CHAPTER 2

Official flows and the evolving terms of aid dependence

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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

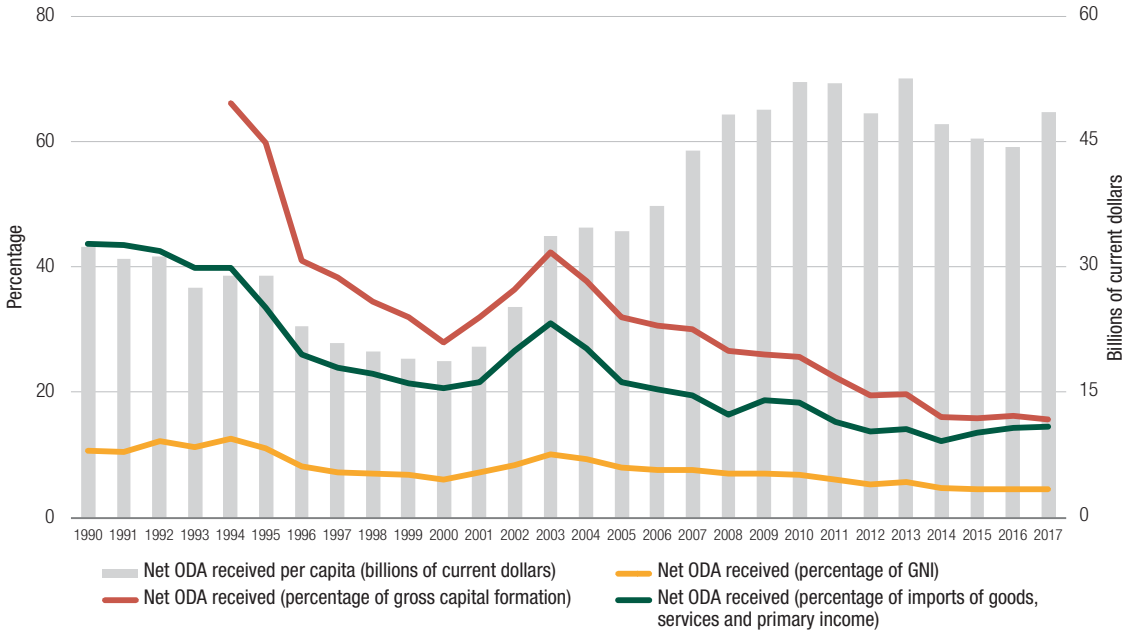
Comparisons with other developing countries should not hide, however, the fact that the last few years of sustained economic growth in LDCs have lessened their economic dependence on aid resources (figure 2.1). For LDCs as a group, the importance of aid flows relative to economic variables has been on 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

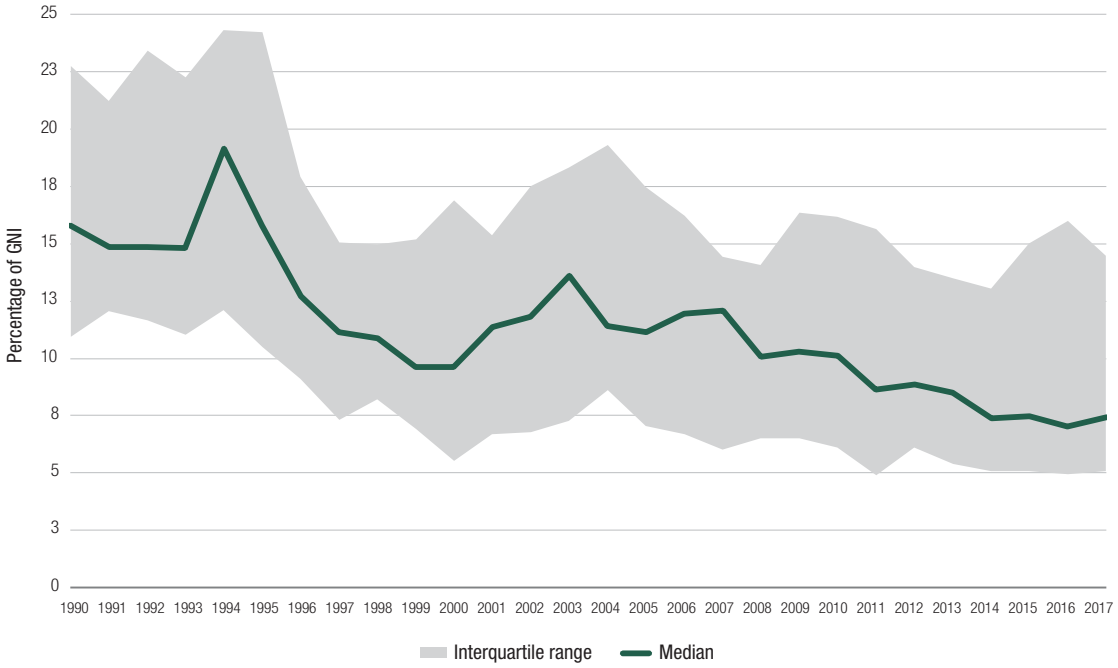
The previous section documented LDCs' specificities pertaining to patterns of dependence on external resources and discussed the critical role official development finance[2] continues to play for LDCs' development prospects, both in relation to their current account balance and to the concrete support 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

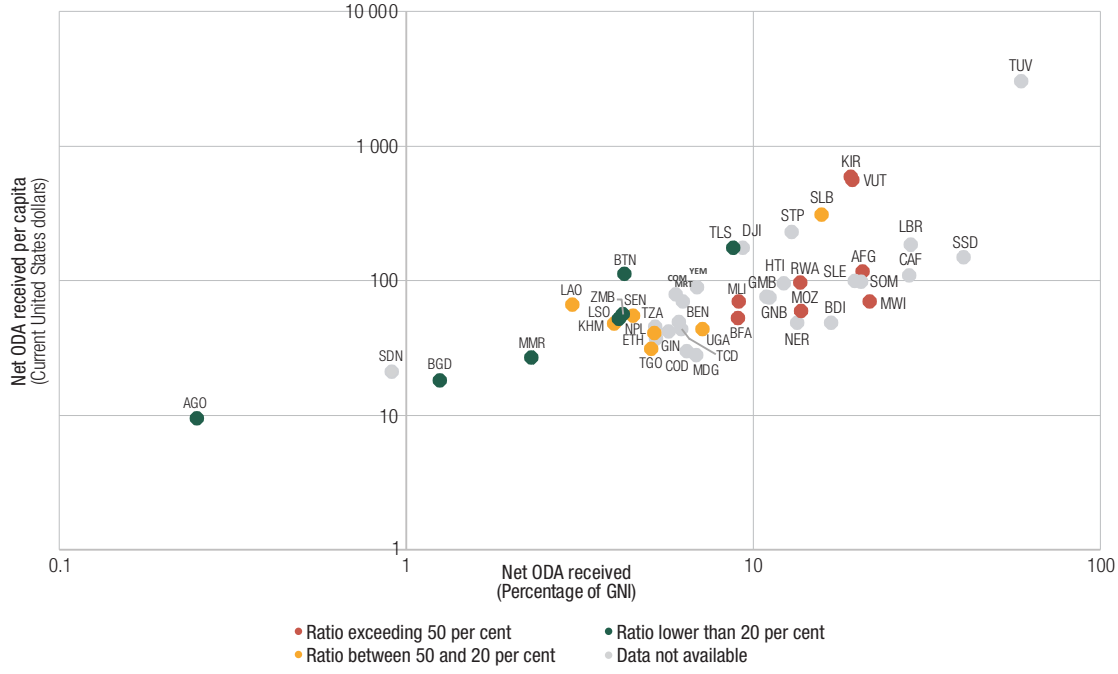


Source: UNCTAD calculations, based on data from the World Development Indicators database.

