External finance to least developed countries (LDCs): A snapshot

Findings

- Official development assistance (ODA) made up 61% of financial flows to least developed countries (LDCs) in 2018-19, five times more than in other developing countries.[1]
- Private flows from DAC members represented a mere 1% of the total, against 22% in non-LDCs.
- DAC countries gave 0.09% of their combined GNI in bilateral ODA to LDCs in 2019, well below the UN target of at least 0.15%.
- LDCs captured only 8% of the blended finance that went to developing countries over 2012-19.
- ODA does not always go down after countries graduate out of the LDC category.

This snapshot provides the latest information on DAC members', non-DAC members' (reporting on ODA figures to the OECD/DAC) and multilateral agencies' financing to least developed countries (LDCs), including official development assistance (ODA, concessional) and other official flows (OOF, non-concessional), private flows (foreign direct investment [FDI] and private flows at market terms), private grants (mainly from foundations) and remittances. By excluding South-South flows not reported to the OECD/DAC (e.g. China), it underestimates the shares of total FDI and remittances. It provides evidence and lessons from the countries that most recently graduated out of the LDC category: Cabo Verde (2007), Maldives (2011), Samoa (2014) and Equatorial Guinea (2017).

The LDC category currently contains 47 countries, representing 13% of the world's population and 38% of people in extreme poverty. A country can be included in the LDC category if at the moment of its examination: (i) its GNI per capita (Atlas method, World Bank, 2021) is lower than USD 1 018; (ii) it has a human asset index (HAI) lower than 60; and (iii) it has an economic vulnerability index (EVI) above 36.

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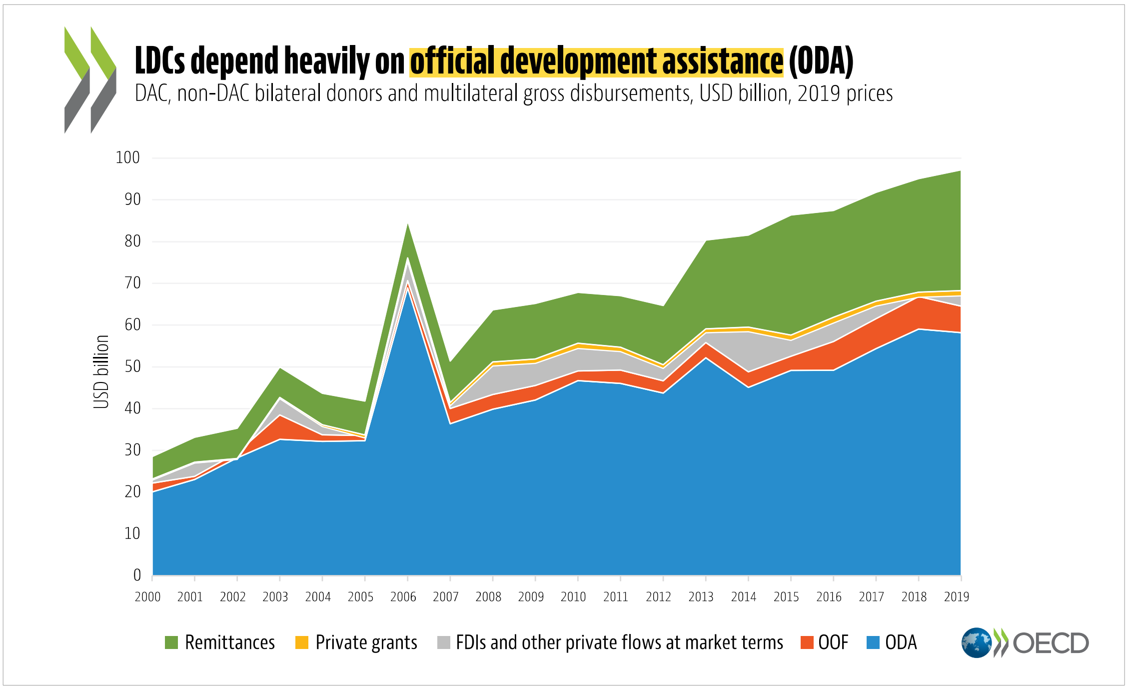
Please cite this paper OECD (2022) "External finance to Least Developed Countries (LDCs): A snapshot", OECD Publishing, Paris.

