High-Level Event on Financing for Development in the Era of COVID-19 and Beyond, 28 May 2020

Summary of discussions

Overview

The United Nations Secretary-General and the Prime Ministers of Canada and Jamaica brought together more than 40 Heads of States at a High-Level Event to discuss *Financing for Development in the Era of COVID-19 and Beyond*. The event aimed to identify priority actions to overcome the economic and social impacts of the Covid-19 pandemic.

Heads of States expressed an urgent need for action. They called for creative solutions to finance the recovery and build back better. These solutions should be underpinned by global solidarity and a commitment to multilateralism, and guided by the 2030 Agenda, the Addis Ababa Action Agenda and the Paris Climate Agreement.

Going forward, six discussion groups will be established, supported by the UN development system in partnership with relevant international institutions. The discussion groups will develop concrete solutions to finance the pandemic response and recovery, with an emphasis on providing options for countries with diverse needs. They will cover the issues of (i) Global liquidity and financial stability; (ii) Debt vulnerability; (iii) Private sector creditors engagement; (iv) External finance for inclusive growth; (v) Illicit financial flows; and (vi) Recovering better for sustainability. Policy proposals will be shared at a ministerial-level event on the 28th of July. A special event at the General Assembly in September will reflect on implementation of these measures and discuss how to accelerate the pace of action. In December, efforts will be benchmarked against the deliverables of the 2030 Agenda.

Key Messages

- The COVID-19 pandemic has caused an unprecedented global development emergency, threatening achievement of the 2030 Agenda and the Sustainable Development Goals (SDGs). The world was on an unsustainable path even before the current crisis, but the pandemic has exposed and exacerbated existing global fragilities. By the end of 2020, 170 countries will have smaller economies than in the previous year and global poverty will rise. In addition, many countries are severely financially constrained to respond to the economic and social shocks caused by the pandemic.
- Urgent action and creative solutions are needed to finance the recovery and build back better, in line with the 2030 Agenda, the Addis Ababa Action Agenda and the Paris Climate Agreement.
- Many participants expressed support for a global coordinated plan, underpinned by global solidarity and a commitment to multilateralism, with the United Nations at its center. Such a plan will require significant investments, but inaction would be far more costly.
- Proposals in the six pressing issue areas included:

- **The need to expand liquidity in the global economy and maintain financial stability to safeguard development gains,** including through a significant issuance of Special Drawing Rights;
- **The need to address debt vulnerabilities for all developing countries to save lives and livelihoods for billions of people around the world**, through expansion of the terms and eligibility for the debt service suspension initiative, and innovative instruments such as debt swaps and/or state-contingent clauses;
- **The need to create a space in which private sector creditors can proactively engage in effective and timely solutions**, by extending debt service suspension to private sector creditors or by setting up a special purpose vehicle to improve terms of commercial debt;
- **Prerequisites for enhancing external finance for inclusive growth and creating jobs**, by expanding concessional finance and revising access criteria, and by lowering remittance costs;
- **Measures to expand fiscal space and foster domestic resource mobilization by preventing illicit financial flows**; and
- **Ensuring a sustainable and inclusive recovery by aligning recovery policies with the Sustainable Development Goals.**

Detailed summary of discussions

The need to expand liquidity in the global economy and maintain financial stability to safeguard development gains

Developing countries experienced capital outflows at unprecedented scale. Investors withdrew around USD 100 billion from developing countries in the first two months of the crisis. The ensuing liquidity crisis faced by multiple developing countries heightened already existing difficulties to service debt obligations.

Policy makers were quick to respond. Unconventional monetary policies, asset purchases and extension of swap lines by central banks and provision of emergency finance by the International Monetary Fund helped ease financial turmoil. Vast stimulus spending by G-20 countries, which will inject USD 8 trillion into the global economy, provided additional vital support. As global financial conditions recovered somewhat during April and May, emerging markets with stronger fundamentals were able to access international financial markets.