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

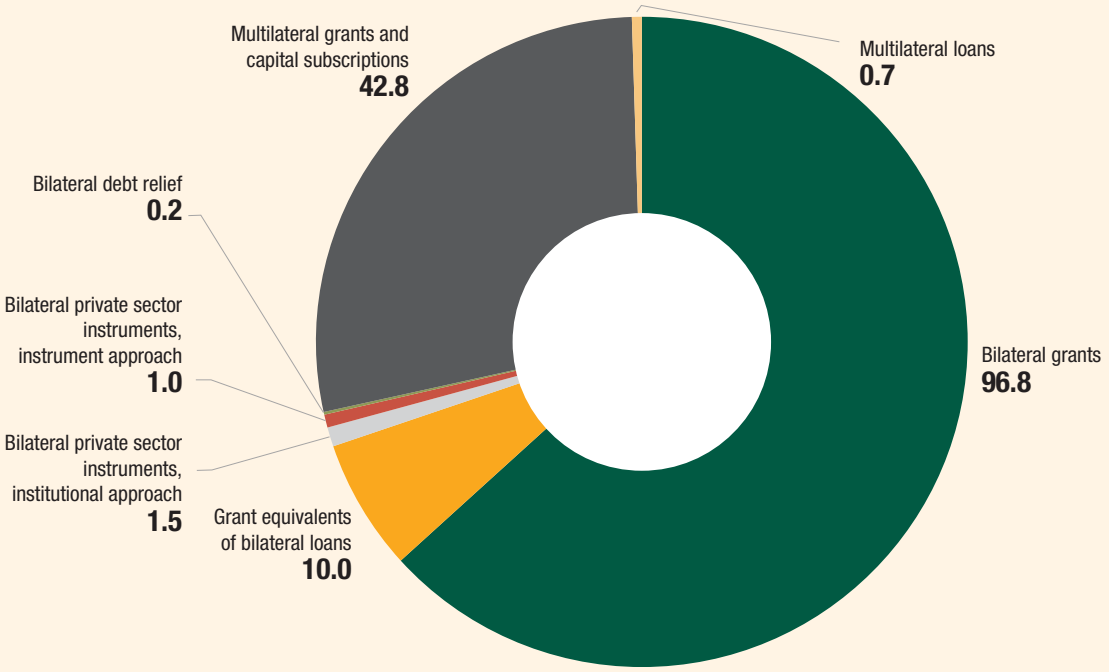
The DAC has long established itself as one of the key institutions monitoring ODA flows and providing related data; accordingly, commonly used aid figures have tended to follow the corresponding statistical and reporting standards. The DAC first defined ODA in 1969 and tightened its definition in 1972, 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.

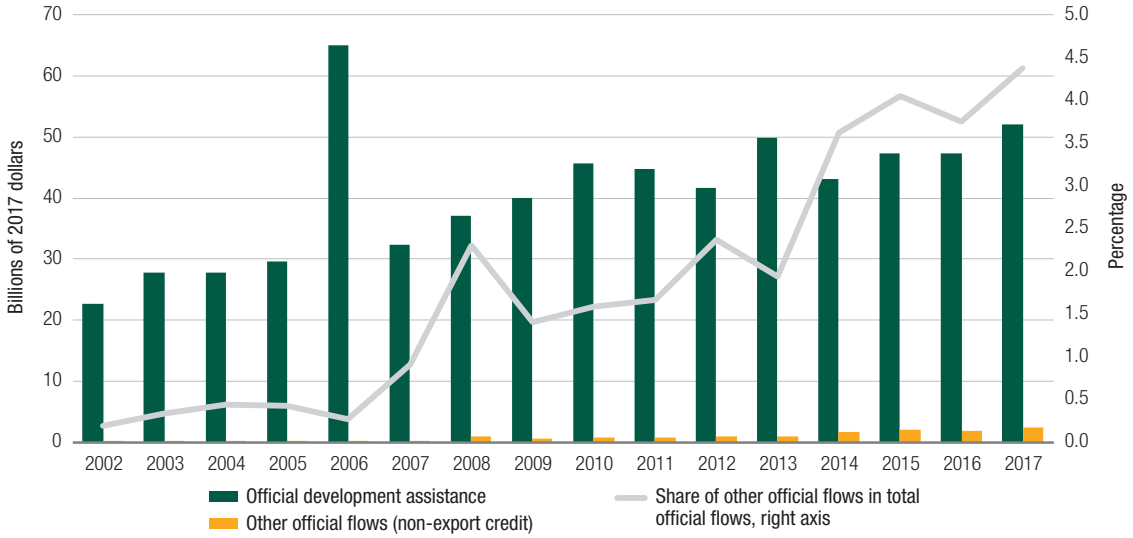
1. The size of official flows to the least developed countries

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.

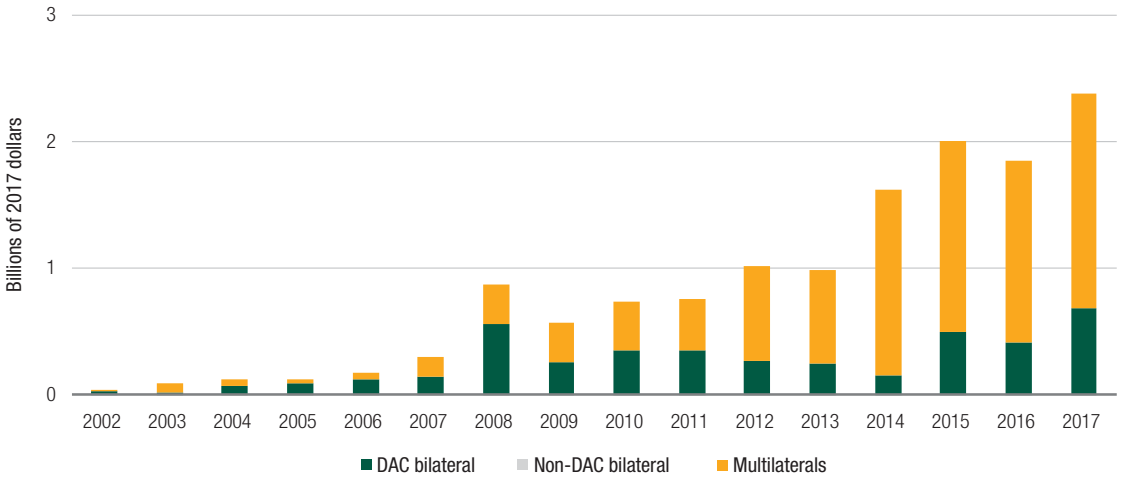
Against this background, ODA flows have continued to be distributed more evenly across individual LDCs than other official flows or other sources of external finance, such as FDI and remittances (figure 2.6). This holds true, despite the fact that donors' aid allocation is not only affected by country 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*

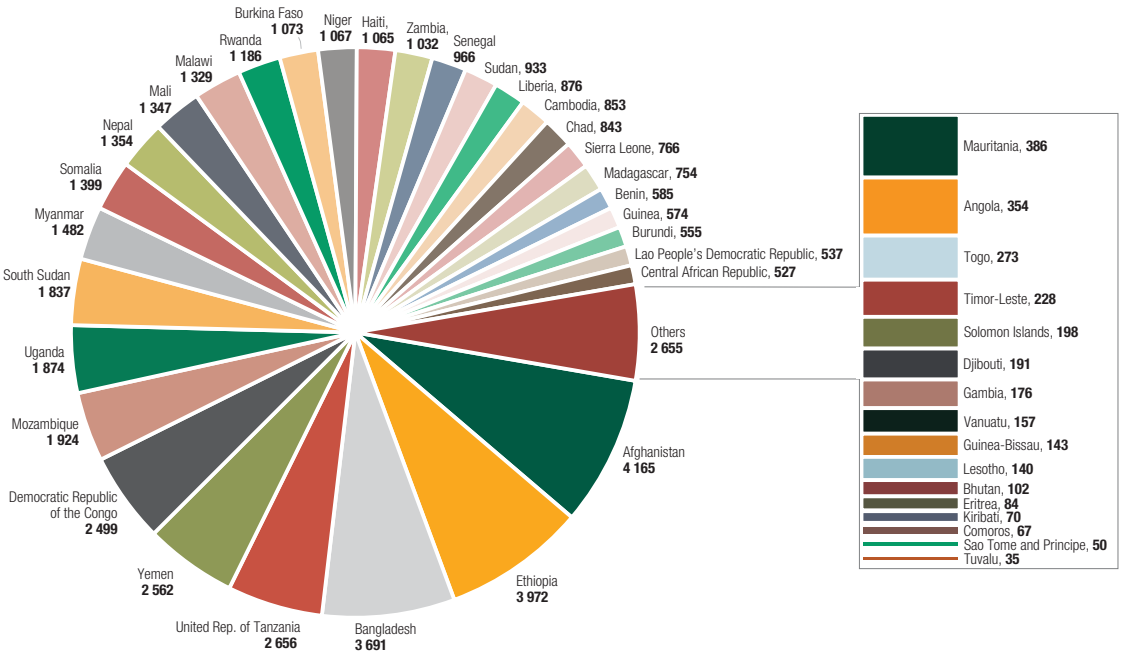


Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.
* Excludes export credit.

