**Inputs by the Group of the Least Developed Countries for the Elements Paper for the FfD4**

The Least Developed Countries (LDCs) face a complex mix of challenges, from high poverty and debt to weak financial and institutional frameworks. The Addis Ababa Action Agenda set out a framework for financing the 2030 Sustainable Development Goals (SDGs) and pledged support to LDCs through international cooperation, domestic resource mobilization, enhancing investment, trade, technology, and capacity-building.

However, LDCs are severely struggling in the realization of SDGs more than the developing countries.

1. **A global financing framework (including cross-cutting issues)**

The financing needs to achieve the SDGs are staggering and urgent, especially in LDCs.

LDCs are particularly vulnerable, as they grapple with multiple crises, including the aftermath of COVID-19, slow global economic growth, inflation, geopolitical tensions, and declining foreign direct investment. Furthermore, the debt crisis has eroded their fiscal space, with the median ratio of general government debt to GDP in LDCs increasing from 48.5% in 2019 to 55.4% in 2022 – its highest level since 2005. As climate change continues to disproportionately affect the most vulnerable nations,

FfD4 must deliver a renewed global compact to support LDCs through enhanced financing, capacity building, and policy reforms.

1. ***Action areas***
2. **Domestic public resources**

Domestic resource mobilization remains a key challenge for LDCs due to narrow tax bases, large informal sectors, limited administrative capacity, and illicit financial flows. The average tax-to-GDP ratio in LDCs was just 13% in 2021, compared to the global average of 15% and 34% in OECD countries.

Moreover, in many LDCs, over 60-80% of the labor force operates in the informal sector, where income often goes untaxed. Informal businesses typically lack proper accounting systems and are not registered with tax authorities, making it challenging to assess and collect taxes.

Key priorities and recommendations for LDCs:

* LDCs need support to modernize tax systems, expand the tax base, and improve compliance. Digital technologies and capacity building offer opportunities to enhance revenue collection.
* LDCs lose substantial revenue through illicit financial flows, including tax evasion, misinvoicing, and capital flight. Illicit financial flows drain an estimated $88.6 billion annually from Africa alone. Enhance global cooperation needed on tax evasion, trade misinvoicing, and return of stolen assets.
* Many LDCs are rich in natural resources but struggle to translate this into development gains through value addition and transformation. Support is also needed to negotiate fair contracts and manage resource revenues transparently.
* Enhance financial inclusion and access in LDCs. According to World Bank, only 35% of adults in LDCs have access to formal financial services, limiting the scope of tax collection and domestic savings mobilization.
* Support LDCs develop a sustainable, transparent and equitable revenue system by broadening taxes and protecting the base
* Assist LDCs in increasing domestic tax compliance and broadening the tax base through taxpayer education and awareness programs
* To enhance LDCs capacity to regulate many multinationals operating in LDCs engaging in practices such as transfer pricing to avoid taxes, reducing the tax revenue that LDCs can collect.
* Strengthen the capacity of LDCs including their technological capacities to control tax evasion.
* Enhance the infrastructure and capacity of LDCs to increase the efficiency and professionalism of revenue administration needed for efficient tax collection
* Support LDCs to develop Digital Payment Systems and Infrastructure, and digital accounting tools
* Support LDCs to design tax systems that reduce inequality, including through property taxes and taxation of high-income earners.
* Technical capacity-building support to LDCs to develop a formal economy and raise tax awareness
* Establish a global minimum corporate tax rate of at least 25% to reduce tax competition and avoidance.
* Establish a UN Framework Convention on International Tax Cooperation to address international tax challenges in an inclusive manner.
* Support LDCs to achieve tax-to-GDP ratios of at least 20% by 2030 through technical assistance and capacity building.

1. **Domestic and international private business and finance.**

According to UNCTAD's World Investment Report 2024, foreign direct investment (FDI) flows to least developed countries (LDCs) is only $31 billion in 2023, which represents 2.4% of global FDI flows.

