United Nations

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
3. Private Sector Creditors Engagement
4. External Finance and Inclusive Growth
5. Illicit Financial Flows
6. **Recovering better for Sustainability**

Discussion Note

Recovering Better for Sustainability

1. Background

The global health crisis caused by COVID-19 has rapidly developed into a development emergency. Most developing countries do not have sufficient domestic resources and fiscal space to fund adequate response and recovery measures. This makes international cooperation crucial to heal and prosper together. Increased liquidity and external finance, addressing debt vulnerability and cutting the drain of resources through illicit financial flows are crucial to fill the budget gaps that impede strong action in terms of testing, tracing, isolation and treatment, as well as supporting the most vulnerable, securing livelihoods and stimulating the economy.

International cooperation also provides an opportunity to reshape the global economy towards the future we want. Incentives associated with support measures can steer businesses, citizens, and government away from the status quo before the crisis and towards a sustainable and more inclusive world. It is fundamental to link short-term measures to fight the pandemic and the development emergency to the path we want to travel going forward, guided by the 2030 Agenda for Sustainable Development, the Addis Ababa action Agenda and the Paris Agreement on Climate Change.

From the start, along the response and recovery phases, our objectives should be bold: to build more prosperous, inclusive, just, resilient and sustainable societies and economies. With every step, we should be addressing systemic risks, such as climate change and persistent inequalities. In the future, as now, it will be easier and far less expensive to address risks by investing up front than be cornered into palliative or ex-post measures. Resilience must be put at the center of decision-making at all levels, such that the impact of future shocks can be absorbed more readily and with less upheaval and disruption to people's lives and livelihoods.

The crisis demonstrates the value of solidarity and social dialogue in our communities and across the global community. It lays bare the failings of the old approach and has surfaced deep-rooted social and economic inequalities and the potential for the crisis to intensify related impacts. By moving forward, we can build more equal, inclusive and sustainable economies and societies for the long-term for all. We need to start today building the future we want and leave no one behind.

2. Main challenges

As the response and recovery measures are deployed, it is crucial to ensure that the funds are invested in sustainable ways. Applying "positive conditionality" through, for example, linking support measures of debt relief to efforts towards achieving inclusive growth and sustainability, can play a useful role. We must be conscious of the opportunity to trigger a faster transformation towards a green and inclusive economy, including, for example, by linking support to investing in the SDGs and climate change. At the same we must avoid providing a lifeline to ways of doing business that do not contribute to the fight against climate change and to enhance resilience in societies and economies. Governments need to also resist the pressures to roll back environmental regulations in order to stimulate growth, as this would be costly in the medium and long-term.

The most affected in countries the world over have been the more vulnerable segments of society, including poorer members, women, minorities and those in lower paid jobs and with less access to social protection, many considered “essential” workers. Entire populations are experiencing the fear and reality of unemployment, loss of income and the anxiety that comes with inadequate or inaccessible health care.

At the same time, the crisis is accelerating structural economic changes already underway: the unfettered digitalization of the economy; the ascendance of e-commerce over bricks and mortar retail; 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.

These big economic changes will have strong social impacts that will need to be addressed and will require a massive reallocation of capital and our recovery policies will have an enormous influence on how that capital is invested. These changes have major impacts on the world of work, the way in which work is organised, as well as in which sectors jobs are created, with massive implications for education and skills. Our recovery policies need to be human-centred and ensure that structural transformations lead to decent work for all.

Countries will need to craft policy accordingly. Public investments in human, natural and physical capital can have large multipliers in terms of productive employment and sustainable and inclusive growth. Regulatory priorities and fiscal choices can catalyse large-scale private investment while shaping its direction. Financial sector policies can accelerate the transitions to a net zero economy—the express objective of 125 member states – while ensuring a just transition for workers and enterprises - as well as a more inclusive economy with equal opportunities for all. At a time when every business, big and small, in every sector is having to reset its strategy, we can launch a common strategy for sustainable and inclusive growth across the public and private sector.