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

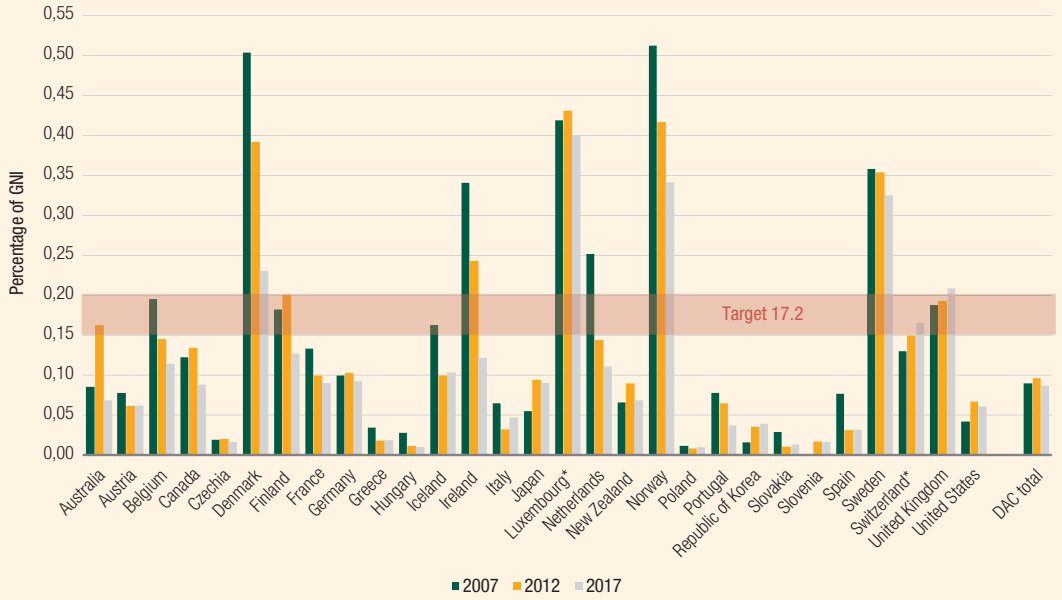


Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

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

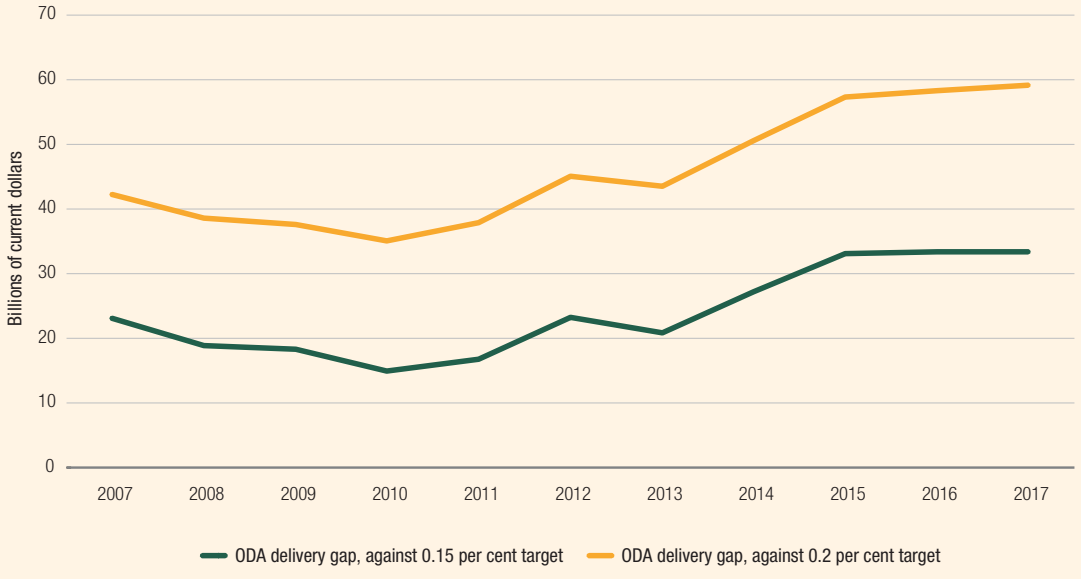
The origin of the LDC-specific target for aid allocation dates back to the Substantial New Programme of Action for LDCs of 1981, when donor countries committed to provide ODA equivalent to 0.15–0.20 per cent of their own GNI (UNCTAD, 2016a). Such a target has been reaffirmed in every Programme of Action 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**

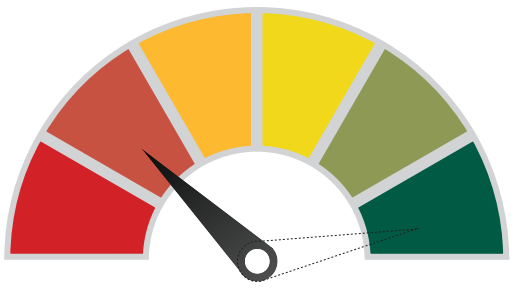
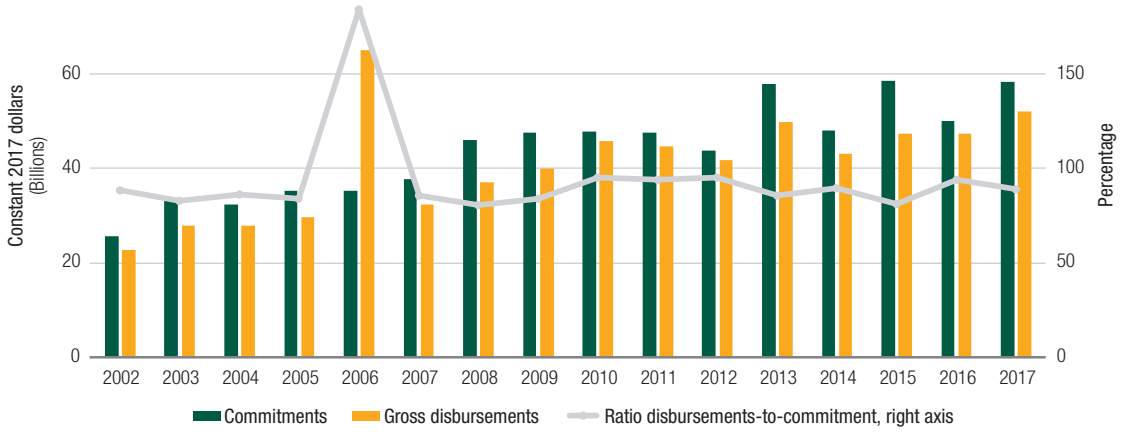


Figure 2.7

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).

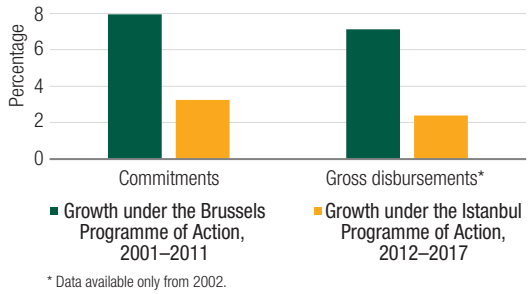
2. Sectoral allocation

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



* Data available only from 2002.

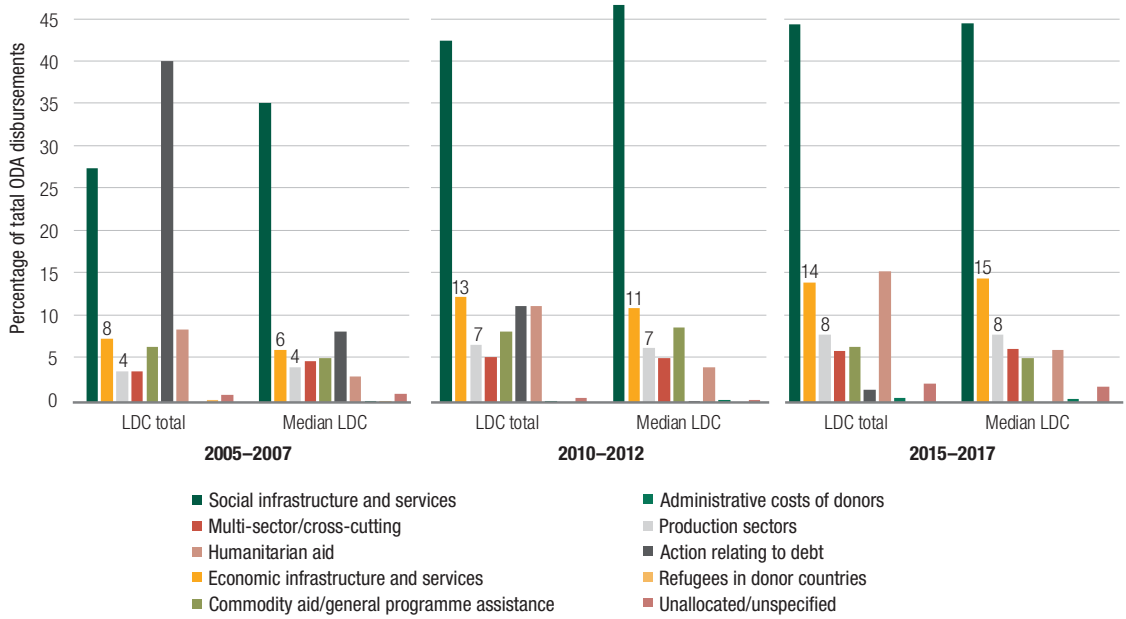
Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

