



High-Level Meeting on Middle-Income Countries

17 June and 2 July 2021
United Nations Headquarters, New York

Summary of the President of the General Assembly

I. Introduction

The United Nations General Assembly convened a high-level meeting on Thursday, 17 June, and Friday, 2 July 2021, UN Headquarters in New York under the theme “Finetuning the development system approach to address the needs of middle-income countries” to discuss the gaps and challenges of middle-income countries (MICs) in the implementation of the 2030 Agenda for Sustainable Development. This meeting was called for in General Assembly resolution 74/231, entitled “Development cooperation with middle-income countries”.

The objectives of the meeting were to facilitate ongoing exchange of experiences among MICs and other actors on the implementation of the SDGs; identify actionable entry points (short- and medium-term) to convert the current crisis caused by the COVID-19 pandemic into opportunities for a more inclusive, resilient and sustainable recovery; and highlight priority actions to accelerate efforts and advance progress and to elaborate on concrete, practical actions, assistance, tools or platforms through which the UN System could support MICs in addressing their specific gaps and challenges.

The high-level meeting¹ consisted of an opening segment, three interactive panel discussions and a plenary segment for general discussion. Several concrete recommendations were made to advance the implementation of the 2030 Agenda, as well as the response and recovery efforts of MICs.

II. Key messages

The role of MICs in the world economy

- MICs constitute a large share of the global population and have a large presence at the United Nations. This means that addressing global challenges requires a focus on MICs, both as recipients of support and as contributors to sustainable development.
- The COVID-19 pandemic has had a severe impact on MICs including health consequences, as well as the economic and social fallout. Taken together, this has exacerbated existing and created new challenges in their implementation of the 2030 Agenda for Sustainable Development and achieving the Sustainable Development Goals (SDGs).

¹ <https://www.un.org/pga/75/mics/>

The challenges faced by MICs

- The crisis has worsened the financial situation, as well as issues relating to unemployment, poverty, inequality, education and healthcare for MICs. This has resulted in a greater need for financing as economic activity and revenues decreased sharply. This calls for urgent action regarding debt restructuring and debt relief.
- Numerous MICs also rely on a sole or just a few types of industries, such as the natural resources sector or tourism, leaving them vulnerable to external shocks and price fluctuations. In light of this, policies are needed to achieve progress in diversifying the structure of economies.
- The “middle-income trap”² remains a problem for many MICs. This underscores the need to move away from a capital-investment-based development model towards more investment in human capital.
- Many MICs have also been experiencing worsening fallout from the climate crisis. This concerns countries that are especially vulnerable to severe weather events, such as small island developing states (SIDS).
- The pandemic has caused a shift to even more widespread digitalization, putting a spotlight on the lack of infrastructure in these countries. For many MICs, this has created an even greater need to address infrastructure shortcomings in order to compete in the global economy.

The insufficiency of using GDP per capita as the benchmark for development

- GDP per capita is widely used as the benchmark for development, creating an overwhelmingly one-dimensional approach. The limitations of per capita measurement of development have rendered many MICs ineligible or reduced financial support while the comprehensive set of development challenges faced by the individual country has barely changed.
- The multidimensional nature of development calls for the use of more adequate measures, such as the multidimensional vulnerability index (MVI). Due consideration for the economic, social and environmental dimensions of development is especially important in view of multiple crises such as the COVID-19 pandemic and climate change.

Policy actions for promoting sustainable development in MICs

² Countries have reached a development stage where they do not compete anymore with low-wage sectors, but at the same time are also unable to measure up against more technologically advanced competitors.

- The most immediate action needed is the widespread distribution of COVID-19 vaccines on a global scale.
- While there has been some progress in addressing the fiscal-debt situation in many MICs, more efforts are needed including concerted actions of the international community, as well as participation of the private sector.
- There is a need for a revamped perspective on financing for MICs. Many of these countries face catastrophic weather events and for a significant number of countries, these can mean the destruction of entire national economies. New and adapted financing tools have to take into account vulnerabilities and also the value of building resilience against future shocks. The inclusion of natural disaster clauses in debt instruments is one example.
- Policies should support MICs in diversifying their economies including through the facilitation of cross-border trade to create end-to-end production chains and a strong focus on investment in human capital. Building and improving education systems and ensuring universal access can enable and boost broader economic activity.
- The pandemic has highlighted the need to address shortfalls in digitalization infrastructure. Despite scarce financial resources, a targeted approach of the available resources is required to provide basic services to as many citizens as possible.