Key priorities and recommendations:

* Adopt and implement investment promotion regimes for least developed countries.
* LDCs need support to streamline business regulations, strengthen contract enforcement, and improve infrastructure to attract investment.
* Only 35% of adults in LDCs had a bank account in 2021. Expanding access to financial services for individuals and SMEs is critical.
* Support is needed to develop local currency bond markets and stock exchanges to mobilize long-term financing.
* Increased use of blended finance instruments can help catalyze private investment in SDG-aligned sectors in LDCs.
* Social impact bonds and other innovative financing can help attract private capital to development projects.
* Establish an LDC Private Sector Development Fund to provide risk capital and technical assistance to SMEs.
* Provide credit guarantees and political risk insurance to de-risk private investment in LDCs.
* Support LDCs to achieve universal financial inclusion by 2030 through digital financial services and financial literacy programs.
* Encourage MDBs like the World Bank and regional development banks to offer risk-sharing mechanisms, such as partial guarantees and insurance, to mitigate political and economic risks in LDCs
* Develop project preparation facilities (PPFs) for LDCs through UNDP/UNOPS to provide technical support, feasibility studies, and financial structuring to make projects more attractive to private finance
* Create currency hedging mechanisms and local currency financing options for LDCs to manage exchange rate risk.
* Encourage MDBs to provide local currency loans or partner with private financial institutions to offer hedging solutions, making it easier for investors to avoid currency-related losses.

1. **International development cooperation.**

In 2022, net ODA to LDCs was $33 billion, just 0.09% of DAC members' GNI. This trend is particularly worrying given that LDCs are disproportionately affected by global economic downturns and face significant challenges in attracting investment.

Development cooperation is often unpredictable, depending on global economic conditions and donor country priorities. This volatility can destabilize public finances in LDCs,

The proposed $650 billion Special Drawing Rights (SDR) allocation by the IMF presents a unique opportunity to provide substantial support to Least Developed Countries (LDCs), but current allocation methods fall short of meeting their needs. Under the existing quota-based system, LDCs would receive only about $21 billion, or 2.4% of the total allocation. However, a voluntary reallocation of SDRs from developed to developing countries could significantly boost resources for vulnerable nations. If high-income countries were to redirect their excess SDRs, it could potentially channel over $100 billion to LDCs, providing crucial liquidity to manage the ongoing crisis, address debt vulnerabilities, and support a green and inclusive recovery.

Key priorities and recommendations:

* Ensure the consistency of development cooperation and support long-term planning and development.
* Encourage donor countries to commit to multi-year cooperation agreements that provide more stable and predictable funding.
* Development partners must scale up of GNI target to at least 0.2 percent for ODA
* Allocate at least 50 per cent of their ODA to LDCs (DPOA 250)
* Development partners should allocate more ODA to support tax capacity building in LDCs, in line with the Addis Tax Initiative.
* Channel at least $100 billion of SDRs to LDCs.
* ODA to LDCs should be provided as grants
* Increase (or double) the share of budget support in total ODA to LDCs to enhance alignment with national development priorities.
* Establish a dedicated LDC Financing Facility to provide additional concessional financing to LDCs to meet the SDGs.
* Increase the share of ODA that is programmed at the country level and focused on fulfilling long-term sustainable development investments that respond to the needs and priorities of least developed countries.
* Recognize country leadership as a fundamental attribute of effective international development cooperation, underlining the importance of country strategies and plans to guide action by all actors and to enhance alignment and coherence of support by all development partners, and of inclusive, country-led governance mechanisms to ensure representation and participation of all relevant national actors, and to strengthen coordination and accountability of all development partners.
* Establish a pathway to significantly and sustainably increase replenishments of concessional windows of Multilateral Development Banks (MDBs), to enhance increased and sustained access to concessional funding for LDCs.
* Ensure consistency across donors in their approach, creating a cohesive strategy that avoids fragmented efforts and reduces inefficiencies.
* Prioritize the long-term strengthening of institutions and systems within partner countries to ensure lasting development impact and sustainability.
* Direct development cooperation towards addressing critical challenges, focusing on gap analysis rather than less impactful, peripheral issues.
* Simplify complex procedural and policy requirements to enable least developed countries (LDCs) to absorb aid more effectively and maximize development outcomes.
* Standardize and simplify environmental and social guidelines among donors and multilateral development banks (MDBs) to streamline compliance and reduce administrative burdens.
* Address the rising cost of borrowing – develop clear graduation criteria and transition strategies for countries moving from concessional to non-concessional financing.
* Make alignment with the national public finance management system to tackle the challenges of unilateral risk assessment by all donors
* Call for a more systematic approach to increase replenishments of concessional windows at MDBs.