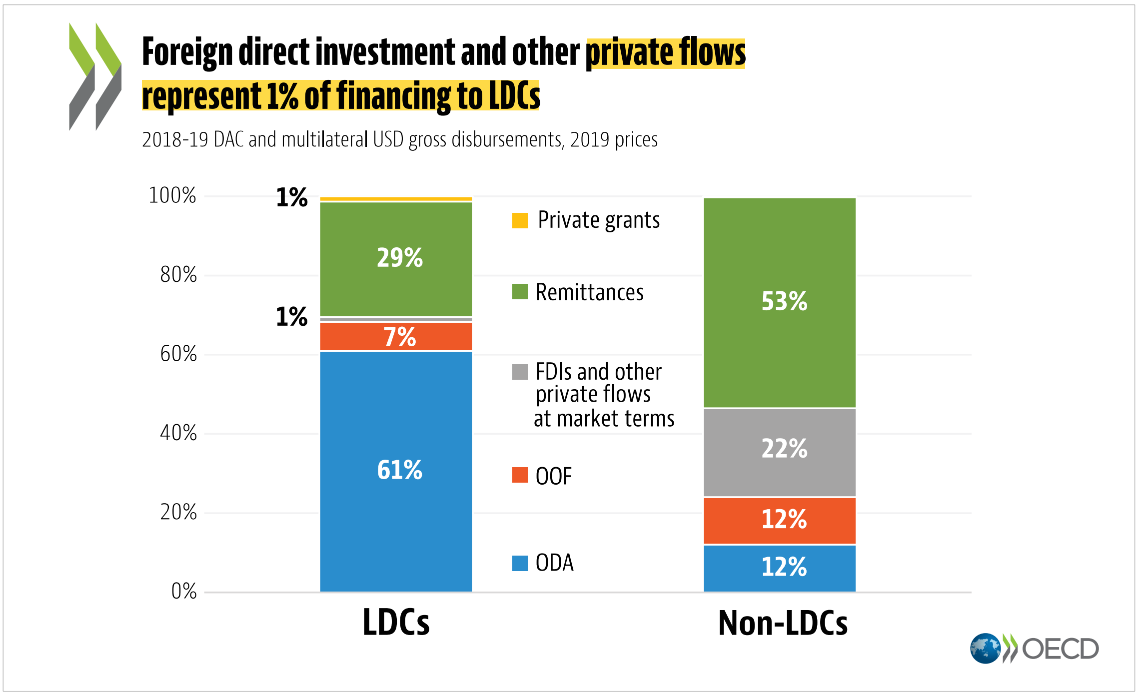
[1] Figures are for countries reporting to the OECD/DAC only.

External financing to LDCs: Aid remains a lifeline



Note: A special debt relief operation took place in 2006, explaining the extraordinary ODA peak that year. Non-DAC bilateral donors include, among others, Saudi Arabia and the United Arab Emirates.
Source: Author's calculations based on OECD/Creditor Reporting System and DAC databases (2021) (ODA, Table DAC1, OOF flows, Table DAC2b and FDI, Table DAC4), and World Bank data (2022) on remittances inflows (matrix sender/recipient).

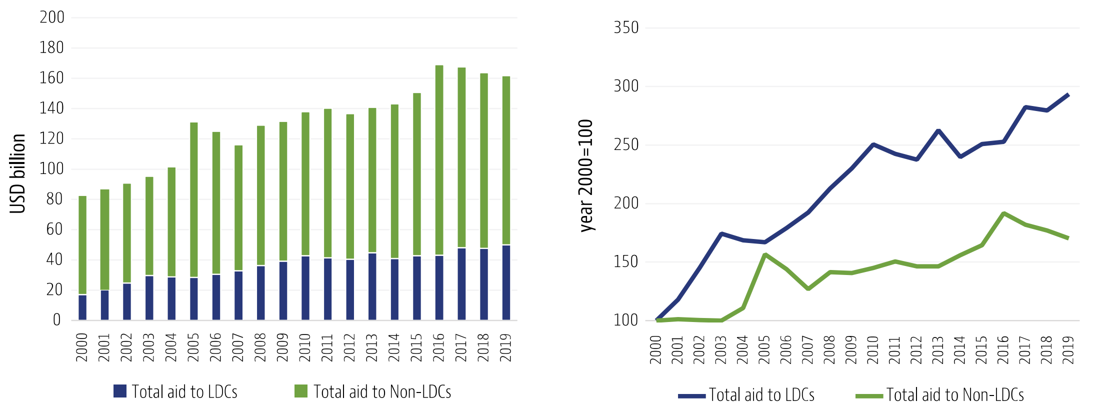
Total ODA flows to LDCs have grown 5.8% on average per year over 2000-19, reaching USD 58.6 billion on average per year in 2018-19, up from USD 21.6 billion in 2000-01. Its share nevertheless decreased from 70% to 60% over the period, while the share of remittances rose from 19% to 30%.