International cooperation and the role of the UN system

- The UN system has been playing a vital role in supporting development in MICs. This includes the facilitation of financial and technical support and providing the framework for international agreements.
- Given the diverse characteristics of MICs, facilitating the exchange of best practices becomes even more important, an area in which the UN system can be particularly effective.
- The vulnerabilities of MICs and the emergence of new global challenges requires an adaptation in policy tools. Designing this shift should occur with participation of MICs and the UN system can play an important role in providing the basis for this.

III. OPENING SEGMENT

H.E. Mr. Volkan BOZKIR, President of the General Assembly of the United Nations: the High-level Meeting was taking place in the midst of the largest economic recovery in history. MICs are

struggling with a host of challenges and the pandemic has compounded the burden. In order to address some of the biggest obstacles to sustainable development in MICs, debt and financing reform, support to address inequality, better access to technologies, as well as a diversification of investments and strengthened economic growth are needed. Without barriers, MICs constitute an economic powerhouse that could boost global economic growth, enhance trade, and support the development of new and innovative sectors. The President further underlined that the oversimplistic understanding of wealth as GDP per capita must adapt to reflect the global plight of inequality. the necessity to adapt the oversimplistic understanding of wealth. The development and use of the multidimensional vulnerability index can display the actual vulnerabilities of a country – from food security to inequality to climate impacts – beyond what the income level would suggest and allows for more accurate assessments of the eligibility for concessionary finance. It is crucial to build resilience in MICs to safeguard development progress against external shocks.

H.E. Mr. António Guterres, Secretary-General of the United Nations: MICs have a key presence at the United Nations and in the global economy. Finding global solutions to a large extent derives from addressing the challenges faced by MICs. There is a wide variation among MICs, but one common phenomenon is the middle-income trap. Better access to technology, and access to markets are key to unlocking the potential for MICs. The vulnerabilities in MICs are often overlooked because of a singular focus on GDP at the expense of other criteria such as education and administrative capacities. MICs are now faced with the challenge to rebuild better after the pandemic which involves restructuring supply chains and addressing debt. Many MICs are in a severe fiscal situation, setting limitations on government spending. Innovative instruments have to be applied to restructure debt and to create fiscal space. This also includes various initiatives such as the use of special drawing rights (SDRs).

H.E. Mr. Munir Akram, President of ECOSOC: 70% of the global poor live in MICs and while the SDGs highlighted the development problems that already existed before the global pandemic, COVID-19 now has put an even greater spotlight on the challenges at hand. MICs have suffered tremendous consequences from the pandemic, including high working hour losses, a decline in remittances, acute food insecurity, higher debt and greater inequality. Access to vaccines for all is a key first step in the recovery efforts for MICs. Importantly, MICs need access to concessional financing and debt relief. The pandemic has created a diversion of financial resources and this makes it even more pressing for the private sector to play its part to create fiscal space. It is important for the UN development system and the private sector to support MICs, for example in the area of infrastructure investment. Another challenge for MICS is the digital divide, which has become the new face of the development divide, exacerbated by the pandemic.

Stocktaking segment

As the moderator of the panel, *Ms. Lysa John*, Secretary General of CIVICUS: World Alliance for Citizen Participation raised the issue of finding actionable entry points to build back better. Examples of areas to consider include vaccines, financing and climate action.

Ms. Alicia Barcena, Executive Secretary of UN ECLAC, underlined the need to fine-tune the development system. Notably, GDP should not be the only criterion for development policy,

something that is especially important for vulnerable countries such as SIDS. The current crisis does not differentiate by income, therefore an overarching effort at global cooperation is needed to set the stage for providing meaningful assistance to MICs, for example through access to technology. MICs as a group are very diverse. Due to the volatility of growth of these countries and as foreign direct investments (FDI) are mostly concentrated in the largest economies, official development assistance (ODA) remains critical. Graduation should therefore be put on hold to retain ODA. At the same time, MICs loose double-digit billion USD amounts in illicit financial outflows, significantly hampering with the countries' ability to mobilize domestic resources.

Furthermore, through concessional access to technologies, MICs' industrialisation process and diversification of their economies, can be promoted. To address the challenges of MICs, there is a need for the redistribution of financial resources and an inclusive approach that is independent of income level. To this end, a new multilateral debt mechanism for debt restructuring and relief as well as an intergovernmental platform for tax issues should be considered by the international community. Development is a continuous process and taking into account its multidimensional facets should form the basis for policy-making.

