Midterm Review of the 
Istanbul Programme of Action
27-29 MAY 2016, ANTALYA, TURKEY

MUTIPLE CRISES AND OTHER EMERGING CHALLENGES & MOBILIZING 
FINANCIAL RESOURCES FOR DEVELOPMENT AND CAPACITY-BUILDING

HIGH-LEVEL ROUNDTABLE 4 
IPoA Priority Areas F and G 
29 May 2016, 10.00—13.00 PM, Room Atlantic

“Securing equitable, inclusive, and sustainable economic growth and development in least developed countries requires building their residence to withstand crises and emerging challenges and the impact of climate change.”

BACKGROUND

As the midpoint of the decade-long Istanbul Programme of Action (IPoA) for LDCs draws near, a comprehensive high-level midterm review of its implementation will be held in May 2016, in Antalya, Turkey. Participation will be open to all stakeholders of the IPoA, and include four roundtables focusing on identifying concrete suggestions to further strengthen the global partnership for development for LDCs in all priority areas of the IPOA in order to ensure its timely, effective and full implementation during the remainder of the decade, while taking into account synergy and coherence of the Istanbul Program of Action with global processes including the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda, the Sendai Framework for Disaster Risk Reduction, and the Paris Agreement under the United Nations Framework Convention on Climate Change.

CONTEXT

The High-Level Roundtable on “Multiple crises and other emerging challenges, and mobilizing financial resources for development and capacity-building” is a unique opportunity to commit to accelerating action towards implementation of:

- **Priority Area F of the IPoA:** Multiple Crises and Other Emerging Challenges
- **Priority Area G of the IPoA:** Mobilizing Financial Resources for Development and Capacity-building
LDCs continue to be vulnerable to a variety of shocks, including food, fuel, financial and economic crises, and natural disasters, with some having to confront challenges posed by climate change and some by conflicts that have eroded some of the development gains made by LDCs over the last decade. Securing equitable, inclusive and sustainable economic growth and development in LDCs requires building their resilience to withstand crises and emerging challenges and the impact of climate change. The IPoA has set the following goals and targets in this regard:

- Build the resilience of LDCs to withstand economic shocks and to mitigate their adverse effects;
- Strengthen LDCs’ ability to withstand and overcome the adverse effects of climate change, enhance sustainable growth and protect biodiversity;
- Build the resilience of LDCs to withstand natural hazards in order to reduce the risk of disasters.

The global economic and financial crisis of 2008 resulted in lower growth rates in LDCs. While many of them managed to build stronger policy buffers with rising foreign exchange reserves and declining government debt as a result of the commodity boom, their economies remain vulnerable to economic shocks owing to limited structural transformation. The decline in prices for oil and other primary commodities has aggravated the difficulties arising from the absence of a diversified economy and the excessive reliance on resource-extracting industries in many LDCs. The deterioration of fiscal balances signals a reduction of the available fiscal space that is needed to provide vital services and social protection.

The average debt service as a percentage of exports remained low, and on average the ratio of total reserves to external debt improved although marked differences exist across countries. Debt relief has been the dominant influence on the indebtedness of these countries over the last decade. A majority of countries had graduated from the list of heavily indebted poor countries by 2013, and debt relief has subsequently played a progressively smaller role in reducing debt ratios. Heightened vigilance is needed to capture financial risks early and ensure debt sustainability, including through sound debt management policies.

Climate change disproportionately affects LDCs. From 2010 to mid-2013, people living in these countries were five times more likely to die from climate-related disasters than people living elsewhere. Rapid urbanization and population growth also mean that both human and economic losses from disasters are on the rise. Furthermore, the high incidence of poverty exacerbates vulnerability to climate change.
Desertification, coastal erosion, droughts and floods, melting glaciers and sea-level rise are affecting LDCs disproportionately. Adaptive capacity or resilience with respect to climate change is determined by a complex set of social, economic and institutional factors. LDCs need financial and technological support to adapt to climate change. A total of $248 million was newly pledged by 11 donors at the start of the twenty-first session of the Conference of the Parties, providing a much-needed boost to clear the backlog of some 35 projects for climate adaptation in LDCs that had already been approved by the Global Environment Facility (GEF) but for which resources were unavailable. Without adequate resources for adaptation, the devastating impact of climate change in LDCs threatens to undo social and economic progress. Financing their adaptation needs will require a substantial increase in international public finance, particularly in the form of grants, without excluding other forms of concessional financing. In addition, technology development and transfer, capacity-building and transparency of action and support are required.