Source: Author's calculations based on OECD/Creditor Reporting System and DAC databases (2021) (ODA, Table DAC1, OOF flows, Table DAC2b and private flows, Table DAC4), and World Bank data (2022) on remittances inflows (matrix sender/recipient).

Aid to LDCs is growing faster than to other developing countries

DAC and multilateral net disbursements, 2019 prices.
Volume of ODA (left chart) and index (year 2000 = 100, right chart)

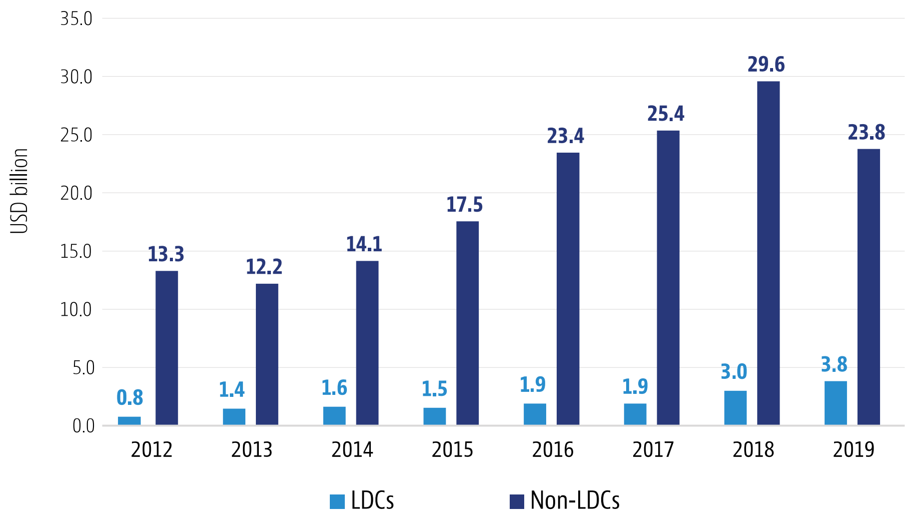


Source: Author's calculations based on [DAC1 table](#) (2021).

In 2019, ODA to LDCs represented 0.09% of DAC countries' combined GNI, well below the UN target of at least 0.15%. This share has been stagnant since 2017. Nevertheless, over 2000-19, and including multilateral agencies' outflows, total ODA disbursements to LDCs rose steadily in volume to USD 50 billion in 2019 (left chart), faster than ODA to other developing countries (right chart).