Mr. Elliott Harris, Assistant Secretary-General of UNDESA, pointed out that while the global pandemic affected all, it did not affect all equally. In many respects, it worsened many pre-existing problems, including poverty, hunger and unemployment. In this sense, it complicated the implementation of the last UN report on MICs. There is now a plethora of challenges at hand, notably on financing the recovery and consideration for the changing role of trade. Despite the differences between countries, several common challenges are evident. First the middle-income trap, which serves to highlight that policies have to focus on the right type of investment, inclusive of physical, as well as human capital and in the natural capital base investment. Second, is digitalisation which has been accelerated as a result of the pandemic particularly in the sectors of health and education. The lack of digital infrastructure has become a defining element for the digital divide. The third issue is social protection which has been underscored by the crisis. Social protection systems create social resilience as well as economic shock absorbers and lays the basis for justice during the transformational changes envisioned for the future, for example in the context of different consumption and production patterns and climate change. Finally, there has to be a multidimensional approach. The MVI can be a useful diagnostic tool and factor in optimising debt management practices. Notwithstanding, it may be unlikely to lead to higher volumes in concessional financing.

Ms. Ana Munoz, Executive Director of Grupo FARO, Southern Voice Network, explained the role that Southern Voice is playing in the global dialogue on sustainable development and reiterated the need to go beyond GDP as a measure of development in light of its limitations. A further focus has to be reducing inequality, both as a moral and economic imperative. This refers to incomes as well as wealth levels. Linked to inequality is the need for social protection, as a way to provide a buffer against negative shocks. As a further observation, it is important to note that civic space conditions have been declining across the board, while social unrest occurred in numerous countries as a direct consequence of a lack of development. As concrete policy measures, debt relief is urgently needed for MICs. In addition, graduation should be a punishment by creating new obstacles to development. Overall, what is needed moving forward is giving a voice to vulnerable people; being aware that there are tradeoffs in policy-making, with a focus on data and best practices; and ensure a space for expression by civil society.

Interactive dialogue I: *Tackling the structural gaps*

As the moderator of the panel, *Mr. Elliott Harris*, Assistant Secretary-General of UNDESA, highlighted that the stocktaking segment highlighted a multitude of challenges for MICs, such as poverty, inequality, unemployment and climate change. There is also the challenge for MICs that stems from being perceived in some sense as developed, while ignoring the dichotomies in their structures. This calls for a multidimensional perspective and with the impact of the pandemic, there is now an even greater urgency to explore the gaps in MICs.

Mr. Li Yong, Director General of UNIDO, underscored that pandemic has been especially difficult for MICs, as illustrated for example by the rise in poverty. There is an increased need for international cooperation in order to build back better. UNIDO is working on a strategic framework for MICs with a focus on areas such as technology, training and environmental sustainability.

Ms. Marsha Caddle, M.P. and Minister in the Ministry of Economic Affairs and Investment in Barbados, emphasized that most of the poor live in MICs. The income approach to guide development policy does not work and a course change is urgently needed. The particular vulnerability of SIDS is a case in point in this regard. These countries face the potential of catastrophic weather events that can wipe out the entire economy. The Minister called for a drastically different approach to risk analysis, the notion of vulnerability and climate resilience.

Ms. Pamela Coke-Hamilton, Executive Director, International Trade Center, listed a range of challenges for MICs, such as formalising economic sectors, industrialisation, creating value-added and education systems. Given the diversity among MICs, an approach like the MVI is needed, which takes individual countries' particularities into account. This would enable better targeting and fine tuning of policy interventions to specific needs.

Discussion

- The development path of countries needs to be such that it takes people forward. Graduation is often of limited use, when it actually reduces development options, creates more obstacles and reduces assistance. One tangible example is the education crisis. There is an increased need for skills and alternatives to four-year degrees, which would provide a key ingredient for development. Also, the consensus of development policy has to be looked at in detail. Simply using headline debt-to-GDP ratios is not adequate and misleading, for example increases in the ratio due declines in GDP as a result of the pandemic.
- There are significant differences both between and within MICs. Greater emphasis should be placed on building a base for development, entailing supporting businesses, new training, empowering women and helping young people. The steps in this regard are programs aimed at recovering better, scale, and a focus on leaving no one behind.