3. Exploring scenarios and implications

The large-scale economic restructuring required in the next phase of recovery creates a major opportunity. The sacrifices borne by citizens across the world will rightly bring high public expectations. People will demand action to ensure that our recovery from the crisis takes account of their priorities. That means aligning the economic recovery with the SDGs and Paris Agreement on climate change.

Policymakers and investors can accelerate the needed innovations by leapfrogging established technology to target breakthrough investments in health and education systems, social protection and expansion of social services, renewable energy, green public transport, and smart housing, among others. Building more equal and inclusive societies through the recovery will build resilience to future economic shocks from pandemics, climate change and other emerging crises.

Efforts to return to growth that comes at the expense of our social and environmental objectives will only sustain recovery for the short-term and face the risk of further increasing inequalities and polarization in societies. This would amplify key existing vulnerabilities, including income and wealth inequality, informality and poverty, and lead to aftershocks. Disorderly recovery could further lead to capital flight from developing countries, compounding economic and social hardship and leaving many further behind. Reverting to pre-crisis climate policies and investments would see temperatures rise by 3.4 to 3.9°C, exacerbating climate impacts which are being felt now.

The 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the Paris Agreement on Climate Change provide a framework for action. The lack of adequate investments in SDGs to date has made many countries vulnerable to the economic fallout from the COVID-19 crisis.

A sustained recovery requires solid foundations including global cooperation and the effective integration of the SDGs into national recovery plans of both developed and developing economies.

Achieving the SDGs is not only a moral imperative, but it is an economic and social one. Their achievement would mean greater productivity, increased labour supply and ultimately stronger growth with equality. There are significant economic opportunities in aligning the recovery with SDGs. For example, green stimulus measures after the global financial crisis –i.e., investments in renewable energy, energy efficiency and public transport infrastructure, natural (green) infrastructure – generated more jobs than traditional alternatives. This potential is even greater now.

In the private sector, Environmental, Social and Governance (ESG) funds and several clean technology and clean energy equities outperformed the S&P 500 during the COVID-19 crisis. Investing in the SDGs creates a commercial opportunity that can help kick start the economy post COVID, with infrastructure, clean energy, water, sanitation, agriculture and other SDGs requiring between $5 and $7 trillion investment per year.

4. Potential areas of action

Policies should be evaluated on whether they accelerate the implementation of the goals of these agreements or not. When designing recovery strategies, public policymakers should consider how they can use the full range of policy levers to support a sustainable and inclusive recovery that can distribute in an equal manner its benefits. Coordinated global support has a role in supporting these.

- **Fiscal**: decisions around spending as an investment in people and the planet (for example for health, education, infrastructure); taxing (for example its impacts on poverty reduction and inequalities; incentivising low-carbon development , including through carbon pricing); and implementing the right structures to leverage private investment will all impact the effectiveness of our response. Establishing financing strategies will be essential and the Integrated National Financial Framework (INFFs) present an opportunity to accomplish that.

- **Framing**: equally, if not more, important will be the use of government policy and regulation to frame the terms of the new economy so that the private sector can invest accordingly. At the micro level, this may include setting social, environmental, technological and procurement standards, or sectoral targets. At the macro level, it will require clear policy frameworks that are consistent with and guided by our shared commitment to the SDGs and Paris Agreement on Climate Change.
- **Finance**: we must use this opportunity to accelerate the shift of public international finance toward sustainable sectors and align the private financial sector to net zero. The objective must be to ensure that every financial decision takes account of environmental and social impacts. This means using milestones such as COP 26 and the Decade of Action for the SDGs to put in place the right market and regulatory frameworks so the private sector can allocate capital to manage risks and seize opportunities across all our economies.

5. Continued Collaboration

Building back better is the imperative for both national governments and for the global community.

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

- Advance efforts to align recovery with the 2030 Agenda and Paris Agreement
- Engage private sector partners and civil society representatives in discussions to lead the transition from within, leaving no one behind.

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

- Advance in policy recommendations and actions that would favour a resilient, inclusive and sustainable recovery. Identify targets and data that would facilitate follow-up.

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.