[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)



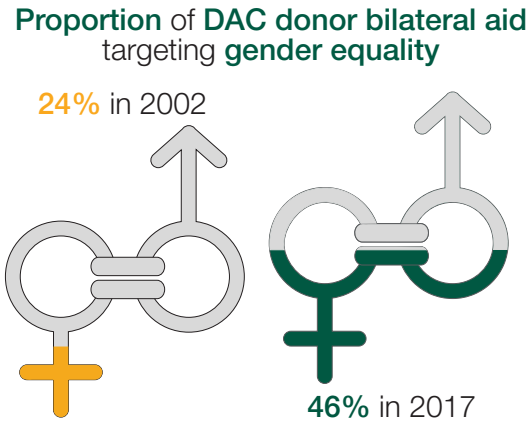
Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

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:

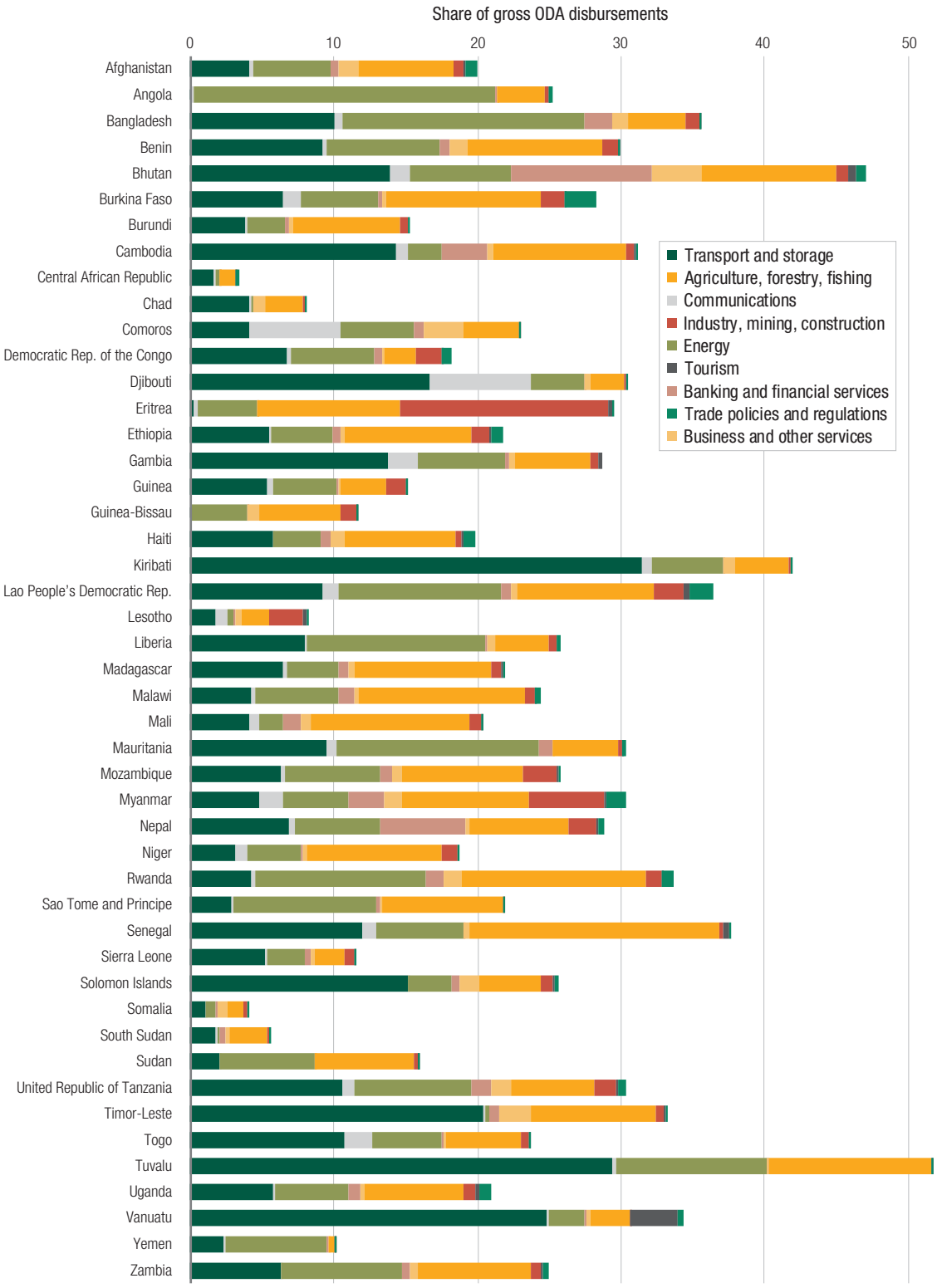
- Transport and storage; communication; and energy are typically grouped together under the label "economic infrastructures";
- Banking and financial services; business and other services; agriculture, forestry and fishing; industry, mining and construction; as well as tourism are typically reported 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)

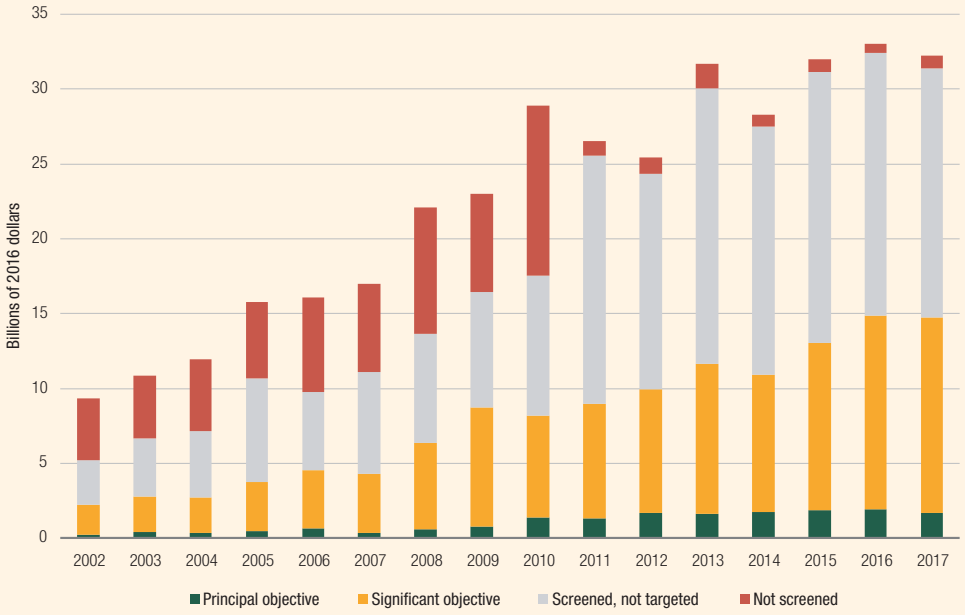


Source: UNCTAD calculations, based on data from the OECD Creditor Reporting System database.