- The pandemic has presented challenges, but also offers opportunities. One issue that stands out is technology. MICs are lagging regarding their technological advancement, hampering their competitiveness and undermining the focus on moving up the value chain. The pandemic has caused setbacks, creating even greater urgency to assist MICs with a major focus on the fourth industrial revolution, for example artificial intelligence which will require the appropriate skill sets.
- Create an environment for graduation which does not create obstacles for development. Debt, inequality and climate change with biodiversity loss are some of the major areas of great concern. The role of the United Nations comes into play especially for finding a tailored approach to development for MICs.
- Tools exist to provide support to MICs but seem to be blunted by geopolitics. Specific reference was made to the revocation of the generalised scheme of preferences Plus (GSP+). There was a call for organisations like the United Nations to address these issues.
- Additionally, the toolset for assisting MICs needs improvement, particularly in relation to the focus on fiscal parameters such as debt-to-GDP ratios and primary fiscal balances. This is relevant in the context of some MICs having to deal with catastrophic risks from weather events. Natural disaster clauses in debt is one important concept in this regard. Moreover, the combination of high debt, high vulnerabilities and open economies constitutes a particular challenge that calls for an amended approach.
- Member States called for the inclusion of MICs in the deliberations and discussions to sharpen and rework the right policy tools for effective development, whereas the UN can provide the coordination for creating these policy frameworks. In addition, there is need for a clear approach, particularly for regarding access to concessional financing.

Interactive dialogue II: *The UN development system – new needs, new tools, new mechanisms to recover better*

The moderator of the panel, *Mr. Sherwin Bryce-Pease*, UN Bureau Chief of the South Africa Broadcast Corporation, underlined that the 2030 Agenda features the significant challenges faced by MICs. With the pandemic, these challenges have become even more acute, including lower investment flows, limited access to affordable financing and employment primarily in low-productivity sectors. This wide range of issues calls for global solidarity and assistance.

Mr. Achim Steiner, Administrator of the United Nations Development Programme, concurred that the pandemic has created even more severe challenges for MICs and highlighted three areas that seem especially relevant moving forward. First, the inadequacies of GDP as a benchmark for development or for allocation of financing and debt relief. Second, that the opportunities presented by the development of new measures and alternatives. Third, there is a need for new sustainable development metrics. Taken together, this can provide the toolkit that is needed for convergence across the challenges.

Mr. Julien Harneis, UN Resident and Humanitarian Coordinator in Pakistan, viewed the response of the UN system to the pandemic over the past 18 months as one of the most effective ever undertaken. This was underpinned by a clear sense of direction and a strong focus. Existing funds have been reoriented efficiently to the three comprehensive instruments used to respond to the pandemic: strategic preparedness response plan, humanitarian response plan and the socioeconomic framework. The latter serves as tool for analysis, policy advice and advocacy used by the UN to advise Member States.

Mr. Philippe Isler, Executive Director, Global Alliance for Trade Facilitation, described the public-private cooperation to support trade facilitation. During the current crisis, the focus has been on the distribution of vaccinations. The pandemic disrupted trade flows evidenced by operational issues such as the unavailability of containers. Notwithstanding, trade can also be part of the solution to the crisis. In terms of the vaccine distribution, the problem has not been the supply chain, but rather the level of public acceptance.

Discussion

- The redesigned UN development system has created advantages that with specific reference to the reinvigorated role of the RCs. This is evident in the increased levels of trust and coordination among agencies.
- The role of the UN becomes critical in situations when states stop functioning and there is a need to evolve the tools through a dynamic multilateralism. An example are hurricanes in the Caribbean and a multitude of issues linked to this, such as climate risks, economic risks and mounting debt levels.
- While money is always scarce, the more important focus is the optimal use of these limited financial resources. The current response framework consists of a strategic preparedness plan, a humanitarian plan and a socio-economic framework. In light of the limited resources of the UN, much of the organisation's support is geared towards providing technical advice.
- The COVID-19 response has been the ultimate example of a useful public-private partnership. While there are naturally divergent interests, namely poverty reduction vis a vis reduction in cost of doing business, the partnership creates the space mutual cooperation and coordination.
- Regarding debt relief, the initial response by international organisations played a significant role, but the second phase brought a more inward-oriented focus. The debt problems are significant, as illustrated by the case of Zambia, the first African country that defaulted on its debts since the pandemic in November 2020 fueling fears of a domino effect on the continent.