But many vulnerable countries remain dependent on additional support. This includes those that depend on commodity exports and tourism, as well as war-torn countries. The IMF has so far disbursed $22 billion of emergency finance to 60 countries, provided debt relief to 27 of its poorest members and is using precautionary arrangements for countries with strong fundamentals. It is exploring how to deploy *existing* Special Drawing Rights (SDRs) to support countries in need, and, together with the World Bank, strongly supports the G20 debt suspension initiative.

An additional issuance of SDRs, or other forms of international liquidity support, could help overcome the lack of liquidity and avoid defaults. Many participants emphasized the need for fresh capital and expressed support for an issuance of SDRs to support countries in need with vital liquidity.

Some speakers also highlighted the broader need for a more inclusive and equitable global economy and financial architecture. Improvements to the current economic and financial system required "out of the box" thinking, to ensure that no State – and particularly those with challenges – is disadvantaged, and that the global financial system supports sustainable development and decarbonization.

The need to address debt vulnerabilities for all developing countries to save lives and livelihoods for billions of people around the world.

The exogenous shock from COVID-19 is threatening debt distress, which would undermine development prospects of many countries. Developing country debt was widely seen as an urgent concern, globally and particularly in least developed countries, especially in Africa, landlocked developing countries and in small island developing States.

The international community has taken important first steps to address this crisis. The G-20 Debt Service Suspension Initiative (DSSI) will provide USD 18 billion in temporary debt service relief. The IMF has provided debt service relief through the Catastrophe Containment and Relief Trust.

Current measures will not suffice to avoid debt crises and should be expanded. DSSI on its own will not be a sufficient response to the challenge. The moratorium could be extended in several ways. First, it could be extended to all developing countries that request forbearance. There are some small island developing States and countries in Africa and landlocked developing countries that have been hit hard by the crisis but are excluded because of their middle-income status. Second, the moratorium should be extended to two years. Third, other creditors should join the moratorium. However, some noted that an expansion of the moratorium to include multilateral debt service could impede these organizations' ability to provide fresh financing.

Beyond expanding the terms of the moratorium, several innovative solutions were proposed to address debt challenges of developing countries. They included debt swaps, such as regional development investments in exchange for debt relief. Introducing disaster clauses into the terms of debt contracts would allow affected countries to automatically suspend debt payments in the wake of a shock and increase debt sustainability. A global special purpose vehicle could convert commercial debt of African countries into longer maturity debt at concessional terms.

Debt relief and cancellations, and structural reforms may be needed. Several participants called for cancellation of debt, on a case-by-case basis, to free up vital resources to address the economic fallout from the pandemic and avoid defaults. They also called for provision of fresh financing, for example through unconditional budget support. Greater transparency of debt financing was seen as an important contribution to assuring debt sustainability going forward. More generally, a comprehensive approach on debt and COVID-19 would include a standstill, targeted debt relief, and progress on the international architecture of sovereign debt.

The need to create a space in which private sector creditors can proactively engage in effective and timely solutions.

Private sector creditors should join the debt service suspension initiative. Many countries called on private sector creditors to join the G-20 DSSI on comparable terms. The Institute for International Finance (IIF) welcomed the G-20 initiative and underlined its commitment to facilitate private sector involvement. To this end, it has prepared a terms of reference framework for private sector participation.

Private sector participation in the moratorium remains challenging. The IFF suggested that a comprehensive solution to the debt problems of IDA eligible countries requires a case by case framework that respects the particular and distinct features of countries in need. Some speakers also cautioned that debt relief measures might impact future access to financial markets, and that credit enhancement and public support will be needed to achieve some of the objectives laid out in the G20 communique. The special purpose vehicle proposed in the African context could include such credit enhancements.

Prerequisites for enhancing external finance for inclusive growth and creating jobs, including lowering the transactions costs of remittances

Developing countries are experiencing a parallel and sharp decline in external financing flows. Direct and portfolio investments, remittances, goods and services exports (tourism in particular), and trade financing have all been affected. No countries are spared – least developed countries, landlocked developing countries, small island developing States and middle-income countries are all experiencing a deteriorating external position, albeit through different channels.