1. **International trade as an engine for development**

International trade remains a critical engine for growth and development in least-developed countries (LDCs). LDCs' share in global exports of goods and services remains below 1%, far short of the target to double their share by 2020.

Many LDCs are heavily dependent on natural resources and primary commodities, which are subject to price volatility. It causes revenue instability when commodity prices drop. According to the IMF, over 60% of LDCs depend on a limited range of exports, leading to unpredictable tax revenues that fluctuate with global market conditions.

LDCs also face tariff escalation in many markets, where raw materials are taxed at lower rates than processed goods, discouraging value addition.

LDC exports are typically low in value addition, as these countries often lack the industrial capacity to process raw materials into finished products.

Likewise, many LDC exporters lack access to affordable financing, which hinders their ability to scale up production, invest in quality improvements, and access foreign markets. High-interest rates and limited financial products tailored for exporters prevent businesses from expanding operations.

Exporters in LDCs often lack knowledge and resources to meet international quality, safety, and environmental standards required by high-income countries. Compliance with these standards is essential for accessing lucrative markets, particularly in sectors such as agriculture, pharmaceuticals, and textiles. A report by the International Trade Centre (ITC) found that up to 30% of LDC agricultural exports are rejected due to quality and safety issues.

Key priorities and recommendations:

* Support LDCs to diversify their exports by enhancing investment in manufacturing, agro-processing, and service sectors, supported by policies that encourage new industries.
* Increase MDB’s investment window for LDCs in trade-related infrastructure development, including roads, railways, ports, and power grids, to lower transport costs and enhance market access.
* Encourage development partners and international financial institutions to support the processing of commodities within LDCs, and support value-added activities by providing subsidies, technical assistance, and market linkages.
* Encourage CFC to provides grants, concessional loans and equity investments to LDCs for projects that promote value addition, particularly in agriculture and expand into processing and manufacturing
* Increase the share of LDCs in international trade and in value addition to enhance domestic resource mobilization, including phasing off trade restrictions that create obstacles to the processing of natural resources, including but not limited to escalating tariffs
* Full implementation of duty-free, quota-free market access on a lasting basis for all products originating from all least developed countries by all developed countries and developing countries in a position to do so(AAAA 85).
* Significantly increase the exports of least developed countries, in particular with a view to doubling their share of global exports by 2031. (DPOA target under OP 163)
* Support to implement the WTO Trade Facilitation Agreement and reduce trade costs.
* Support to develop services sectors and exports, including through the implementation of the LDC services waiver.
* Bridging the digital divide to enable LDCs to benefit from e-commerce and digital trade.
* Double Aid for Trade to LDCs by 2031 (DPOA target under OP 172), with at least 50% dedicated to building productive capacities.
* Reshape the Aid for Trade initiative as per the changed global context to better address the specific needs of LDCs
* Support LDCs transition to sustainable value chains with tailored technical and financial assistance
* Help LDCs in addressing our unique trade barriers, enhanced support to trade facilitation, improving digital skills and support our businesses in navigating the complex regulatory environments.
* Support LDCs to establish an E-Commerce Finance Facility to support LDCs for e-commerce readiness and digital trade facilitation.
* Provide training and support to exporters on compliance with international standards including establishing local quality certification agencies and offering grants for meeting international standards.
* Support negotiation capacity building of LDC government bodies to work with international organizations to advocate for reduced tariffs, especially on value-added products, and greater market access.
* Support LDCs to develop and promote secure digital payment systems that allow transactions in local currencies and facilitate international transactions.

