AID-FOR-TRADE WEBINAR
Implications of LDC Graduation for A4T

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Presentation on
How to Strengthen the access of the graduating LDCs to development finance and what can Aid for Trade do?

by
Debapriya Bhattacharya, PhD
Member, United Nations Committee for Development Policy (CDP) and
Distinguished Fellow, Centre for Policy Dialogue (CPD), Dhaka
<deb.bhattacharya@cpd.org.bd>
1. Development Finance for Graduating LDCs
2. Forms and Status of Development Finance in the LDCs
3. Focus on Blended Finance in GLDCs – Role of A4T
4. Addressing Challenges of Blended Finance through A4T
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1. Development Finance for Graduating LDCs

A. All the GLDCs are afflicted by
   - incomplete structural transformation
   - weak development of productive capacity
   - geographical handicaps
   - vulnerability to climate change

B. All GLDCs are suffering from three major macro-economic imbalances
   - savings investment gap
   - fiscal deficit
   - balance of payment shortfall

C. Other structural weaknesses of the GLDCs necessitating flow of development finance
   - macro-economic instability
   - weak public finance management
   - fragile banking sector
   - shallow capital market

D. COVID-19 impact has exacerbated the need to enhance fiscal space through development finance flow to roll out stimulus package
1. Importance of Development Finance for Graduating LDCs

The Fault Lines

A. Traditional A4T approach towards the GLDCs did not adequately address the finance dimensions of LDCs graduation

B. Misguided perception that the access to development finance by the GLDCs is a problem of LMICs. Indeed almost all the GLDCs are LMIC (not LIC) and one is even HMIC

C. What was missed is that this **dual transition** – LDC graduation and LMIC upgrade reinforced the need for improving access to concessional development finance for this set of countries so as to

   - address loss of LDC preferences
   - facilitate growth of productive capacity
   - achieving the SDGs
   - counter-acting COVID impact

D. Thus, it is argued that the A4T (not only EIF) paradigm relevant to GLDCs needs to be reinterpreted within a broader **framework**, with a deeper **scope** and ensuring **continued delivery** after graduation
2. Forms and Status of Development Finance in the GLDCs

External

Typology of Development Finance – Public/Private, North/South, Concessional/Otherwise

A. Traditional
   i. Bilateral providers (e.g. DAC-OECD)
   ii. Regional banks and funds (ASDB, AfDB, IDB)
   iii. International Finance Institutions (e.g. WB, IMF)

B. Public (non-traditional)
   - Southern bilateral providers (e.g. China, India)
   - Southern financial institutions (e.g. AIIB, NDB)

C. Private philanthropy (e.g. Gates Foundation)

D. Other Forms
   - Vertical Fund (e.g. GAVI)
   - Climate Fund (e.g. LDC Fund)

   - **Blended Finance**
2. Forms and Status of Development Finance in the GLDCs

Sources of External Development Finance (EDF) in GLDCs

1. About 70% of the EDF comes from ODA
2. Within ODA – bilaterals share is 55% and multilateral – 45%
3. Through NGO/CSO – > 1.2%
4. Private Philanthropy – > 0.1%
5. Southern Flow – 3.4% of > US$ 6 bln

Need to diversify towards larger + new sources of finance
A4T can work on both supply-side – by enabling the providers to the need of the GLDCs as well as on the demand-side – building capacity of the GLDCs to effectively access the existing opportunities through diversification.

Given the paucity of time, I shall elaborate my point in the example of a much hyped sources of innovative finance – BLENDED FINANCE.
3. Focus on Blended Finance in GLDCs - Role of A4T

- There is no standard (agreed) definition of Blended Finance.
  - Leverage additional finance (commercial and non-concessional)
  - Addresses market failures and facilitate market development

- Blended Finance is not trending as yet in the LDCs

- Multilateral mobilised most Blended Finance in the LDC

- Two GLDCs (Myanmar and Bangladesh) was among top five LDCs. Other prominent GLDC – Angola and Solomon Island (among SIDS)

- COVID has created new avenues for use of Blended Finance in the different areas of GLDC economies where capacity support for A4T programme will be useful.

- Between 2012-2017, LDCs mobilised US$ 9.3 bln BF (about 6%) through their ODA receipt
3. Focus on Blended Finance in GLDCs – Role of A4T

New Evidence

A. In **Africa**, BF has been used to support trade finance to ensure market access channels remain open in the short-term

B. **Global Trade Finance Programme** (GTFP) of the IFC offers local banks partial or full guarantee covering payment risks for trade-related transactions

C. Upto US$ 400 of concessional **IDA Private Sector Window** resources have been made available. This helps GTFP leverage at least US$ 1 billion in trade finance in LICs and fragile states

Blended Finance has been used to help open new markets and extend development impact during time of crisis
4. Addressing Challenges of Blended Finance through A4T

**Challenges of Blended Finance**

*A4T Issues from recipient’s side*

- Blended Finance can address trade-related factors contributing to **poor enabling environment** for private sector investment in the GLDCs
- A4T can address **capacity deficits** at the country level by addressing
  - lack of bankable and implementable projects in the pipeline
  - lack of qualified personnel to conduct proper due diligence
  - technical inefficiencies of the implementers
  - capacity gaps in M&E
- A4T support may reduce **risk perception** by investors and improve their appetite for taking risks
- A4T support may address the **lack** of proper **regulatory, legal and institutional frameworks** to encourage flow of BF
- A4T support may alleviate **information asymmetries** between national authorities and international investors leading to outcomes favouring private investors at expense of GLDCs
4. Addressing Challenges of Blended Finance through A4T

Challenges of Blended Finance

*Issues from providers side*

- A4T outreach to the public finance and private finance entities may increase the total number of providers (currently only 10-15)
- A4T support may diversify the sectoral portfolio of the blended finance (currently few sectors only energy, financial services, mining and construction)
- A4T intervention may broaden the group of potential local private sector actors (currently chasing only the established ones)
- A4T may move the balance from “commercial finance” to “private resources”
- A4T may improve blended operations in LDCs by going beyond the provider country or a third developed country rather to the recipient country
- A4T related actions may reduce scepticism regarding claims of market development in recipient countries and can address market failures and take on more risk
4. Addressing Challenges of Blended Finance through A4T

In sum, evidence point to potentials of Blended Finance in GLDCs

- Innovative source of additional finance for **bridging** the SDG and post-graduation shortfall
- Support legal and regulatory mechanism for funds
- Address **capacity** constraints of the concerned public and private institutions
- Address **high cost of capital**
- Crowd-in private investment through **demonstration effects**
- Manage/mitigate **investment and other market risks**
5. Concluding Remarks

- Concerns relating to access to development finance in the GLDCs need to be integrated with the general framework of analysis regarding loss of preferences.

- Role of development finance in strengthening upstream and downstream activities from the vantage point of A4T has to be unpacked.

- Setting up of blended finance facilities and funds (with sectoral focus) managed by either governments or DFIs that specially target LDCs with smooth transition provision (eligibility beyond graduation).

- Need for A4T in the GLDCs for strengthening the role of development finance has to captured in the Transition Strategy of the GLDCs.

- A4T can also play a role in supporting the Integrated National Financing Framework (INFF) in the GLDC for achieving their SDGs.
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