Blended finance flows to LDCs are growing, but remain low

USD billion, current prices

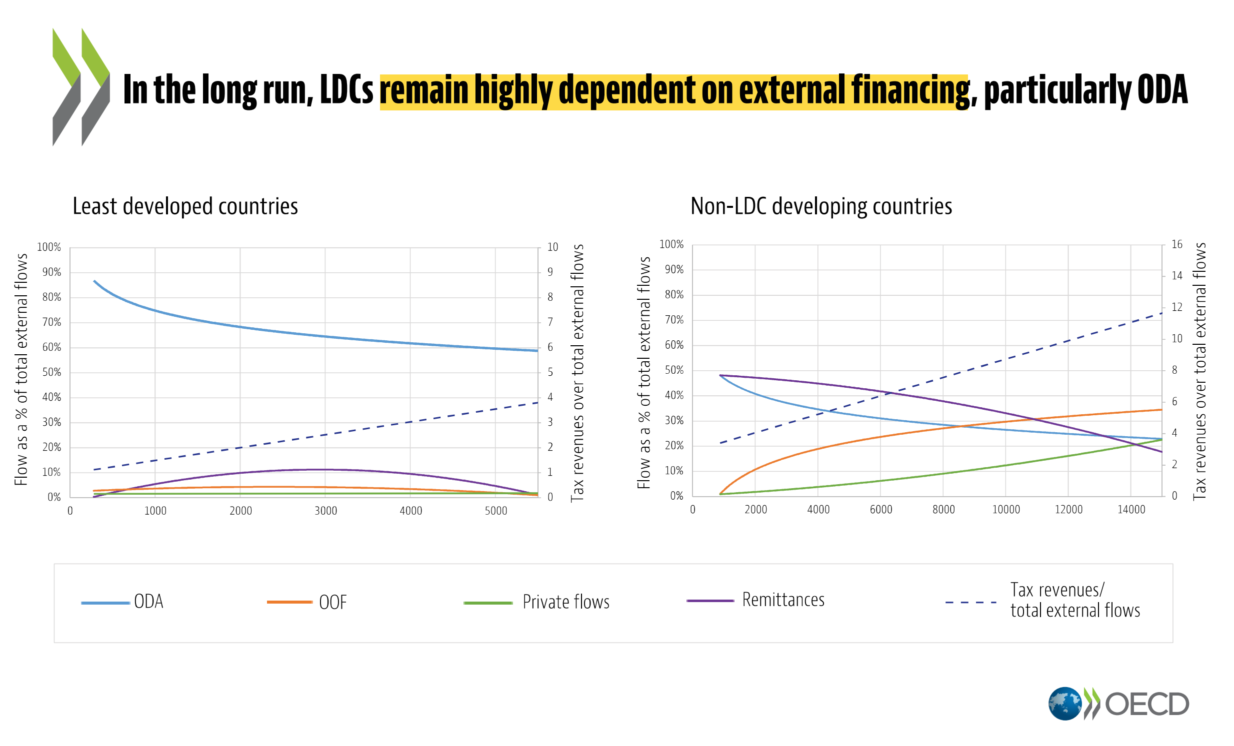


Note: Figures exclude regional allocations. Data do not yet include data for EBRD, IDB Invest and IFC.
Source: [Mobilisation database](#), OECD (2021).

Despite a regular increase in volumes since 2012, LDCs only received 8% of all private finance mobilised by official interventions in 2019. Total finance mobilised for LDCs over 2012-19 amounted to

USD 15.9 billion, with half of it going to 6 countries (Angola, Myanmar, Bangladesh, Uganda, Senegal and Zambia), and a focus on energy (26%), banking and business (19%) and water and sanitation (10%).

How does graduation affect external financing flows to ex-LDCs?