The damage from natural disasters is far more severe in LDCs, especially in least developed Small Island developing States. Many LDCs continue to face desertification, including the drying up of wells, exacerbating the challenges of water scarcity. A substantial increase in seasonal droughts and a higher frequency of forest fires have negatively impacted LDCs. Many of the countries have designed and implemented national disaster reduction strategies and have embedded them in national development plans.

Natural disasters often expand public debt by triggering more borrowing owing to lower revenues or increased spending, thus intensifying balance-of-payments pressures. In addition, many LDCs are severely challenged by rising economic losses from natural disasters, as most losses are uninsured and Governments do not have the financial reserves or sufficient, rapid access to contingency financing that would allow them to absorb the losses, recover and rebuild.

Strong commitment is needed to implement the Paris Agreement on Climate Change and to build the resilience of the poor and those in vulnerable situations and to reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters. Mechanisms for raising capacity for effective climate change-related planning and management in LDCs including focusing on women, youth and local and marginalized communities should be promoted. Support is needed for the national plans of LDCs towards adopting a low-carbon economic growth path. There is a need for effective delivery on commitments to the Green Climate Fund and simplified and prioritised access for LDCs to all climate change-related funds.
The lack of financial resources is one of the biggest constraints facing LDCs to achieving sustained, inclusive and equitable growth and sustainable development and progress towards graduation. The low levels of per capita income, domestic savings and investment and a small tax base limits domestic resources. There is therefore a high reliance on external financial resources, including ODA, foreign direct investment, concessional lending and private flows such as remittances. Many LDCs have benefited from debt relief measures under the HIPC and MDRI Initiatives. The impact of the world economic and financial crisis, combined with food and fuel crises, has undermined development efforts of LDCs.

**DOMESTIC RESOURCE MOBILIZATION**

The rate of gross domestic savings as a percentage of GDP in LDCs increased from 17 per cent in 2001-2010 to 20 per cent in 2014. The ratio of government revenue to GDP, excluding grants, has also increased from 13 per cent to 16 per cent over the same period. Although domestic resource mobilization has improved, the current level stands far below the requirements and potential of the LDCs.

**OFFICIAL DEVELOPMENT ASSISTANCE**

After increasing in 2013, bilateral official development assistance (ODA) flows to LDCs dropped sharply in 2014, reaching $43.7 billion, a decline of 9.3 per cent in real terms from the 2013 level. ODA flows to LDCs in 2014 were still below the level reached in 2008, prior to the global economic crisis. Looking forward, there are indications that the declining aid trends are likely to be reversed. A survey of donor country spending plans through 2018 suggests that country-programmable aid is likely to increase from 2015.

In 2014, a total of 8 Organization for Economic Cooperation and Development (OECD) Development Assistance Committee donors (Belgium, Denmark, Finland, Ireland, Luxembourg, Norway, Sweden and the United Kingdom of Great Britain and Northern Ireland) reached the goal of providing at least 0.15 per cent of gross national income (GNI) in ODA to LDCs, down from 9 in 2013 and 10 in 2011. Commitments on delivering untied aid, however, have yet to be fulfilled, with 13 per cent of ODA channelled to LDCs in 2013 still subject to requirements regarding suppliers in donor countries. In addition, challenges related to the fragmentation and predictability of such assistance also persisted.

**EXTERNAL DEBT**

In 2014, the total external debt of the LDCs amounted to $217 billion, an increase of 8.8 per cent compared with 2013. International reserves increased by 6.1 per cent to $76.3 billion, helping to raise the coverage of reserves to short-term debt from 539.5 per cent in 2013 to 550.2 per cent in 2014. Despite the increase in total debt stock, the ratio of debt to GDP remained stable at 24.7 per cent in 2014 as it did in 2013. To avoid unsustainable debt situations, new attempts for sovereign debt restructuring need to be considered.

