Initiative on Financing for Development in the Era of COVID-19 and Beyond

The Secretary General's Strategy and Roadmap for financing the 2030 Agenda for Sustainable Development

The Strategy, launched by the UN System in 2018, underscores the UN's critical role in supporting and accelerating the mobilization of finance for sustainable development and focuses on three objectives to accelerate progress from global to local levels:

1. Aligning global economic policies and financial systems with the 2030 Agenda.
2. Enhancing sustainable financing strategies and investments at regional and country levels.
3. Seizing the potential of financial innovations, new technologies and digitalization to provide equitable access to finance.

The Secretary-General's Financing Strategy and Roadmap complement the AAAA by prioritizing areas of action by the Secretary-General and guiding the UN's contribution to support implementation of the 2030 Agenda, including addressing matters of debt, ODA and strengthening support from financial institutions.

Prior to the pandemic, findings from the IATF 2020 Report on Financing for Sustainable Development suggested that the international economic and financial systems were not only failing to deliver on the SDGs, but there had been substantial backsliding in key action areas.

- Declining Assistance: Official development assistance (ODA) fell by 4.3 per cent in 2018, and ODA to least developed countries (LDCs) fell by 2.1 per cent.
- Growing Financial Risks: An extended period of low interest rates incentivized riskier behaviour throughout the financial system. Financial intermediation steadily migrated to non-bank financial intermediaries, potentially generating new risks. Non-bank financial intermediaries held over 30 per cent of global financial assets.
- Higher Debt Risk: Debt risks have risen in the most vulnerable countries. Forty-four per cent of least developed and other low-income developing countries are at high risk or in debt distress. That's a doubling of debt risk in under five years (it was 22 per cent in 2015).
- Increasing Trade Restrictions: Substantial new trade restrictions have been introduced, and the trade coverage of import-restrictive measures are almost 10 times larger than two years prior. The World Trade Organization's Appellate Body, meanwhile, no longer has enough members to rule on trade disputes.
- Increasing Environmental Shocks: Greenhouse gas emissions continued to rise, posing risks to sustainable development. Between 2014 – 2018, the estimated number of weather-related loss events worldwide increased by over 30 per cent compared to the preceding five years.

The Pandemic and its socio-economic impact

COVID-19 has hit hard an already weak and fragile world economy. Global growth in 2019 was already the slowest since the global financial crisis of 2008/2009. Necessary measures to contain the spread of the disease through quarantines, travel restrictions, border closures and lockdown of cities have resulted in sharp and sustained reductions in demand and supply. Economic activities in transportation, retail trade, leisure, hospitality and recreation have been battered. The supply chain disruptions halting the manufacturing industry and falling commodity prices, in particular oil, further compounded the economic impact of the pandemic. The health, humanitarian and socioeconomic impacts have been devastating for many countries.

- The COVID-19 pandemic, which has claimed one million lives and resulted in more than 32 million confirmed cases, has gone beyond a health and humanitarian crisis to also become an unprecedented global development emergency.
- The pandemic is expected to drive close to 100 million to extreme poverty, the first such increase since 1998. An estimated additional 265 million people could face acute food shortages by the end of 2020. By the end of this year, 12 000 people could die from COVID-19 related hunger. The International Labour Organization estimates the equivalent of 500 million jobs have been lost so far this year. This has widened economic inequalities, disproportionately impacting developing countries and vulnerable groups.
- Even for developing countries that have not been directly affected by the virus, the COVID-19 pandemic has exacerbated the financial distress as export, tourism and remittance receipts have all dried up, threatening their ability to service existing debt payments.
- Yet, of the US $11 trillion that has been spent globally to respond to the financial impacts of the pandemic so far, 88% has been disbursed by high-income countries, compared to only 2.5% by emerging and developing economies.

The initiative

- In the context of the pandemic, there was a palpable need to accelerate action related to the Secretary Generals Strategy and Roadmap on Financing the 2030 Agenda, as part of a comprehensive global response to the COVID-19 Development Emergency.
- The Initiative on Financing for Development in the Era of COVID-19 and Beyond was convened by the Prime Ministers of Canada and Jamaica and the Secretary-General. It intended to enable open and inclusive debate and proffer solutions for Heads of State and Government to consider and support. We created six informal, open-ended discussion groups with participation from governments, the UN and other international organisations, private sector, civil society and experts.
- This resulted in a comprehensive menu of options to address the current emergency, recover sustainably, and build back better by creating an inclusive and resilient future. Ministers of Finance met on 8 September – for the first time-ever at the UN – and further distilled priorities for the consideration of Heads of State and Government on 29 September.
- The UN System played a crucial role in facilitating the process. UNCTAD facilitated the group focused on producing actionable policies related to external finance, jobs, remittances, and inclusive growth; UNDP in turn supported the discussions on recovering better for sustainability; global liquidity and financial stability were addressed under the umbrella of the regional commissions, represented by ECA; DESA took a leading role in fostering debate and advancing solutions on debt vulnerability; private sector creditors engagement; and illicit financial flows.
- Many other UN System entities contributed to the effort. See Annex Table.