- A positive example of effective policy action has been the successful initiation of a cash-transfer program in Pakistan, which occurred under the cooperation of the national government, the IFIs and the UN.
- The elaboration of the MVI is a watershed moment and it remains to be seen how it can be used to address development.
- Categorisation of countries is outdated, however, benchmarks other than GDP may be problematic due to data availability issues. This raises the need for the UN system to fine-tune the approach. Member States raised the issues of developing countries - often with lower credit ratings - paying higher interest rates on loans from IFIs than advanced economies, as well as the necessity of a debt moratorium.
- UNDP has consistently promoted the notion of broader human development by also focusing on health and education, of which the work on the MVI is an extension. The UN system is already trying to address the data problem. This includes, amongst others, work by UNDESA on statistics in the field of national accounting and, notably, environmental accounting. The difference in debt costs in essence means that it is very expensive to be poor. While these differentials are rational from the financial market perspective, they are highly problematic from a global perspective.
- Three areas for future consideration for MICS are: infrastructure for trade, functional and sustainable infrastructure and digitalization.

Interactive dialogue III – Part 1: *Financial ecosystem – trade and debt*

The moderator of the panel, *Mr. Robin Ogilvy*, OECD Special Representative to the United Nations, highlighted the severe macroeconomic impact of the pandemic on MICs. Trade and livelihoods have been disrupted and MICs are in a precarious financial position, but there is high heterogeneity among the countries. The prospects for recovery depend very strongly on the vaccine rollout, which is facing difficulties in many MICs.

Ms. Isabelle Durant, Acting Secretary-General of UNCTAD, said that MICs are often perceived as countries with enough resources, not many problems and capacities to scale up economic activities for instance, through tourism. Yet, the pandemic has confronted this group of countries with significant challenges. They are experiencing issues accessing vaccines, an ongoing collapse in tourism and trade, vulnerability to climate events. Additionally, many face external solvency problems, which require comprehensive debt relief and restructuring with the participation of all bilateral, multilateral and private creditors. MICs are struggling with a lack of fiscal space to address the outlined perils. The G20 DSSI excludes a large share of MICs and the support of IMF needs to explicitly aim at a sustainable and inclusive recovery. Debt swaps would therefore be crucial, which have proven effective under the guidance of ECLAC and ESCWA. Climate adaptation would furthermore be essential for building countries' resilience. As climate adaptation

is often considered too risky by investors, UNCTAD's Productive Capacities Index could be used as a tool to identify investment priorities and reduce the perceived risks.

Mr. Jeromin Zettelmeyer, Deputy Director of the IMF Strategy Policy and Review Department, explained that MICs generally have access to liquidity in crisis times, and there is currently ample international liquidity to support countries in need. Access to debt relief is though more problematic. There are three initiatives for debt relief: G20 DSSI, Common Framework for Debt Treatments beyond the DSSI and IMF's Catastrophe Containment and Relief Trust, which are only suitable for countries with unsustainable debt. For MICs with sustainable debt levels, access to low cost finance may be sufficient. Such long-term lending could be provided by Multilateral Development Banks (MDBs) and the IMF's Resilience and Sustainability Trust. Furthermore, the IMF has recently endorsed a \$650 billion allocation in special drawing rights (SDR). This is the largest allocation in the IMF's history, boosting Member States' liquidity and reserves.

Mr. Marcello Estevao, Global Director of Macroeconomics Trade and Investment of World Bank Global Practice, explained that the global low interest-rate environment has led to a search for yield and cautioned institutions to manage risks. Fiscal and debt transparency are critical for responsible fiscal policy and robust legal and regulatory frameworks are needed, as well as sound annual borrowing plans. A conducive business environment and participation in international investment agreements would help MICs to attract FDI. MICs also have a role in increasing outward FDI. Lastly, the current crisis has underlined the importance of coordination of debt and monetary policy beyond the traditional approaches.

Mr. Jean-Marie Paugam, Deputy Director General of the World Trade Organization, called MICs current predicament a double punishment with the increase of financial stress at a time when the population would need some fiscal investment to alleviate and compensate for the loss of income. He highlighted the role of the multilateral trading system fighting the recession by facilitating trade. Despite initial fears at the beginning of the pandemic, significantly more liberalizing than restrictive trade measures have been adopted by Member States, which has benefitted MICs along the value chain. Additionally, the WTO is considering ways on how to directly assist the fight against the pandemic, for example by waiving intellectual property rights on the COVID-19 vaccines or through addressing vaccine supply bottlenecks and increasing manufacturing capacities. In order to include MICs in global and regional value chains and making sure that that the negative consequences of protectionism do not outbalance fiscal support, the WTO plans to revitalize negotiations on various issues, such as fishing rights and value chain adaptations.