1. **Debt and debt sustainability**

Debt vulnerabilities in LDCs have increased sharply. As of 2023, 14 LDCs were in debt distress or at high risk. Rising interest rates and currency depreciation have further strained debt servicing capacities. External debt sustainability for this group of countries worsened significantly in 2023, with total external debt expanding by nearly 5 per cent to $577.6 billion.

This heavy debt burden diverts funds from essential sectors like education, health, and infrastructure into debt servicing, hindering development.

The debt-to-GDP ratio for many LDCs exceeds 60%, as noted by the International Monetary Fund (IMF).

At the same time, exports and government revenues fell by around 6 per cent. The external solvency indicators deteriorated, with the ratio of external debt service to exports rising to 25.4 in 2023 from 15.9 per cent in 2022, much higher than the average level of 15.3 per cent for developing countries, excluding China. The group’s liquidity buffer continued its downward trend, declining to 234.1 per cent in 2023. (SG’s report: A/79/209)

Key priorities and recommendations:

* Provide comprehensive debt relief to LDCs with unsustainable debt burdens, including debt cancellation.
* Establish a sovereign debt workout mechanism under UN auspices to facilitate timely and orderly debt restructuring.
* Introduce standardized state-contingent debt instruments for all lending to LDCs to provide automatic debt relief in times of crisis.
* The nature of LDC’s debt problems varies, from short-term liquidity problems related to a shortfall in tax revenues due to economic shocks, to long-term insolvency linked to structural economic weaknesses. Thus, there is a need to address not only the immediate liquidity pressures of the LDCs but also their structural insolvency and long-term debt sustainability issues.
* Support all LDCs to achieve sustainable debt levels by 2030.
* Implement or expand debt relief initiatives, such as the Heavily Indebted Poor Countries (HIPC) Initiative and the G20’s Debt Service Suspension Initiative (DSSI), which provide temporary debt relief to allow LDCs to focus on critical development spending
* Increase access to concessional financing and grants for LDCs to reduce reliance on high-interest loans.
* Expand concessional financing options for LDCs
* launch an initiative to provide coordinated and enhanced liquidity support from multilateral and bilateral creditors to solvent developing countries that face constrained fiscal space but are committed to structural transformation and ambitious development objectives, with incentives for private creditor inflows, at more affordable rates and over longer time horizons.
* This initiative can also coordinate net present value-neutral debt rescheduling, with pre-agreed terms and conditions that aim to accelerate such rescheduling process.
* An institutional home, or a scaled-up version of an existing facility, can support the coordination of creditors under this initiative. This facility can also provide countries with capacity support and advice on dealing with sophisticated official and commercial creditors. It can offer a range of financial tools (e.g. buybacks, swaps, market-based exchanges, guarantees, and credit enhancements) that can be used to incentivize or facilitate debt rescheduling without necessarily triggering defaults.
* The facility can also support the scale-up of the use of debt swaps that are noted in the Doha Programme of Action, when appropriate, including through creating a more standardized framework for debt swaps that guides the assessment of appropriateness of a debt swap transaction as well as the design, implementation, monitoring, and verification of the expenditure programmes associated with the swap. Moreover, the facility can engage with credit rating agencies to address concerns over adverse rating impacts.
* establish a dedicated debt sustainability support service to help all vulnerable countries address their debt challenges and sustainable development and climate needs

1. **Addressing systemic issues**

The reform of the international financial architecture to enhance the voice and participation of Least Developed Countries (LDCs) in global decision-making remains a critical challenge. There have been consistent calls for more equitable voting power distribution, an end to the practice of permanent board seats for certain countries, and a voting formula that better reflects democratic principles and the Bank's development mandate.