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

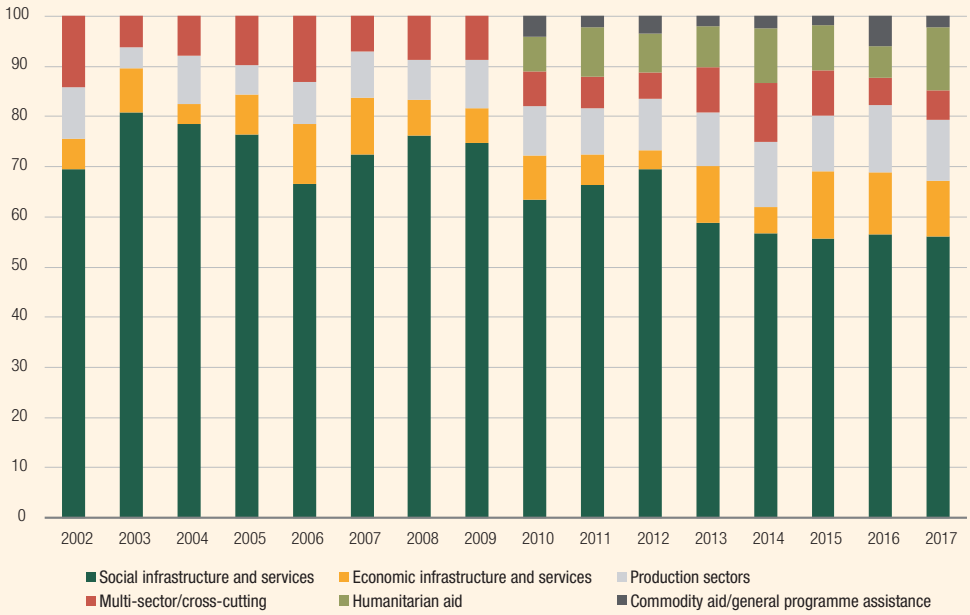
With a view to track support for gender equality, the OECD requests DAC donors to indicate, for each activity reported to the Creditor Reporting System among their bilateral ODA commitments, whether it targets gender equality as one of its policy objectives. To meet the criteria of "gender equality focused", 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.

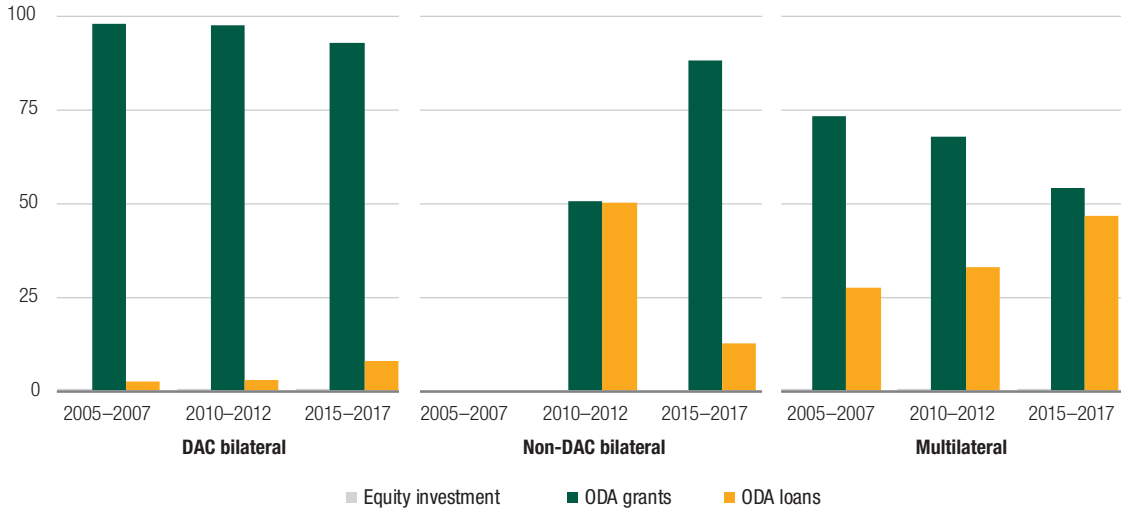
In this context, the growing reliance on debt-generating official flows makes the call for greater transparency and improved public data availability on development cooperation (United Nations (2015b), paras. 50, 58 and 60) all the more imperative. Progress in the modernization of ODA

[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

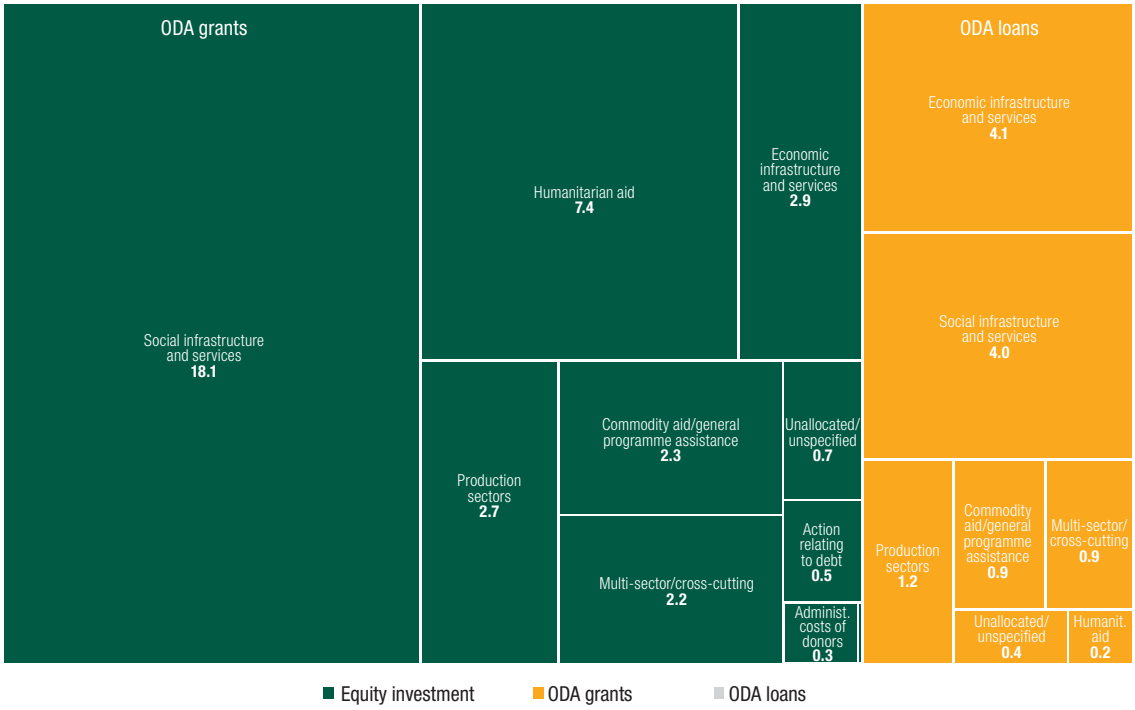
(Percentage)

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

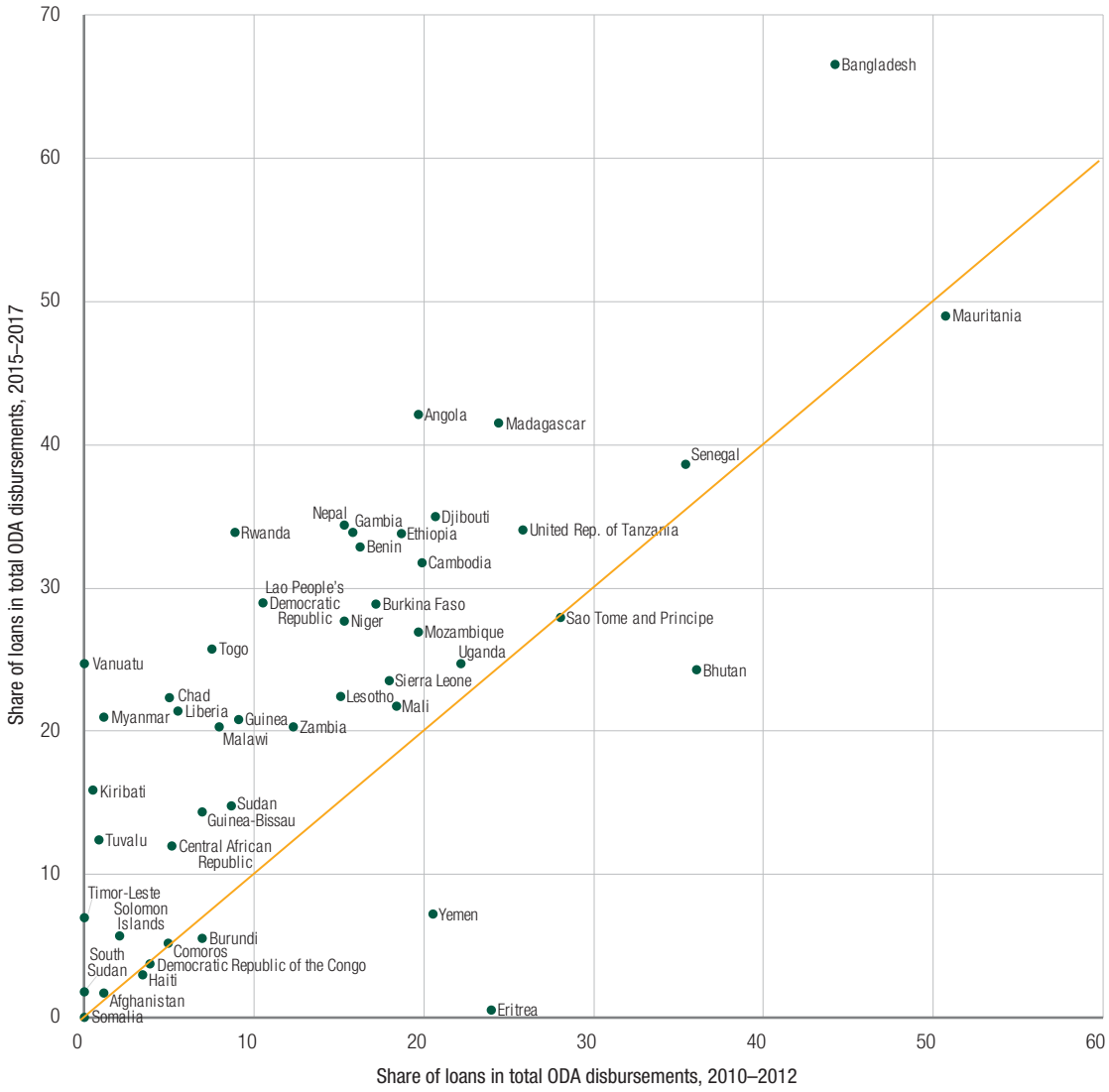
With the mushrooming of dedicated funds in favour of LDCs and other developing countries – from Aid for Trade to climate finance – a long unresolved issue is the degree of additionality: that is, the extent to which new initiatives represent an additional injection of money or rather "old wine in a new 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.