Discussion

- There is a schism between the real economy and financial markets. Given the looming end of the low interest-rate environment, it is ever more critical to connect financing with investment needs. In this regard, it is imperative to continue the debate on development finance.
- The 2030 Agenda 2030 should be the driving force to improve the fiscal space of MICs. New investment inflows are certainly needed but a large part of the financing need,

especially on climate adaptation, could be met if donor countries lived up to their development commitments. Advanced economies have a responsibility to help other countries catch up.

- Ultimately, long-term growth for MICs should be driven by the private sector. The State should create a conducive environment by providing good institutions and investing in critical infrastructure, human capital and public health. IFIs have a responsibility to help countries develop a sustainable macroeconomic framework.
- Trade can be an important driver of recovery. The multilateral trading system provides various entries for insertion in value chains, by improving transparency on trade restrictions, facilitating investment discussions, protecting intellectual property, and levelling the playing field.

Interactive dialogue III – Part 2: *Financial ecosystem – Financing the 2030 Agenda*

The moderator of the panel, *Mr. Robin Ogilvy*, OECD Special Representative to the United Nations, described the impact of the COVID-19 crisis on the financial ecosystem for the 2030 Agenda. However, most problems already existed before the crisis. Private sector financing constitutes only 5% of SDG financing for MICs. As MICs move up the development continuum, they gradually get better access to non-concessional financing, but their need to mobilize domestic resources grows in parallel. The international development financing is now at a turning point recognized in the new OECD framework for SDG-aligned finance.

Ms. Preeti Sinha, Executive Secretary of the United Nations Capital Development Fund, explained that UNCDF's principal goal is to accelerate financing for development. UNCDF's mandate focuses on investment finance, loans and grants for countries most in need. The fund has two operational strengths: digital services to improve financial services, and municipal finance. It also oversees funds for blended finance, which can catalyze investment if ODA brings in private investors. Other instruments UNCDF pioneers are guarantees and partnerships, such as their partnership with Meridiam on Municipal Investment Fund.

Mr. Navid Hanif, Director of the UNDESA Financing for Sustainable Development Office, suggested that international financial markets do not appreciate the complexities of MICs. However, development finance requires long-term investments. The international community should therefore better leverage public and multilateral development banks. Indeed, blended finance should be used where it can add the most value. He stressed that the international community needs to address gaps in the debt architecture. Multilateral development banks need to look at new initiatives to mitigate risks and develop a pipeline for investable projects. There is a need for a clear definition of sustainable development finance.

Mr. Richard Martinez Alvarado, Vice President for Countries at the IADB, sketched the current context of Latin America and the Caribbean (LAC), which is predominantly a MIC region. The region is poorer, more indebted and more unequal since the pandemic, and much SDG progress

has been reversed. There is growing frustration and polarization. Given the vulnerable fiscal situation, some countries need restructuring. At the same time, 2020 has been a record year for thematic bonds, including in LAC. Multilateral development banks can mobilize resources by sending signals to the market and providing guarantees. In line with their vision 2025, IADB has been a lab for solutions and has played an important role facilitating the transfer of knowledge.

Ms. Anne Simpson, Managing Investment Director for Board Governance and Sustainability at CalPERS stressed that sustainable development is also an economic necessity. However, pension funds' impact is strictly measured in terms of economic returns. She highlighted the need for MICS to have a better appreciation of the requirements of institutional investors. Many institutional investors have the perception that there are barriers to investment in MICs, such as a lack of corporate reporting, misalignment of incentives, and lack of investor protection, all of which undermine the risk-adjusted returns. Timely and reliable information for investors is therefore of critical importance. MICs should be encouraged to participate in the International Financial Reporting Standards. There is also a clear need to build confidence in investor protection in MICs. Ongoing dialogue between investors and MICs should ensure investors' needs are recognized.

Ms. Sonja Gibbs, Managing Director and Head of Sustainable Finance at the IIF Global Policy Initiatives, emphasized the need of sustainable development to reduce countries' vulnerability. According to the IMF, MICs need additional spending of 4% of their GDPs to achieve the 2030 Agenda and the private sector at present only accounts for a third of SDG investment in MICs. Good investor relations, transparency and clear legal regulatory framework are all needed to attract more investment. Equity funding should be promoted in order to balance the debt burden.