**FOREIGN DIRECT INVESTMENT**

Foreign direct investment (FDI) flows to the LDCs increased by 4.1 per cent in 2014 to $23.2 billion led by greenfield investment projects. Around half of all greenfield investment in these countries originated from developing countries in 2014. Following very strong growth between 2005 and 2010, overall FDI flows to LDCs have remained broadly constant over the past five years, accounting for 1.9 per cent of world FDI.

Foreign direct investment inflows are concentrated in a few countries, with five countries accounting for 58 per cent of the total in 2014: Mozambique ($4.9 billion), Zambia ($2.5 billion), the Democratic Republic of the Congo ($2.1 billion), the United Republic of Tanzania ($2.1 billion) and Equatorial Guinea ($1.9 billion). The Lao People's Democratic Republic and Myanmar saw strong FDI growth of 69 per cent and 62 per cent, respectively. In 2014 greenfield FDI in mining, quarrying and petroleum increased again; although FDI in the service sector declined, it remained the largest sector. Greenfield investment in manufacturing was the lowest, reflecting limited structural transformation. For LDCs, it is important to attract not only more FDI but FDI that contributes to structural transformation, employment creation and equitable and sustainable growth.
Remittances

Remittance flows to LDCs increased from $25.47 billion in 2010 to $35.8 billion in 2014. The cost of remitting continues to be a challenge. In some of the corridors, costs of remitting continue to be exorbitant, particularly to the African countries, partly because of limited competition among service providers. The introduction of money transfer services has somewhat reduced the costs of remitting, which declined by two percentage points to 7.7 per cent in 2015 compared to 2009, but is yet to be generalized in many countries. Such services also present challenges that relate, inter alia, to safety and reliability safeguards and the level of literacy required for their use.

Looking forward

Domestic resource base is critical for rapid and sustained progress and long term economic development, and there is a need to enhance revenue administration by bringing the informal economy into the formal economy and through modernized, progressive tax systems, improved tax policy and more efficient tax collection. In this regard, development partners should strengthen international cooperation to support efforts to build capacity in LDCs and to assist them in addressing transfer pricing and countering illicit financial flows.

The recent decline in ODA going to LDCs is a matter of great concern, and there is need for effective delivery on the ODA commitments, in line with the Addis Ababa Action Agenda, i.e. providing at least 0.20 per cent of official development assistance/gross national income to LDCs and allocating at least 50 per cent of their official development assistance to LDCs, in view of their high dependence on ODA as a source of development finance.

The principles of aid and development effectiveness, including predictability and transparency, harmonisation, country ownership, and untied aid should be upheld. The impact of ODA will have a multiplier effect, if more ODA goes to the productive sector and if ODA is used to leverage more resources, including domestic resources and FDI.

South-South cooperation is an integral part of the international development architecture. It continues to play an important and crucial role in supporting LDCs economic growth and sustainable development aspirations. The advantage that South-South cooperation can bring, including in the areas of capacity-building, technical cooperation, transfer of appropriate technologies, as well as through leveraging and mobilising of resources is well acknowledged by the international community.
OBJECTIVE

The objective of this High-Level Roundtable is to bring together global leaders to address these challenges, identify concrete suggestions and commitments, and help improve the financial and technical resources available to LDCs and help build their resilience to various shocks.

The High-Level Roundtable at the Midterm Review is also an opportunity to gain political momentum and commitment from leaders on supporting mitigation and adaptation in LDCs and increasing financial and technical support. This event will provide a platform to make success visible, showcase best practices, and identify the key principles and variables for success in these areas of the IPoA.

In answering these questions, leaders at the roundtable are expected to share best practices and lessons learned and offer ideas and commitments which operationalize the IPoA and help improve the financial and technical resources available to LDCs and help build their resilience to various shocks.

In particular, the roundtable will seek concrete suggestions and commitments from leaders on questions such as:

- How can the intersection of the IPoA, AAAA and Paris Agreement be used to strengthen LDCs resilience to environmental shocks and natural disasters?
- What can be done, by LDCs and their development partners alike, to enhance capacity building in domestic resource mobilization?
- How can the global partnership for LDCs’ development be strengthened while ensuring the highest level of development assistance to LDCs, and new sources of financing for development identified?
- How can we further promote South-South Cooperation as complement to North-South Cooperation?
- What commitments can be made for building capacity to collect and process timely and accurate data to enhance the implementation and monitoring of the Istanbul Programme of Action and the Sustainable Development Goals and promote accountability?