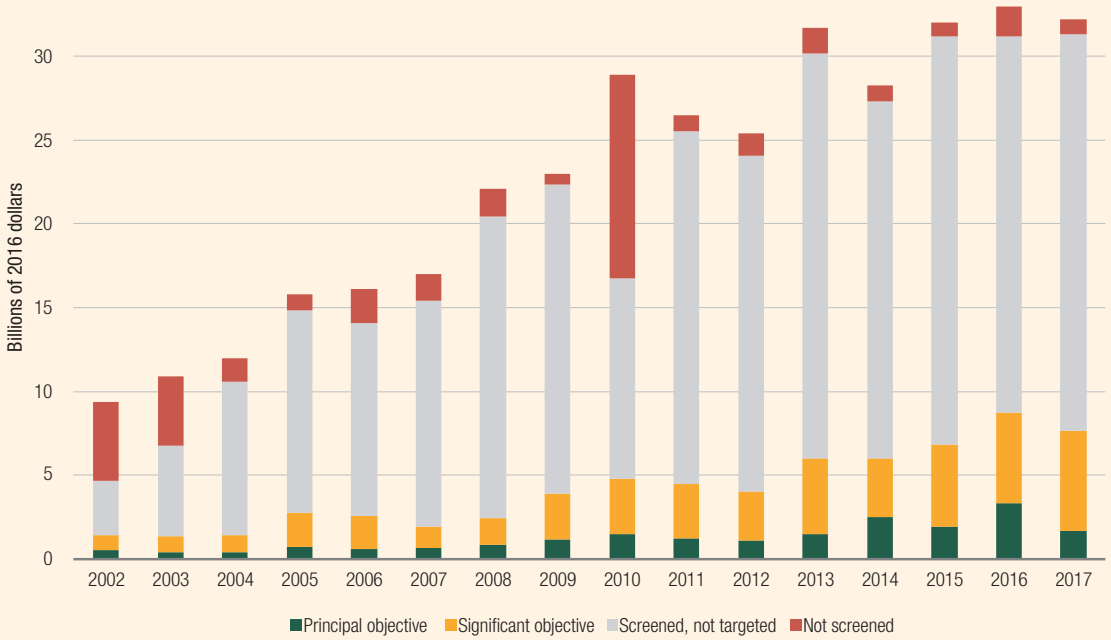
Beyond the magnitude of ODA and related concessionality levels, the modalities of disbursement have an important bearing on the associated development footprint. In this respect, a number of key features of aid systems have been discussed in the context of the aid effectiveness agenda, including under 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

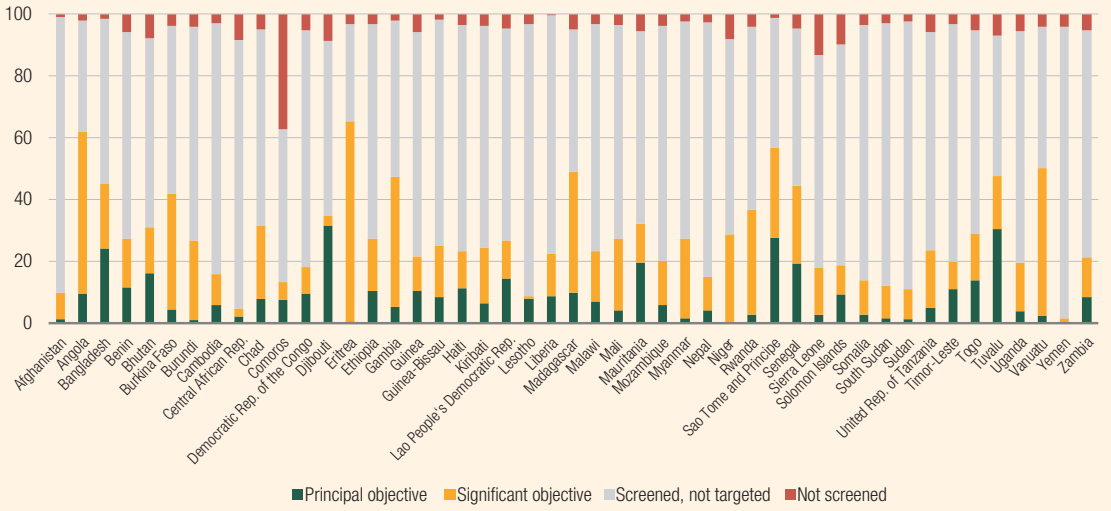
The OECD Creditor Reporting System database contains data on bilateral aid commitments from DAC donors in support of environmental sustainability. In this context, donors are requested to indicate for each activity, whether it produces "an improvement in the physical and/or biological environment of 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:

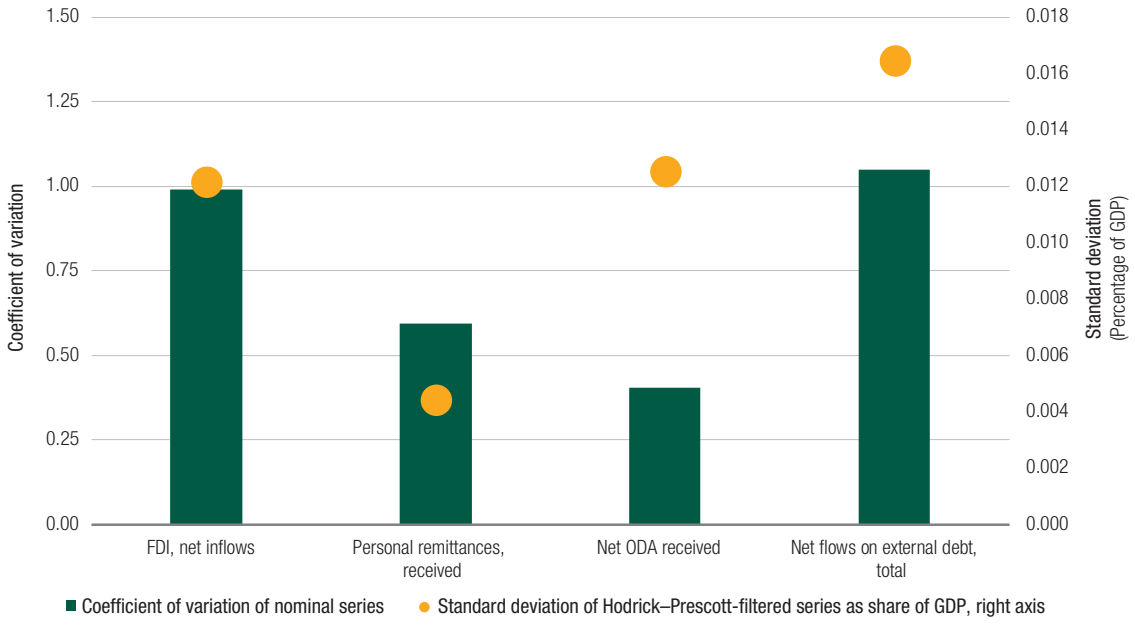
- Are unpredictable by nature (humanitarian aid and debt relief);
- Entail no cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and research and refugees in donor countries);
- Are not part of cooperation agreements between Governments (food aid and 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