Discussion

- There exists a large gap between finance needs and supply and the international community should urgently address gaps in the international debt architecture.
- There is a huge opportunity for blended finance, offering MDBs a great role to play. Through blended finance, public funding can furthermore crowd in private funding.
- South-South and triangular cooperation have big potentials to fill the gaps but are currently highly underutilized.
- Many MICs are net capital exporters, which projects a lack of confidence of local investors. Policy makers should therefore encourage investors to build partnerships with local investors. For this, investors and policy makers need clear definitions and timely, reliable information as well as a predictable public policy environment.
- Institutional investors would need a pipeline of large investment opportunities that meet their thresholds.
- MICs should stop investing in yesterday's economy. Instead, they should invest in human capital, social protection, inclusion and infrastructure. Areas such as the digitization of education could see a revolution in investment.

- It is critical to put in place policy frameworks and to strengthen the capacity of policy makers to build confidence.

High-Level Plenary: *National perspectives, lessons learnt, and best practices*

The plenary segment of the meeting, featured statements³ from 40 Member States including the Heads of States of Guatemala (on behalf of the Like-Minded Group of Countries Supporters of Middle-Income Countries) and Costa Rica.

The impact of the COVID-19 pandemic on middle-income countries

There is clear consensus among the UN Member States that the COVID-19 pandemic has interrupted the progress of middle-income countries towards their development aspirations, including the SDGs, and exacerbated the challenges they face along all three dimensions of sustainable development. Apart from creating a severe public health crisis, the pandemic caused heavy economic losses in virtually all MICs, through lockdowns and suspensions in economic activity, disruptions in international trade, collapsed prices of commodities and shrinking FDI inflows, in particular greenfield investment. The tourism-dependent economies were hit especially hard and a number of countries also suffered from the collapse in inward remittances. As a result of the shrinking foreign exchange inflows, caused by the declining export revenues and shrinking remittances, the debt service-to-exports ratio of middle-income countries has climbed to 17.5 per cent in 2020, the highest level since 2005. Poverty and inequality sharply increased, with an estimated 120 million people falling into extreme poverty. Moreover, the loss of business confidence and heightened economic uncertainty in high-income countries triggered an outflow of portfolio capital from middle-income countries in the first half of 2020, restricting their fiscal policy space and limiting response options.

The pandemic also highlighted the structural gaps persisting in middle-income countries, including a narrow output and export base, inadequate health care systems, reliance on low-productivity sectors, high vulnerability to external and environmental shocks, and the prospect of facing a “middle-income trap”. For those middle-income countries that are SIDS and heavily dependent on tourism, moving to a middle-income group did not mark significant improvements in the standards of living. As a result of the pandemic, gains achieved through the strong economic growth of the previous years were wiped out. The SIDS in the Caribbean are becoming increasingly vulnerable to natural disasters, especially due to the increasing frequency and intensity of hurricanes in the region. Reference was made to the impact of the eruption of the La Soufriere volcano and its impact of the economies in the affected countries. Adding to the burden, for SIDS, external borrowing costs are higher than for other middle-income countries.

There are many questions about how the post-Covid-19 economy will look like; apparently, the role of the digital economy is likely to increase drastically, while many middle-income countries are significantly lagging behind in digitalisation.

³ <https://journal.un.org/classic/viewdetails/en/officials/49081b14-35cf-eb11-9120-0050569e8b67/statements>

The problem of relying on per-capita income as the benchmark for development

The per-capita income criterion does not adequately reflect the complex challenges faced by MICs, such as poverty, high economic and social inequality, including gender inequality, gaps in human development, in particular inadequate health care and education systems, external debt burdens and limited fiscal space, and vulnerability to external economic shocks and natural disasters, including the growing susceptibility to the adverse effects of climate change.

Member States acknowledge that while per-capita GDP figures are easily available for most countries, obtaining other measurements, in particular those related to poverty and inequality, may represent a challenge for the UN system. This partially explains the widespread reliance on the per-capita income parameter; however, Member States encourage improvements in the quality of statistical reporting and obtaining alternative indicators.

The ongoing efforts of the UN development system (UNDS) to move away from the per-capita income criterion and to use indicators such as the Human Development Index or the Multidimensional Poverty Index in its strategic programming are highly appreciated and welcomed by the member states, and they urge to expand the set of indicators beyond per-capita income, for use as benchmarks in designing the respective UNDS engagement strategies.

