC category in the years to come.

---

[4] 9 OECD DAC members reached the UN target in 2013. These were: Belgium (0.17%), Denmark (0.28%), Finland (0.20%), Ireland (0.24%), Luxembourg (0.40%), Netherlands (0.18%), Norway (0.30%), Sweden (0.33%) and the United Kingdom (0.25%).

[5] OECD Development Brief: *Where do we stand on the Aid Orphans?*, available at: http://www.oecd.org/dac/aid-architecture/Aid%20Orphans%20Development%20Brief.pdf

[6] For more information about the survey and data on providers' latest spending plans, see www.oecd.org/dac/aidoutlook