
High-Level Event on Financing for Development in the Era of COVID-19 and Beyond

Convened by Canada, Jamaica and the Secretary-General

May 28, 2020 — 8AM — 12 PM

Discussion Notes

1. Global Liquidity and Financial Stability
2. Debt Vulnerabilities
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Discussion Note

External Finance and Inclusive Growth

1. Background

The most affected by the crisis have been the more vulnerable segments of society, the poor, women, minorities, those in lower paid jobs, the informal economy and those with less access to social protection, many considered “essential” workers. The crisis is also accelerating structural economic changes already underway with major impacts in the world of work, societies and economies at large: a rapid and encompassing digitalization of the economy, the transformation of supply chains from being global and just-in-time to more local and regional, resilient and less dependent; and the wholesale restructuring of many heavy-emitter industries.

Our recovery policies need to be human-centered and ensure that structural transformations lead to decent work for all. Inclusive growth and recovering better are the objectives by which future generations will judge the responses to the crisis. Ambition is required from all sectors, public and private, small, medium and large enterprises, business environment and public support. Most developing countries do not have sufficient domestic resources and fiscal space to fund adequate response and recovery measures. Those gaps need to be urgently filled. Furthermore, the way these gaps are filled will be crucial to enable a sustainable and inclusive recovery for all.

At a moment in which developing countries need all the help they can get, the COVID-19 crisis has negatively impacted all components of external finance. Unprecedented capital outflows have led to currency depreciations (of more than 10% in some countries) and widening credit spreads in many economies. Emerging markets experienced the largest capital outflow ever recorded as investors became risk averse and demand for dollar liquidity increased. In March 2020, outflows from emerging economies amounted to \$52.4 billion and \$31 billion for **equity and debt** respectively.¹

Foreign direct investment (FDI) could decline by up to 40% to its lowest level in two decades, with the energy sector hit particularly hard.² Lower profits for many multinational enterprises have also translated into lower reinvested earnings.

At USD\$152.8 billion, or 0.3% of donor country GNI, **Official development assistance** (ODA) is well below the 0.7% target in the Addis Ababa Action Agenda. ODA alone is insufficient given the additional financing needed for COVID-19 response and recovery. Newly released data from the OECD DAC indicate that ODA increased in 2019, according to the new grant-equivalent measure, although nominal ODA fell.

Global flows of **remittances** are projected to drop by about 20% in 2020 due to the fall in migrant employment and wages. This would represent a loss of about \$109 billion for low and middle-income

¹ <https://www.iif.com/Research/Capital-Flows-and-Debt/Capital-Flows-Tracker>

² https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3_en.pdf

countries³ - a significant decrease in foreign reserves and a dramatic impact on the estimated one billion people who rely on remittances for their income.

2. Main challenges

The collapse in external finance due to COVID-19 is expected to exacerbate already weak investment growth. Developing countries will face substantial financing challenges for a COVID-19 response in the near term - constraining their ability to import medical and other supplies - and for investment in the SDGs in the medium to longer term. This is grave, as the investments made today will be determinant in the speed and strength of the recovery. External finance will be needed to complement efforts from the private and public sectors in developing countries to increase resilience and continue on a sustainable path towards the SDGs.

Increased credit risk, driven by weaker balance sheets of private sector companies will constrain investment, while governments with limited fiscal space will be constrained in providing risk sharing solutions to leverage private investment. While increasing the use of debt instruments to finance such investments can be appropriate if the investments help boost potential growth, many developing countries already face elevated levels of debt, and increasing debt further will increase the likelihood of debt distress.

The SDG and Addis Ababa Action Agendas set two targets on remittances: (i) reduce the global average cost of remitting \$200 to 3%, a target that has been emphasized by the G20 and (ii) no corridor with an average cost for remitting \$200 above 5%. More work is needed to reach the SDG targets - the global average cost of remitting \$200 has declined from around 7.1% at the end of 2017 to around 6.8% in Q1 2020. Reducing to the average the cost of remitting to Africa would save \$1.8 billion a year. The newly created Remittance Community Taskforce adds to the concerted efforts to move forward rapidly in this regard⁴.