The international community has come together to provide external support to countries impacted by the crisis. The World Bank Group launched exceptional financial support in March; approved emergency health operations in over 100 developing countries; and frontloaded IDA resources to support the pandemic response. Jointly, the multilateral development banks will be able to deploy approximately $240 billion by June 2021. The Secretary-General has also set up the COVID-19 Response Fund with the support of the international community. The international community is also mobilizing funding to support development of an affordable global vaccine and other emergency response support measures.

While welcome, these efforts are insufficient to address rapid increases in poverty and unemployment. Developing countries would need more international support and concessional financing. This includes more funding for the provision of global public goods such as health, and meeting of long-standing commitments on official development assistance.

Access criteria to concessional financing should be revisited to consider vulnerability. Lack of access to funding is a critical challenge for middle income countries and small island developing States in particular. Factors beyond per capita income, such as vulnerability, should be considered to determine access to finance.

Remittances costs should be brought down. The collapse in remittances due to the pandemic will have devastating impacts on migrant families. Lowering remittances costs and increasing access to remittances is an urgent priority, and countries committed to work towards this end.

Innovative financial instruments can raise resources to support recovery. Green bonds, social impact bonds or similar vehicles can mobilize private capital for the fight against Covid-19 and for investments in a sustainable recovery. Common SDG metrics can help ensure that sufficient private investment will be available for the SDGs.

Measures to expand fiscal space and foster domestic resource mobilization by preventing illicit financial flows

To expand fiscal space and ensure recovery, developing countries need to mobilize domestic resources and tackle illicit financial flows. Leakage of resources vitally important for crisis response and recovery must be prevented. Africa alone is losing $100 billion a year at a time when resources are desperately needed to combat the crisis. Missing resources will constrain vital investments in health, food, basic needs and thus threaten to derail progress on the 2030 Agenda.

Collective action is needed to address illicit financial flows and corruption. The fight against corruption and fraud is a priority for the Economic and Social Council, which recently established the High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel).

The OECD plans to lead preparation of an ambitious plan of action to revitalize the international tax agenda. The proposed action plan, which would be by developing countries and for developing countries, would include work on automatic exchange of information for tax purposes, strengthening beneficial ownership transparency, improving whole of government approaches to tax crimes enforcement, a new action plan on base erosions and profit shifting, and a scaling up of international assistance for tax crime investigation, through the Tax Inspectors Without Border initiative.

Ensuring a sustainable and inclusive recovery by aligning recovery policies with the Sustainable Development Goals.

The crisis response and recovery efforts must be guided by the 2030 Agenda, the Addis Ababa Action Agenda and the Paris Agreement on climate. The crisis presents a strategic opportunity to build back better, and to align all financing flows, investment and debt relief with the SDGs, climate action and the Addis Agenda. This should lead to a fairer, greener and more resilient global economy that leaves no one behind and protects lives and livelihoods.

Recovery efforts must be sustained, coordinated and long-term oriented. First, up-front investments in crisis prevention are cheaper than responding to crises – be that in the case of pandemics, or for challenges associated with climate change. Systemic risks can no longer be ignored, and resilience must be put at the heart of economic decision-making, for example in the area of food supply chains and food security. Second, the needs of vulnerable populations must be prioritized. Gender equality should be a key consideration in all efforts to build back better. Third, recovery efforts should take into account long-term trends that may be accelerating because of the crisis, such as the growth of the digital economy, and work towards overcoming the digital divide. In addition, the global recovery efforts should link investment and debt relief to achievement of the SDGs and achieve a green, just and resilient recovery.

All policy levers should be used to achieve a sustainable and sustained recovery. This includes fiscal measures, such as direct fiscal incentives, carbon pricing, phasing out of fossil fuel subsidies. Since fiscal space will be limited in many countries, it also includes regulatory responses, such as fuel standards in transport sector; green building codes; and mandatory climate disclosures. Development banks at all levels (national, regional and multilateral) can help mobilize resources for investments in the recovery. A summit of all public development banks in the fall will help foster cooperation and bring financial actors together toward collective action on Covid-19 recovery, climate and the SDGs. In addition, every private business decision needs to take climate, the SDGs and the Addis Ababa Action Agenda into account. Supportive policy measures include mandatory climate disclosure, conditionalities attached to private-oriented Covid-19 relief measures, and blended finance.