Gaps in the international assistance and cooperation framework

The graduation to a middle-income or high-income status is often associated with significant losses to public finance through the suspension of concessional lending and ODA flows, and those losses frequently exceed the respective increases in the collected tax revenues explained by the higher income level.

There are certain deficiencies in the international response framework adopted to mitigate the consequences of the COVID-19 pandemic for developing countries. For example, the G20-countries' Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments beyond the DSSI, agreed between G20 and the Paris Club, aimed to alleviate the debt-service burdens of developing countries, leave behind around 40% of the middle-income countries. Among those middle-income countries that are eligible to benefit from those initiatives, many chose not to participate over concerns that they may be downgraded by credit rating agencies and the loss of investment grade rating may curtail access to commercial capital markets.

It has been noted that while advanced economies enacted a fiscal stimulus response equivalent to 20 to 30% of their GDP, and poor countries, on the other hand, were provided with different forms of international assistance, most of the middle-income countries were largely left on their own to deal with the consequences of the pandemic. Middle-income countries are the only group of countries that does not have a program document of cooperation within the UN system. On the positive side, UNIDO's activities in middle-income countries are a good example of the successful UN system engagement.

Policy responses to the pandemic and international cooperation

Several countries presented their policy responses to the pandemic, including efforts aimed at protecting domestic businesses and jobs, and strategies for the long-term sustainable development aligned with the respective national development plans, as well as their efforts in providing international cooperation and assistance. In particular, China delivered large amount of vaccines to a number of countries and is supporting large-scale investment in middle-income countries through the Belt and Road Initiative. The EU is actively assisting a number of countries through its neighborhood policy. Cuba sent teams fighting the pandemic to 30 countries. The US has donated large supplies of vaccines to developing countries, in particular through the COVAX initiative. G7 leaders in June 2021 agreed on a new initiative to support global infrastructure investment, “Build Back Better World“ (B3W), to help narrow the over \$40 trillion infrastructure gap in the developing countries, mobilize private capital through development finance and enhance the impact of multilateral public finance. The speakers underscored that national development plans should be complemented by international efforts.

Looking forward, conclusions and recommendations

The activity and efforts of UN DESA ASG Mr. Elliott Harris as the focal point for middle-income countries are highly welcomed and appreciated by Member States.

To address the newly emerged challenges of middle-income countries and to assist their recovery from the devastating consequences of the pandemic, urgent and internationally coordinated policy efforts are needed, especially in ensuring universal access to vaccines (currently, many middle-income countries have to purchase them at commercial rates), which should be considered a global public good, in line with GA resolution 74/274. Domestic vaccine production should be launched where applicable, and if needed, exemptions from the WTO provisions regarding intellectual property rights must be negotiated.

The implementation of the Addis Ababa Action Agenda should be accelerated, and national development plans should be complemented with international efforts.

The existing debt relief initiatives should be expanded to cover all middle-income countries, in order to provide them with urgently needed fiscal space. The G7 and G20 are urged not only to extend the recently introduced debt service suspension initiatives to all middle-income countries but are also asked to develop a longer-term framework for debt relief.

The eligibility criteria for concessional funding by multilateral lending institutions should be expanded to middle-income countries.

The expected forthcoming reallocation of SDRs within the IMF from the richer Fund members towards more vulnerable countries is welcomed and should provide middle-income countries with more available liquidity at times of need.

Credit rating agencies are strongly urged to demonstrate more flexibility in their country assessments and asked to conduct a more detailed situation analysis in each particular case.

The private sector should be actively engaged both in the efforts to address the current challenges of middle-income countries created by the economic downturn, and in the implementation of long-term development strategies.

The UN system should oversee the graduation to a middle-income status in order to ensure that the graduation does not lead to an abrupt interruption in the access to international assistance, including suspension in the ODA flows.

The UN Sustainable Development Group (UNSDG) should cooperate with the Multilateral Development Banks in order to develop a joint framework to improve the country-level and regional synergies.

The MDBs are encouraged to design new schemes of debt relief and longer-term debt reduction initiatives.

Middle-income countries should accelerate their industrialization and economic diversification and invest in high-productivity sectors; along those policies, overcoming the digital divide is a priority. To accomplish that, more efforts are needed in facilitating technology transfer. Investment projects in middle-income countries should take into account environmental and social risks.

The potential of South-South Cooperation should be fully utilized, in particular in facilitating technology transfer and accelerating industrialization of middle-income countries. Member States reiterated that accomplishing meaningful progress towards the 2030 Agenda is impossible without achieving the SDGs in middle-income countries.
