Forum: Economic and Social Council

Issue: Mobilizing financial resources for least developed countries for sustainable development

Student Officer: Gamin Kim

Position: President of Economic and Social Council

Introduction

With the common goal of sustainable development, nations signed upon the 2030 Agenda for Sustainable Development which aimed for 17 goals and 169 targets. That was only 7 years ago, and now at about the midpoint in achieving the Agenda, Least Developed Countries (LDCs) in particular face difficulties not only from their economic situation, but also from other circumstances such as the common challenge of COVID-19, not to mention the branches of significant root challenges. In the past, many LDCs have expressed the need for financial support that allows the implementation of practical plans and solutions. In achieving the Sustainable Development Goals (SDGs), assisting the development of the Least Developed Countries (LDCs) through effective and sustainable solutions is considered crucial. With numerous actions taken in the past through several organizations and various projects, mobilization of the financial resource has been one of the most inherent and crucial step/solution in assisting LDCs.

There are several challenges LDCs face in achieving sustainable development, one of which is their soaring debt. The already existing obstacle became even more challenging with the the COVID-19 pandemic. Recently, more than half of all LDCs experienced a significantly increased amount of debt. There has been more debt distress while economic growth has also been hindered. It is suffice to say that one of the factors that are keeping LDCs behind the track of the 2030 Agenda would be the impact of debt and its distress.

In addition, export marginalization is also a challenge for LCDs. Their export rates and Foreign Direct Investment (FDI) show the marginalization of the country in the financial system. In the past, agricultural exports dropped in the past from 3.3% in the 1970s, 1.9% in the 1980s, and 1.5% in the 1990s. Further expanding export bases as a long-term goal is important. Even though LDCs have broadened their export bases under the IPoA, 38 of the countries' export rely on commodities for over 60% of their export production. Their exports are also concentrated on only a few markets, including the European Union (EU) being 36%, the United States and Canada being 21%, and Japan being 6%. Although these issues would require long periods of time to showcase visible and dynamic effect, they should be addressed with more conscious effort. The top UN official has mentioned how morally bankrupt the international financial system was. When aiming to better short-term situations with regard to the pandemic recovery, there are several strategies including private sector-led development.

LDCs are considered to have a relatively weak capacity in dealing with different external factors including debt, volatile public revenue, and the pandemic, which is why assistance from external sources is not only helpful, but crucial in letting them approach sustainable development. There are current measures made for LDCs such as bettering the process of generating domestic revenue with the adequate support needed and investing in the economic structure to be better involved within the international market. Another example would be the global FDI aimed at LDCs showing an increase in the past from 1.3% in 2011 to 1.8%. in 2018.

LDCs are struggling more to collect financial resources, which was also called the “great finance divide”. Comity to find the most effective measures are imperative in this topic to best support LDCs both in the short and long term.

Definition of Key Terms

Mobilizing financial resources

Financial resource mobilization refers to the funding from which different finances are mobilized in different ways and thus utilized for specific needs to achieving sustainable development, including investments.

Least developed countries

According to the UN, least developed countries (LDCs) are “low-income countries confronting severe structural impediments to sustainable development.” The list is assessed every three years by the Committee for Development Policy. A country’s human asset, economic vulnerability, and gross national income per capita is considered when determining whether it is as an LDC. Currently, there are 46 countries considered as LDCs.

Sustainable Development

According to the UN, Sustainable development has been defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Productive Capacity

A country’s productive capacity refers to the resources or capabilities that together determine the capacity to diversify a country’s economy and accelerate growth.

Capacity-building

Capacity-building is the process of enhancing the ability and the resource of what a country needs to survive, adapt, and thrive.

Foreign Direct Investment (FDI)

Foreign Direct Investment is a form of investment where a foreign company takes ownership of another country’s business. FDI flows relate to the value of transactions during a specific amount of time period. FDI flows can be an important external finance.