Key priorities include:

* Reform quota and governance structures of the IMF and World Bank to increase the voice and participation of LDCs
* Increase SDR allocation to LDCs
* Ensure that financial regulations do not have unintended negative consequences for LDCs.
* Strengthen the global financial safety net, including through increased WB and IMF concessional resources for LDCs with simplified and fast-track access.
* Enhance early warning systems and policy coordination to address global risks.
* Support all LDCs to develop integrated national financing frameworks by 2027 to manage diverse financial flows.
* Voluntary rechanneling of special drawing rights to LDCs to strengthen the global financial safety net in a world prone to systemic shocks
* Encourage IMF to strengthen the global financial safety net to support LDCs to better respond to macroeconomic shocks and consider the feasibility of expediting issuances of special drawing rights and facilitating prompt, voluntary re-channelling to LDCs during future financial crises and systemic shocks;
* Updated Concessionality frameworks must go beyond per capita Gross National Income (GNI) and must consider climate vulnerability, natural capital, and biodiversity conservation for the architecture to become truly fit-for-climate.
* call for the urgent, predictable delivery of far greater pledged finance,

1. **Science, technology, innovation and capacity building**

Key priorities and recommendations include:

* Facilitate transfer of critical technologies to LDCs on concessional terms, especially for climate adaptation and digital technologies.
* Build domestic R&D capacities in LDCs aligned with national development priorities.
* Support all LDCs to achieve R&D expenditure of at least 1% of GDP by 2030.
* Expand access to affordable, high-quality internet and digital technologies.
* Invest in STEM education and digital skills to build human capital for the future economy.
* Support the development of national innovation systems and technology hubs/incubators in LDCs.
* Strengthen the Technology Bank for LDCs with adequate funding. (SDG 17.8)
* Operationalize Online University for LDCs to promote STEM education. (DPOA 52)
* Implement Global Digital Compact to achieve universal, affordable internet access in LDCs by 2030.
* Set up a Global Fund on AI [and STI], with support towards countries in special needs such as LDCs
* Allocate a specific percentage of GNI from developed countries for STI capacity building in LDCs.
* Facilitate partnership with international tech firms and development organizations to bring expertise, technology transfer, and financial resources to LDCs
* Invest in digital infrastructure to expand broadband access, reduce costs, and increase internet penetration in LDCs

1. **Emerging issues**

**Climate change**

Climate change poses an existential threat to many LDCs, while the digital revolution risks leaving LDCs further behind.

LDCs contribute less than 1% of global greenhouse gas emissions but are disproportionately affected by climate change.

LDCs face more frequent and severe climate-related events, such as hurricanes, floods, droughts, and heatwaves, which disrupt livelihoods, reduce agricultural yields, and lead to loss of life and property. Agriculture, a primary economic sector for many LDCs, is highly susceptible to climate change. Changes in rainfall patterns, soil degradation, and increased pest infestations lead to reduced crop yields, food shortages, and rising food prices.

LDCs strongly support and advocate that the climate finance must be additional, not part of development cooperation, and must be adequate. UNFCCC is the main institution to deal with climate issues including climate finance.

Key priorities and recommendations include:

* Ensure that LDCs receive sufficient climate finance to support mitigation, adaptation, and resilience-building initiatives.
* Encourage the climate funds to invest in climate-resilient crops, soil management, and water-efficient irrigation techniques in developing countries in particular LDCs.
* Prioritize LDCs' access to climate finance, with a goal to double the collective provision of climate finance for adaptation to LDCs from 2019 levels by 2025 (Based on DPOA 224)
* Ensure a 50:50 balance between mitigation and adaptation (DPOA 225)
* Enhance technology transfer and capacity building to support LDCs in developing and implementing ambitious National Adaptation Plans and Nationally Determined Contributions.
* Strengthen early warning systems in LDCs, aiming for full coverage by 2027.
* Accelerate investment in climate-resilient infrastructure and nature-based solutions in LDCs.
* Capacitate LDCs to develop qualitative and competitive projects to access climate and adaptation funds and facilities
* Fully operationalize the Loss and Damage Fund to entirely compensate LDCs for climate-induced losses.
* provide resources so we can fully support and implement CPPs as investment pipelines for resilient, low-carbon, and net-zero projects in V20 member states
* New climate action financing must be grants based or highly concessional terms, taking into account a range of concessional needs, with the overall weighted average cost of capital not exceeding medium-term GDP growth rates, including through 25- to 50-year loans, local currency financing, as well as first-loss capital, and guarantees to enable domestic capital participation.
* highlight the role of carbon finance as a tool for net-zero development, and we propose MDBs to ensure transparent carbon price discovery and carbon market integrity to protect 1.5C.
* Encourage MDBs and IFIs to develop financial instruments, such as catastrophe bonds and climate resilience funds for LDCs to provide quick access to financing in the wake of disasters
* Debt-for-climate and debt-for-development swaps allow LDCs to reduce their debt burden in exchange for investments in climate action or development projects.
* Encourage MDBs to support LDCs develop local green bond markets to raise funds for environmentally friendly projects without relying heavily on foreign currency debt