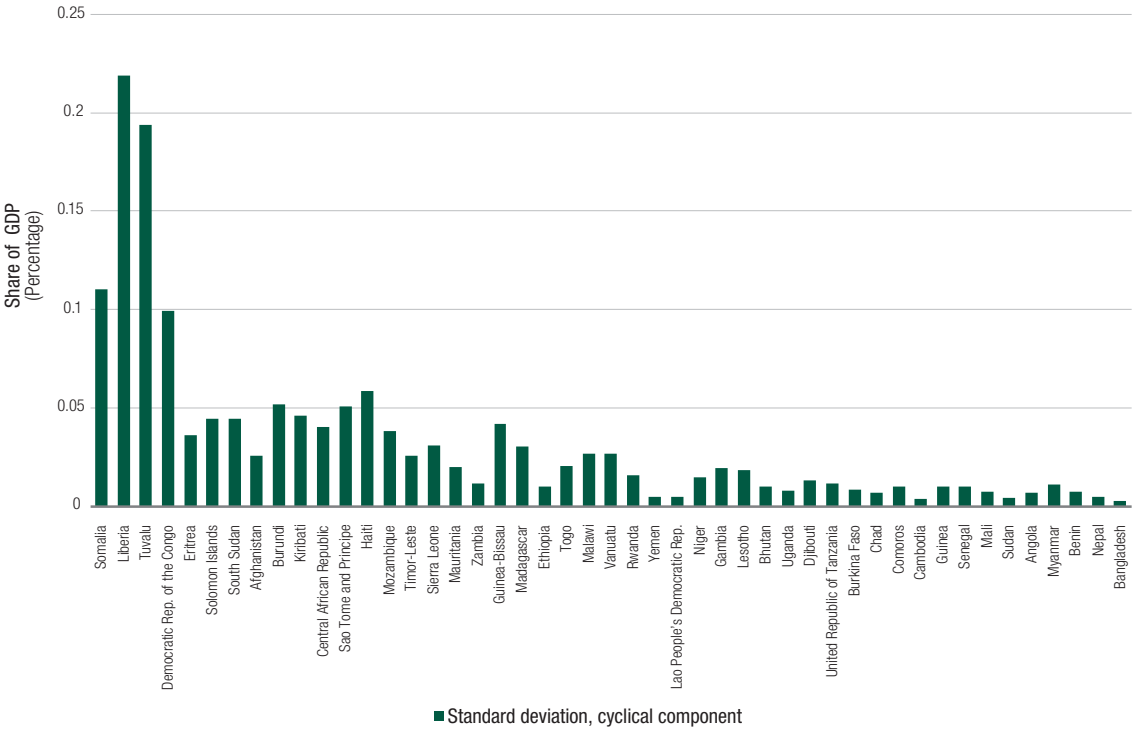
Volatility of external financial flows to the median least developed country, 2000–2017*



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

Figure 2.17

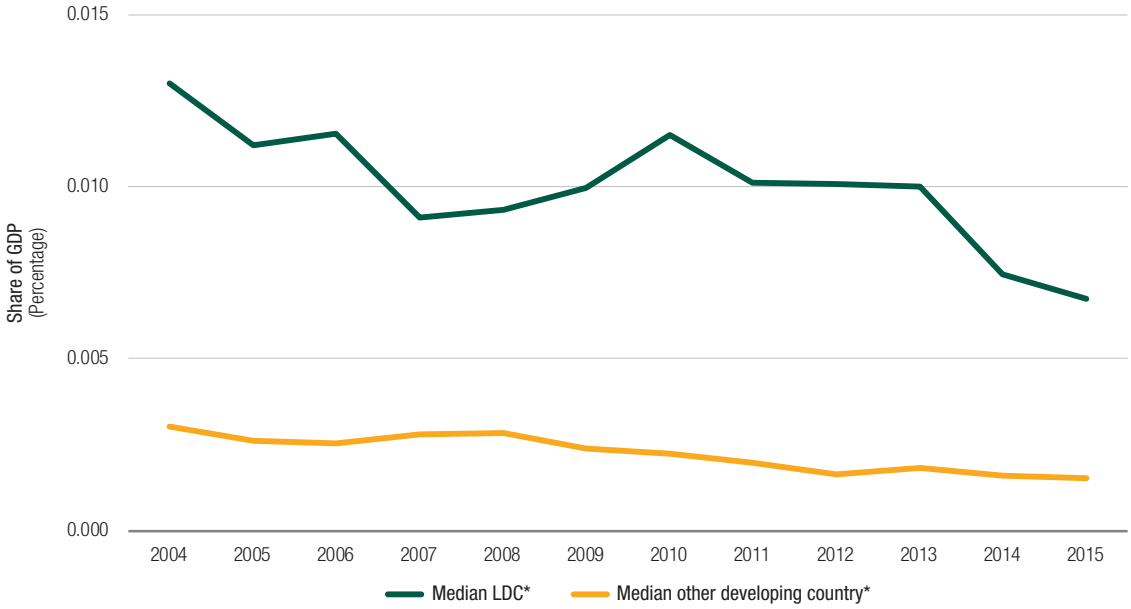
Volatility of net official development assistance disbursements, 2002–2017



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

South–South cooperation incorporates more than financial elements

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]

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).

South–South and triangular cooperation rejuvenate multilateralism

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]

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.

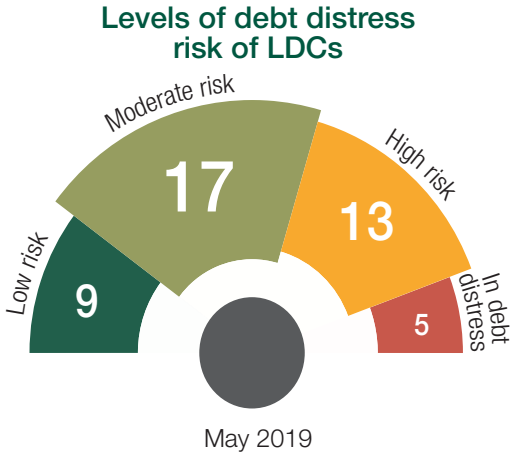
[23] Interestingly, according to some researchers, the outward policy of China has influenced also the sectoral focus of its cooperation activities, underpinning the overlap of solidarity, commercial and financial motives; nevertheless, social infrastructures appear to have played a greater role than 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



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.