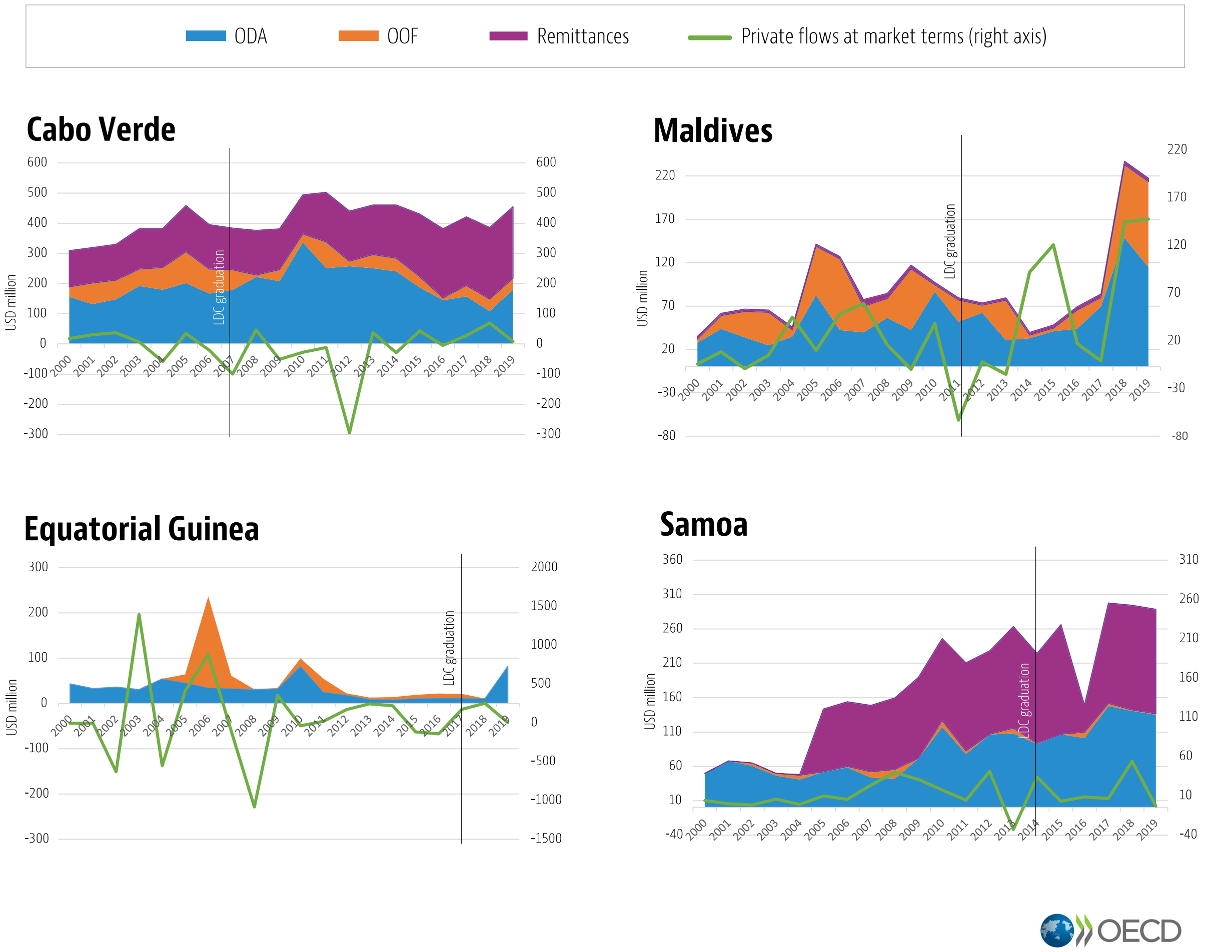
Source: Author's calculations based on OECD/Creditor Reporting System and DAC databases (2021) (ODA, Table DAC1, OOF flows, Table DAC2b and private flows, Table DAC4).

The share of ODA in the total external financing mix is much larger in LDCs than in other developing countries with similar levels of GNI per capita. Other components (i.e. non-concessional funding, private inflows and remittances) are all relatively less significant relative to non-LDC peers. As for domestic financing, LDCs show critically low tax revenue levels: between one and four times the total external inflows received, compared to four to seven times in non-LDC developing countries at a similar level of income.

Four countries have graduated from the LDC category in the 21st century: Cabo Verde (2007), Maldives (2011), Samoa (2014) and Equatorial Guinea (2017). ODA levels did not significantly decline after graduation. On the contrary, in Cabo Verde and Samoa, they kept growing for several years. In the Maldives and Equatorial Guinea, they slightly decreased the following year, only to jump again later.

The last four graduates of the LDC category have not experienced a decrease in ODA

Gross USD million disbursements, 2019 prices



Note: Because of its particular volatility and sometimes negative figures, private flows at market terms are represented on the right axis. No data on remittances are available for Equatorial Guinea, and only from 2004 for Samoa.
Source: Author's calculations based on OECD/Creditor Reporting System and DAC databases (2021) (ODA, Table DAC1, OOF flows, Table DAC2b, and FDI, Table DAC4), and World Bank data (2021) on migration and remittances inflows.

In all four cases, non-concessional flows (OOF) more or less followed the predictive transition finance methodology, growing over time as the more stable and sustainable economic situation opened access to new financing sources. They rose sharply after graduation in Cabo Verde and Samoa, but slowly decreased in the Maldives before significantly rising. Equatorial Guinea, where OOFs went down after graduation, is a special case: although categorised as an LDC until recently, it is an upper-middle-income country (USD 6 280 GNI per capita in 2019), with low cumulated levels of ODA and OOFs (0.002% of GDP), and mostly financed by FDI in the hydrocarbons and gas industries (61% of GDP).

In sum, in LDCs graduating at low levels of GNI per capita, OOFs progressively substitute for ODA, while private flows are slower to come in. The Maldives are an exception, whose GNI per capita reached USD 9 670 in 2019.