Background Information

Mobilization of domestic resource

Domestic resource mobilization (DRM) is when a country raises and uses funds in accordance to their own needs. This is the most fundamental part of the mobilization of financial resources for sustainable development. Effective investments are to be made to achieve sustainable development, however, the current gap between the investment requirements and the mobilized resources shows the importance of improvements in domestic resource mobilization, through measures such as increasing domestic capacity for revenue collection from taxation.

For instance, through the revenue collected from government taxation, LDCs are able to increase their domestic finance. While there were LDCs such as Bangladesh, Tanzania, and Uganda where tax revenue-to-GDP ratios were substantially low, many Commonwealth LDCs managed to improve their average tax revenue-to-GDP ratios. In the past decade there were positive revenue trends impacting an increase in the domestic revenue in general, where more than half of the LDCs were able to have increased revenue trends. Despite this, LDCs still lack tax revenues to meet SDG goals. In order to improve the mobilization of domestic resources, more strategic policies on taxation need to be established and implemented. For this to happen, there also needs to be external assistance from countries and organizations to increase LDCs' capacity in planning policies.

Mobilization of external financial resource

Other than domestic resources, international investments such as FDIs can help LDCs increase their capacities in achieving sustainable development. Assets such as technology, skills, and access to markets can be further developed through the right use of the external finance LDCs receive. There has been an increase in foreign investment in LDCs which were mostly ones in Commonwealth LDCs. This allowed domestic firms in LDCs to enter a wider range of market networks with improved assimilation. Thus, the economic transformation that was occurred through this process resulted in a better involvement in other financial systems. In the past decade, FDI to LDCs amounted to $38 billion as the averaged maximum throughout LDCs in 2015. From 2010-2020, FDI inflows to African LDCs showed a decrease, while in the Asia-Pacific LDCs it increased. Bangladesh, Cambodia, and Myanmar received nearly 90% of the FDI to LDCs. Through this it can be deduced that the focus on individual countries would also be necessary, if not in groups of LDCs that have similar situations.

Another challenge regarding this aspect of the topic is the lack of core resources in organizations. This is a challenge that is within the idea of mobilizing financial resources for LDCs. Previously, UNCDF has stated that its core resources are less than the aimed finance allocation. This low level of core contributions can discourage the ability of an organization to strengthen its country level presence and to help LDCs work towards sustainable development.

Debt

LDCs have also experienced obstacles due to the pandemic, such as an increase in their national debt. Recently their debts have been reaching $43 billion. Since the 2008 financial crisis, global debt levels have grown in LDCs. Debts not only affect the countries' ability to produce service systems, but it also disturbs the progress of infrastructure development. This is an aspect of the topic that is to be addressed as this is a long-term obstacle that became especially challenging after the pandemic. The increasing amount of external debt is particularly a challenge that LDCs face from the distress and impact it brings. In the past decade, debt increased from $199 billion in 2011 to $358 billion in 2018. African LDCs accounted for about two-thirds of the total amount of debt from 2010-2020.

COVID-19

LDCs faced severe impacts from the COVID-19 pandemic. Fall in FDI as well as more debt distress were what LDCs were left to tackle with. External shocks like the COVID-19 pandemic left countries lacking the capacity to recover easily. The Debt Service Suspension Initiative of the Group 20 has taken action to alleviate financial pressures, however, they were not sufficient to resolve the issue. The development process that was in progress before the pandemic is left nearly with a setback. In other words, it is almost as if the progress that had been made since 1996 is now in reverse. This not only affects the country as a whole, but also the massive number of individuals who already to some degree experience poverty.

As debt distress increases, effective debt relief is necessary. Debt increase can only disturb LDCs in reaching sustainable development. The Debt Service Suspension Initiative has previously provided short-term relief for LDCs, however, these were insufficient because it simply delayed the problem rather than addressing and solving it. Thus, in order to support LDCs, financial support and other alternatives that address the problem is needed. This could be divided into two main parts, which include the short-term support for recovering the situation that was impacted by the pandemic, and the support that aims for long-term development.