**Remittance Flow to LDCs:**

* Promote the adoption of digital and mobile remittance services, which are often more affordable than traditional transfer services. Supporting fintech companies to expand into LDCs can also increase competition and drive down costs.
* Encourage international organizations and financial institutions to enhance partnership with LDCs to stabilize exchange rates for remittance corridors and offer transparent exchange rate information to remittance senders.
* Enhance cooperation to formalize the informal remittance channels

**Graduation**

Fifteen countries are at different phases of graduation. The DPOA sets a target to enable 15 additional LDCs to meet the criteria for graduation by 2031. (DPOA target under OP 176) Graduation offers both opportunities as well as challenges. Therefore, graduating and graduated countries need continued international assistance even after graduation for a period consistent with their sustainable development needs.

Key priorities and recommendations:

* Provide adequate funding for the effective operationalization of the Sustainable Graduation Support Facility (iGRAD) (DPOA 283)
* Development and trading partners should consider extending trade preferences, including duty-free quota-free market access, previously available due to LDC status to avoid abrupt reductions after graduation (DPOA165).
* Continue providing ODA and other forms of development financing to graduated countries to support their ongoing development needs.
* Provide technical support and capacity building for debt management to help graduating LDCs manage their debt effectively as they transition.
* Promote technology transfer on mutually agreed terms to graduated countries to help build productive capacities and integrate into global value chains (DPOA 150-151).
* Provide technical assistance and capacity building to graduated countries in areas like trade facilitation, e-commerce, and productive sectors (DPOA 173-175).
* Enable continued access to technology transfer initiatives, technical training, and innovation partnerships to help graduating LDCs build competitive advantages.
* Assist graduating LDCs with programs to diversify their economies, particularly by supporting industrialization, value-added exports, and technology-driven sectors.
* Allow graduated countries continued flexibility in implementing TRIPS obligations for a transition period (DPOA 180).
* Provide technical assistance for trade negotiation capacity to help graduated LDCs secure new trade agreements and integrate with regional and global markets.
* Ensure graduated countries maintain access to climate finance and support for adaptation and resilience building (DPOA 211-212).
* Provide dedicated climate adaptation funding, capacity building for environmental management, and access to climate risk insurance to graduating and recently graduated countries to protect against climate impacts.
* Consider debt relief measures for graduated countries facing debt distress, when appropriate (DPOA 206).
* Support graduated countries in developing and implementing smooth transition strategies to adjust to the loss of LDC-specific support measures.
* Enhance access to financing for private sector development in graduating and recently graduated countries particularly for small and medium-sized enterprises (SMEs) and sectors with high growth potential.

1. **Data, monitoring and follow-up**

Significant data gaps persist in LDCs, hampering evidence-based policymaking and monitoring of development progress and they need enhanced global support.

Key priorities and recommendations include:

* Strengthen national statistical offices and data systems in LDCs. Improving collection and use of disaggregated data to leave no one behind. Double ODA for statistical capacity building in LDCs by 2030.
* Harness new data sources and technologies, including big data, machine learning, and AI.
* Convene a follow-up and monitoring mechanism under the ECOSOC FfD Forum every three years to report, monitor and follow the commitments and targets of FfD4
* Hold biennial Global Accountability Forums to review progress on FfD commitments to LDCs.
* Develop an integrated financing for the development tracking system to monitor all commitments and flows.