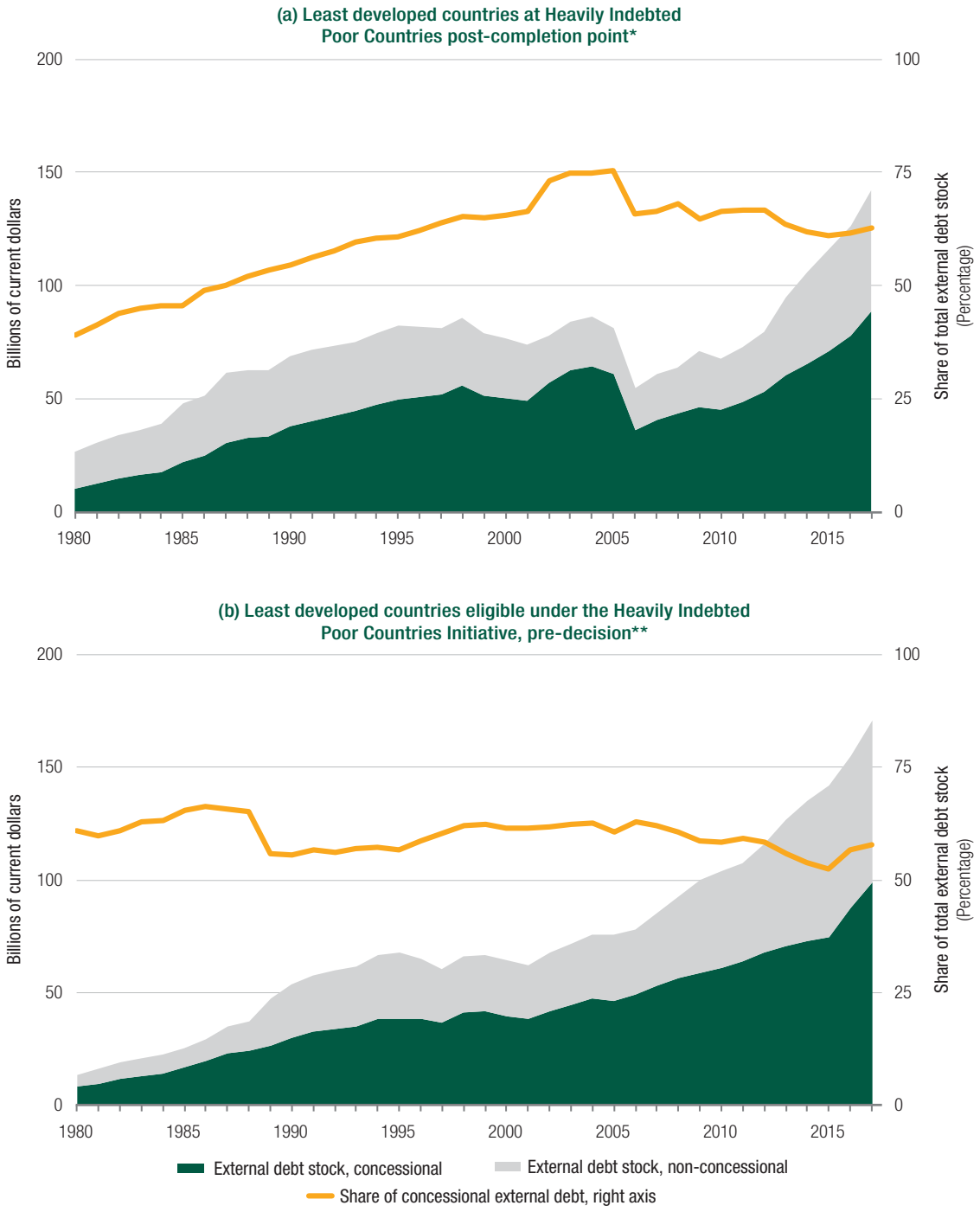
Again, distinguishing between LDCs having reached HIPC post-completion point and all other LDCs

[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

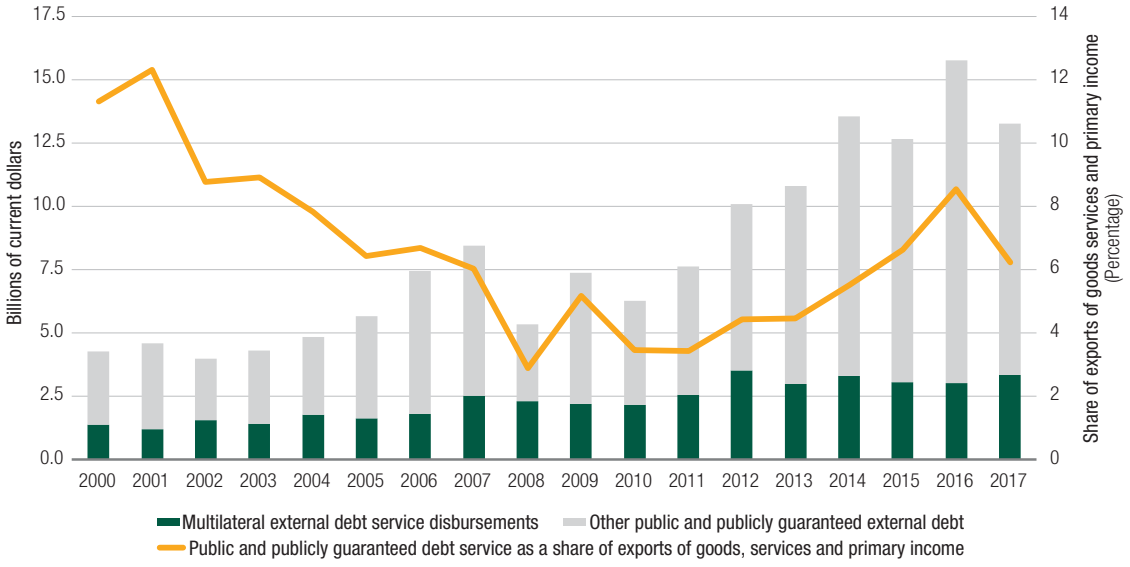
In a nutshell, debt relief under the HIPC Initiative (which was later supplemented by the Multilateral Debt Relief Initiative) involved two steps process: a decision point, at which countries deemed eligible may immediately begin receiving interim relief on its debt service falling due, and a completion 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

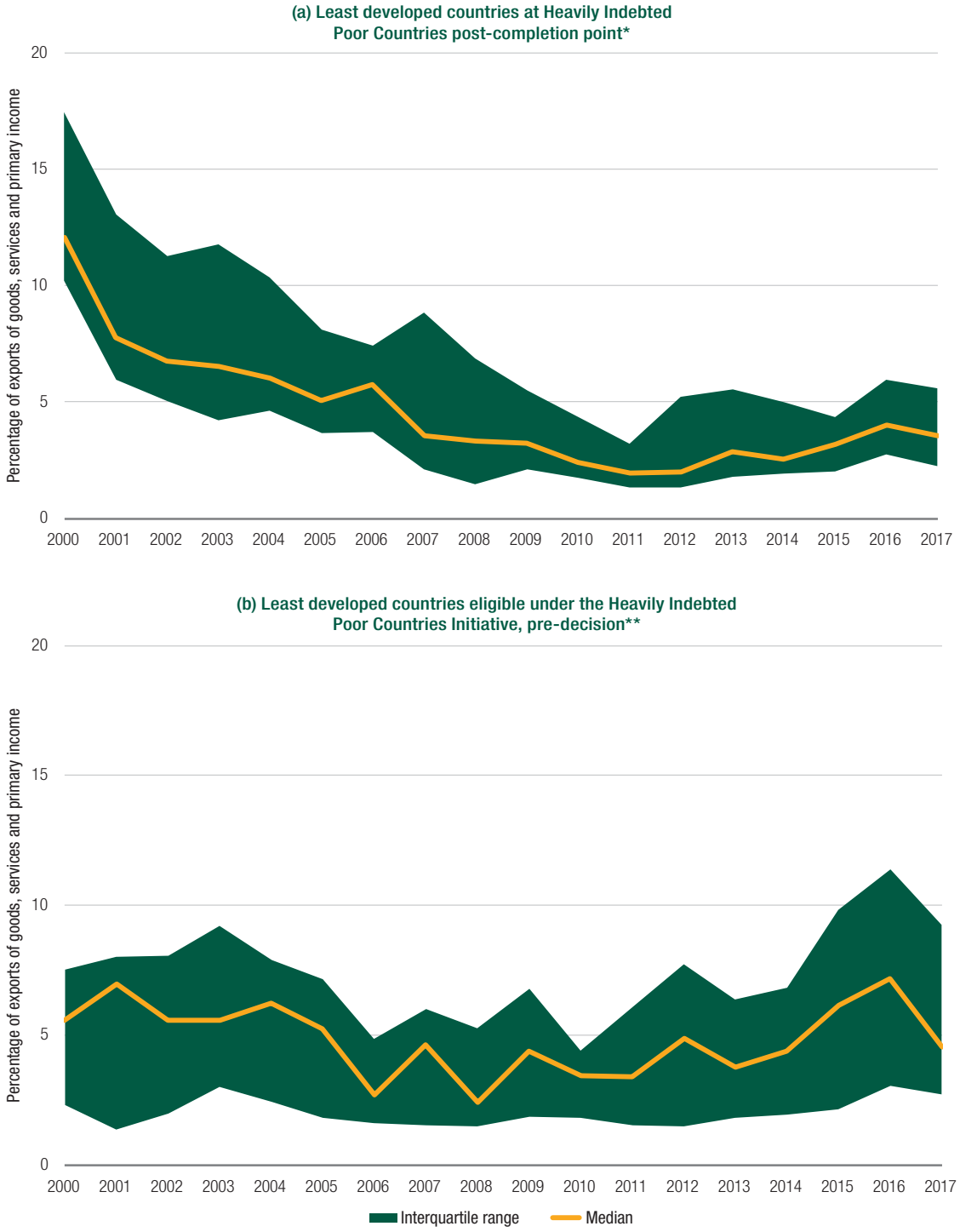
Total external public and publicly guaranteed debt service of the least developed countries



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.