Economic Structure Transformation

Economic structure transformation is an ongoing process in many LDCs. It is when factors of production are allocated from lower to high-productivity activities, increasing sectoral productivity. The COVID-19 pandemic situation as a whole is also related to the transformation and development of economic structures. Productive capacity expansion is one of the solutions for this situation LDCs face. This is because it avoids the trap of focusing on only the few factors that are perceived as being able to improve economic growth, because this is not in fact the case in many situations. The ability to thus know how each economic transformation would look like for the uniqueness of the situation is highly important.

Major Countries and Organizations Involved

Bangladesh

It is worth noting that there was the establishment of the Bangladesh Investment Development Authority as well which is seen as the cause for the development that was seen in the country's economy. There were specific activities such as promotion activities, networking as well as matchmaking sessions, etc. The United Nations Trade and Development (UNCTAD) pointed out the impact of Bangladesh on the other nearby LDCs.

United Nations Capital Development Fund (UNCDF)

The UNCDF works to catalyze capital for LDCs sustainable development. Starting from 2018, The United Nations Capital Development Fund offers support to LDCs in mobilizing public and private resources. The UNCDF aimed for inclusive digital economies, as enhancing digital connectivity for letting businesses in LDCs be involved in the global economy was important. Local development finance, and investment finance was done in the past as well. This was done by catalytic financial structuring, project finance, and municipal finance. UNCDF collaborated with OECD in the past to find effective ways in which mobilized finance can be used to resolve issues and attain sustainable development.

Official Development Assistance (ODA)

The ODA is in other words the traditional source of development finance for LDCs. The main objective was to support the economic development and welfare of developing countries, and it is provided by official agencies, or executive agencies of governments. It was adopted in 1969, and some of the peak of donors rose to 178.9 billion USD in 2021. ODA provides humanitarian aid, which amounted to 18.8 billion USD.

Timeline of Events

Date	Description of event
March-June 1964	UNCTAD members agree in the first session of UNCTAD that LDCs are to be paid special attention for future growth and development
November 18th, 1971	Member States establish the Least Developed Country (LDC) category while acknowledging that separate/exclusive assistance is needed considering the difference in aim compared to developing countries
2011	Istanbul Programme of Action (IPoA), the programme that aimed to graduate half of the LDCs which applied from 2011 to 2020 to LDCs, was adopted.
March 17th, 2022	Doha Programme of Action (DPoA) for LDCs in 2022-2031 is adopted in the LDC5 conference. On April 1, the General Assembly approves this through resolution A/76/L.47

Relevant UN Treaties and Events

- Declaration on the Critical Economic Situation in Africa, 3 December 1984 **(A/RES/39/29)**
- Lessons Learned From Implementing the Istanbul Programme of Action for Least Developed Countries for the Decade 2011-2020 **()**
- Rio+20 / United Nations Conference on Sustainable Development, 20-22 June 2012 **(A/RES/64/236)**
- Addis Ababa Action Agenda of the Third International Conference on Financing for Development, 27 July 2015 **(A/RES/69/313)**
- Doha Programme of Action for Least Developed Countries, 17 March 2022 **(A/RES/76/258)**

Previous Attempts to solve the Issue

IPoA (Istanbul Programme of Action)

IPoA was a plan that was implemented from 2010 to 2020 that had the focus on improving the productive capacity of LDCs. The goal was to graduate half of the countries on the LDC list by 2020, however, they have succeeded in graduating only four. IPoA focused on reducing vulnerabilities and addressed new challenges of country development. It is visioned that the lessons learned from this are to be applied to the current implementation of the Doha Programme of Action for Least Devleoped Countries in 2022-2031.

Least Developed Countries Fund (LDCF)

By mobilizing finance for over 310 projects and 53 activities in the past, the organization has helped LDCs to implement National Adaptation Programs of Action (NAPAs), and National Adaptation Plan (NAP). Furthermore, working with other partner agencies, LDCF encouraged the investment in private sector and country adaptation solutions.