The highlights

- This process has highlighted a number of possible avenues for high-impact actions that leaders can take. These include:

1. Ensuring equitable access to the COVID-19 vaccine--mobilize the resources to fund the COVAX Initiative to accelerate the development and manufacture of COVID-19 vaccines and guarantee fair and equitable access for all countries around the world.
2. Ensuring that countries have access to sufficient liquidity--support a new US$ 650 billion general allocation of Special Drawing Rights and a US$100 billion voluntary redistribution of Special Drawing Rights to developing and vulnerable countries, including Middle-Income Countries.
3. Providing more time for distressed countries to make bilateral debt payments—by extending and expanding the Debt Service Suspension Initiative (DSSI). In addition, address the debt overhang, especially in Middle-Income Countries and Small Island Developing States, directly by having all bilateral creditors, as well as private creditors, agree to a common framework for resolving debt solvency issues as quickly as possible. It is only through such a commonly agreed framework that countries facing debt solvency issues will be helped through this crisis, and through which every creditor will be asked to play their respective part in solving the looming debt crisis.
4. Strengthening support from international financial institutions--encourage multilateral development banks to proactively support developing economies by ensuring net new financing flows compared to 2019, in a timely manner and where possible on concessional terms consistent with their countercyclical role.
5. Enhancing focused funding to alleviate COVID-19 either by supporting existing funds and facilities and/or by creating new funds to provide sustainable concessional finance and investments to developing countries.
6. Investing in jobs for all—immediately in gender-sensitive, equitable and sustainable jobs by supporting the ILO's 100% decent work initiative and strengthening social protection systems and mechanisms.
7. Lowering costs of remittances—continue to support the reduction of transaction costs of remittances.
8. Clamping down on illicit financial flows—take immediate action to support domestic resource mobilisation by tackling enablers and vested interests that benefit from them, preventing profit-shifting by multinationals, and bolstering the availability, transparency and exchange of data on beneficial ownership.
9. Including climate risk disclosures—continue to support the Task Force on Climate-related Financial Disclosures' (TCFD) climate disclosure standards and encourage their adoption.
10. Aligning national and local budgets with the SDGs and the Paris Agreement to bridge short-term emergency response measures with longer-term objectives of recovering better for sustainability.

Key Substantive Takeaways of the Heads of State and Government Meeting

- Broad support for solidarity and multilateral cooperation, and for supporting the most vulnerable during this ongoing crisis, including women and girls.
- Strong support for funding a vaccine and ensuring its fair and equal distribution, and for bolstering universal health care systems underpinned by Universal Health Coverage.
- Calls for:
    - a general issuance of Special Drawing Rights and a voluntary redistribution of Special Drawing Rights, the extension of the DSSI until the end of 2021, and the expansion of the DSSI to include vulnerable middle-income countries and SIDS.

- New mechanisms and initiatives, such as Costa Rica's proposal for a Fund to Alleviate COVID-19 Economics and ECA's proposal for a Liquidity and Sustainability Fund.
- Debt-for-climate and debt-for-SDG swaps
- Debt cancellation for highly indebted countries.
- The need for transparency in debt initiatives was underscored.
- Protect or increase ODA levels and for the cost of remittances to be brought closer to zero.
- Calls for greater localization of the SDGs.
- Greater engagement of official bilateral and private sector creditors in debt relief, and for engaging credit rating agencies on debt sustainability frameworks.
- Supporting Africa, particularly to address large debt overhangs
- Taxing the digital economy and using the digital to tax multinational corporations to help combat illicit flows and tax evasion.
- Digitalization and new investments in technologies and high-speed internet to help close the digital divide and to propel development.
- Aligning recovery policies and budgets with the SDGs and the Paris Agreement was widely supported.
- Use of green and blue bonds, ratcheting up NDCs, and taking advantage of low fossil fuel prices to transition to a low-carbon economy.
- Expanding concessional funding in MDBs, net inflows from MDBs equal to or more than debt suspension
- Creating a more equal trading system within the framework of the WTO
- Investing in sustainable infrastructure
- Alignment of the intellectual property regime with the SDGs.

Guiding questions

1. **What has been the value added of the initiative in the context of the development emergency?**
2. **How can the initiative and the menu of options contribute to raising ambition and responsiveness in the intergovernmental processes on financing for sustainable development?**
3. **What actions can be taken to ensure that the policy options inform other international and financial fora and decision making?**