3. Exploring scenarios and implications

In a business as usual scenario, weak external finance will exacerbate the economic slowdown and suffering and impede a fast post COVID-19 recovery. The collapse in investment impacts near term tax revenues, debt sustainability, and the ability to fight the pandemic, as well as long-term economic growth and employment. In that case, countries will not have the resources to fight the pandemic, address future shocks (such as from climate change), and combat rising poverty and inequality. Infrastructure gaps in critical sectors, such as water and energy, will not be bridged. In short, countries will likely fail to achieve the sustainable development goals.

An alternative scenario would include coordinated actions by governments to send a clear signal to markets and provide a confidence boost to relaunch investment activities. The large government bailout programmes, in this context, are an opportunity to accelerate investments in areas key for sustainable

³ <https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history>

⁴ The International Fund for Agricultural Development (IFAD), through its Financing Facility for Remittances (FFR) is convening the Remittance Community Task Force to address the challenges confronting migrant workers and their families with the COVID-19 pandemic.

development and decent work. Global support could also encourage greater international financial flows in economies badly affected by the crisis and/or in great need. Despite enormous domestic pressures, donor countries will need to continue to deliver ODA, particularly to LDCs, which may be hard hit by both social and economic impacts of COVID-19, and for whom ODA remains essential.

Global support could also encourage greater international financial flows in sustainable development in the medium term. This could be done by structuring and leveraging, where appropriate, fit-for-purpose financial instruments to increase investment in developing countries. The [2020 Financing for Sustainable Report \(FSDR\)](#) presents a range of financial instruments for this purpose. Those include platforms and instruments bridging the risk-return gap of critical investment in developing countries, including SMEs. Partnerships with domestic and international institutional investors could help develop pilot financing structures to be replicated.

Global support is also needed to assist countries in reassessing regulatory frameworks to enhance the contribution of external financial flows to the SDGs and developing projects with the greatest potential for generating a job-rich recovery characterized by decent work and national development objectives, and to manage increasing debt risks. Standardization of sustainable investments will allow for scalability, requiring joint efforts by multiple stakeholders allocating both risk-adjusted and “social returns.”

As explored in the Note on Recovering Better, the COVID-19 crisis is also an opportunity to reassess regulatory frameworks to enhance the contribution of external financial flows to the SDGs. Financial markets can better price long-term risks and incentivize corporations to rethink their business model towards inclusive and sustainable development. Initiatives such as the Taskforce for Climate Financial Disclosure ([TCFD](#)) and the Network for Greening the Financial Systems ([NGFS](#)) can help promote standards.

4. Potential areas of action

- Multilateral, regional, and national development banks could provide policy advice and develop financial instruments to support and mobilize private sector solutions and investment at scale, and in countries most in need.
- Alliances between investors, MDBs and governments could help inform investors on government priorities and encourage greater private sector mobilization.
- Public authorities, private financial institutions and fintech companies could form a coalition to force speed, convenience, security, compliance and accessibility of cross-border payment services, including through innovative solutions in all aspects of the value.
- Options for improving the business and investment climate, especially for small and medium enterprises, with a focus on decent work are crucial.

5. Continued Collaboration

A. By mid- July 2020, at the margins of the High-Level Political Forum

- Discussion of a roadmap for enhancing external finance for all dimensions of inclusive growth
- Discussion of financial instruments to further mobilize investments.
- Discussion of options to remove the obstacles to reducing remittances transaction costs, as recommended by the G20 and the [Secretary-General's Strategy and Roadmap for Financing the 2030 Agenda](#).
- Share best country experiences on implementing public-private partnerships to enhance investments in human capital, infrastructure, including digital infrastructure, and resilience.

B. By mid-September 2020, at the margins of the UN General Assembly

- Discuss a menu of options to link external finance to inclusive growth and job creation
- Discuss how to push further, in collaboration with the financial industry, to lower the transaction costs of remittances to less than 1 percent.

C. By mid-December 2020

- Stock-taking and placing progress in the context of our common ambition to deliver the 2030 promise—by mobilizing together around the [Decade of Action](#), needed now more than ever to prevent losing decades of progress towards sustainable development.