United Nations

The UN has established the Integrated National Financing Frameworks (INFFs). There were also several programmes that were then followed to implement the framework, such as the UN Joint SDG Fund; In architectural development and investments, the UN Joint SDG Fund supported LDCs by focusing on public and private financing. Another instance would include the SDG Finance Sector Hub which assisted countries in financing for sustainable development. Furthermore, with the IPoA ongoing from 2011 to 2020, United Nations Industrial Development Organization (UNIDO) has aimed to monitor progress for the implementation of the IPoA. UNIDO has also arranged conferences in the past to evaluate the contribution of the IPoA. Others, such as The International Telecommunication Union and UNIDO fund different projects and activities.

Possible Solutions

Reflection to Move Forward

In mobilizing financial resources for LDCs, it is important to analyze the efficiency of the use of the resource and apply what is deduced as most effective. There were many projects and programmes in the past from different organizations and governments. At this point, it is highly important for the financial resource to be used in right places, such as making productive investments to boost development. In addition, looking at the longer term, reflection on whether or not the country's system is working in accordance to their plans is crucial for the whole development process to be acted out. The reflection should also focus on evaluating the different systems LDCs have, as well as if the plans were compatible with their systems to determine future directions. An example of this in the past was the preliminary report done by the UN Office of the High Representative for the Least Developed Countries Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) regarding the IPoA and the lessons learned. It enabled a better in depth understanding of systems in LDCs such as their economies and how the implementations of the programme were working within the system. Overall, it provided a better vision and a direction for the future.

Resilience and Effectiveness

Going further on the Platform for Collaboration on Tax that was launched in 2016, which was led by the organizations International Monetary Fund, the Organization for Economic Cooperation and Development, the UN, and the World Bank Group to better the cooperation between them in order to enhance situations for tax issues in nations by helping LDCs' capacity in doing so, a more suitable solution to current circumstances of the pandemic would be more beneficial and practical. Some of the structural factors could include: the categorization of different situations in LDCs all from the past to the present with the aim to apply methodological solutions which worked in the past, the discussion section of the future situations predicted that require practicality in solutions in means of concluding possible solutions or actions. Because communication of information between the UN and the LDCs, and even between LDCs is important in moving forward and even cooperating with organizations, this solution when crafted well could support the firm base in applying actions in different situations to come in the future.

Through communication, it is important to share the similar priorities and goals which should mainly be addressing constraints faced by LDCs and assisting them to achieve sustainable development. In other words, the purpose for implementing a specific action should be reviewed. Countries could, for instance, find specific ways to clarify purposes for actions to be addressing clear problems and not be misled, while having enough resource to collaborate on finding effective measures. Furthermore, it is fundamentally necessary to compare if financial resources are used in reality as they should. This is done in many forms such as reports, special reports on lessons learned, etc. UNIDO also checked in with progresses during the IPoA period.

Developing the Paradigm Shift

In the past it was mentioned by the UNCTAD that a paradigm shift, a concept that refers to an important change that addresses fundamental structures, such as aiming for effective long-term finance mobilization could be a new and impactful solution to the issue of mobilizing financial resources for LDCs. This was because a global financial order, a one that is new, could help infrastructure investment. Delegates should plan in detail according to many countries' situations when forming this solution. And in link with the aspect of planning and executing actions to build industrial capacities, the new order could be beneficial by having a different and new plan. However, if this is to be implemented, the purpose of this which is better productivity and efficiency is to be actualized.

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Appendix or Appendices

I. About sustainable energy access in LDCs (Malawi): Page 32 in https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7206417/

II. About private sector development and Fund used by the UN system: Page 30 & 32 in https://www.un.org/ohrlls/sites/www.un.org.ohrlls/files/united_nations_support_to_the_least_developed_countries.pdf

III. Country profiles on economic situation/status: https://www.un.org/ohrlls/content/profiles-ldcs

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V. Further reading on debt: https://www.worldbank.org/en/news/press-release/2022/02/15/greater-transparency-on-hidden-and-distressed-debt-can-reduce-global-financial-risks-and-support-recovery