

## **Talking Points for the Special Envoy's Intervention in the Intergovernmental Group of Experts on Financing for Development**

### **Session 1 entitled "Looking back to move forward: Lessons to be learnt from the COVID-19 Pandemic for Development Financing"**

**21 March 2022, 3:00-5:00p.m.**

Given your expertise we would be grateful if you could speak on: What lessons can be learnt from multilateral responses to the economic fallout of the Covid-19 pandemic in developing countries regarding developing finance and in the provision of stable and reliable long-term development finance? In particular, the Member States would benefit from hearing of your work on the FfD in the era of COVID-19.

#### **I. Overview of the State of the World**

- Thank the organizers for the invitation to speak during the **fifth session of the Intergovernmental Group of Experts on Financing for Development**, around the **theme "looking back to move forward: lessons to be learnt from the COVID-19 pandemic for development financing"**
- Note that as the report rightly emphasizes, there can no longer be any doubt that the economic fallout from the ongoing COVID-19 pandemic will be long-lasting.
- Add that, in addition, **the world now faces a triple threat in the form of a food, fuel, and finance crisis**, which is being drastically exacerbated by the war in Ukraine. According to a newly released [blog by the IMF](#), **the impacts of the war in Ukraine will affect the entire global economy through three main channels:**

- 1) **Higher prices for commodities like food and energy will push up inflation further**, in turn eroding the value of incomes and weighing on demand
  - 2) **Neighboring countries in particular will grapple with disrupted trade, supply chains, and remittances**, as well as a **historic surge in refugee flows**
  - 3) **Reduced business confidence** and higher investor uncertainty will weigh on asset prices, tightening financial conditions and potentially spurring capital outflows from emerging markets.
- In the long-term, **the war may also fundamentally alter the global economic and geopolitical order** as energy trade shifts, supply chains reconfigure, payment networks fragment, and **countries rethink reserve currency holdings and economic integration—a fundamental tenet of globalization.**
  - As occurred during COVID-19, developing countries least able to cope with the impacts of the crisis will once again bear the biggest burden.
  - According to UNCTAD, soaring food fuel and fuel prices will affect the most vulnerable in developing countries, putting pressure on the poorest households which spend the highest share of their income on food.
    - **On average, more than 5% of the poorest countries' import basket is composed of products that are likely to face a price hike due to the war, while this number drops to less than 1% for richer countries.**
    - This situation is also likely to disproportionately affect **LDCs and African Countries**, 25 of which import at least one-third of their wheat from the two countries at war.

- **This, in turn, is likely to spur greater unrest in areas that will be made particularly food insecure**, including in parts of Africa and the Middle East, and in **Egypt**, your home country—where around 80% of wheat is imported from the two countries at war.

### **The International Community's Response to the COVID-19 Crisis—and lessons learned for the future**

- Note that, in response to the impact of the COVID-19 crisis, the IMF and World Bank quickly committed substantial resources to new and rapid financial assistance for up to 100 developing countries -- **\$168 billion by the IMF and \$157 billion by the World Bank between March/April 2020 and June/July 2021.**
- The Bretton Woods Institutions also responded to the pandemic with the creation of the DSSI and Common Framework for Debt Treatment, and the historic allocation of \$650 billion allocation of Special Drawing Rights (SDRs).
- Together with the Secretary-General and the Prime Ministers of Canada and Jamaica, **you also supported the launch of the Financing for Development in the Era of COVID-19 and Beyond Initiative (FfDI)**, which resulted in an ambitious menu of policy options to build back better, and several High-Level Events to focus global attention on urgent issues—including on **debt and liquidity, the reform of the global debt architecture**, transforming **extractive industries**, and investing in **jobs and social protection**.
- Add that, **pressure exerted by the FfDI, also helped to move the needle** on several key areas, including:

- Achieving the **allocation of \$650bn in SDRs**;
  - The **extension of the DSSI** for six months from June 2021 to December 2021;
  - **The creation of the Liquidity and Sustainability Facility (LSF)** designed by ECA to reduce the cost of borrowing for African economies on the market; and
  - **The creation of the Resilience and Sustainability Trust (RST)** at the IMF, which was designed to enable finance to flow to vulnerable middle-income countries.
- **However, add that in 2022, the “beyond” part of the Financing for Development in the Era of COVID-19 and Beyond Initiative has posed more challenging than could have been previously imagined, requiring urgent efforts to fill existing gaps in the global response, and mobilize sustainable development finance beyond the COVID-19 disease.**
  - Additionally, **one of the major lessons learned** from multilateral responses to the COVID-19 pandemic regarding development finance **is that it did not go far enough, and did not achieve its goals to bolster resilience against future shocks.**
  - **For example:**
    - Despite the enormous opportunity posed by the allocations of SDRs, **around \$400 million SDRs remain unused**, sitting in banks in advanced economies;
    - The DSSI expired at the end of 2021, while **the CF has proved to be wholly inadequate** in providing much-needed debt relief;
    - **Private creditors remain absent** from discussions, while the G20 communique also lacked ambition;

- Lastly, as a result of the War in Ukraine, **ODA and other sources of development finance are likely to be further slashed to fund government's increased military budgets.** This is already having serious implications for developing countries' ability to access finance.
  - For example, just last week, **the US Congress decided against re-channeling unused SDRs in the country to the RST,** a major blow for vulnerable middle-income countries.
- To build back better, **the UN system is currently re-configuring itself to ensure that it can both:**
  - (i) **provide immediate support to countries in need,** including by advocating for improvements to debt relief programmes, the immediate re-channeling of SDRs, and new rounds of emergency, concessional finance;
  - (ii) **Connect finance to the real economy to help bolster resilience** against future shocks—such as enhancing investments in social protection, decent job creation, and climate action; and
  - (iii) **Reform the systemic flaws in our global financial and debt architecture,** including by calling for the integration of **long-termism into debt contracts,** and using **innovative new tools like the LSF** to lower the cost of borrowing
- As a follow-up to the FfDI, **UN entities across the development nexus are working hard to push these areas forward to reflect a changing global landscape, in alignment with Our Common Agenda.** Key recent outcomes include:
  - **The launch of the Global Accelerator on Jobs and Social Protection,** which aims to create 400 million new,

decent jobs in the green, care, and digital economy and expand social protection to the 4 billion people currently without protection;

- **A focus on key recommendations to support the reform of the global financial system**, which will also be highlighted during the upcoming FFD Forum;
  - **A Secretary-General Policy Brief on IFFs**, and the creation of **a global legal framework for asset recovery**;
  - **Efforts to implement INFFs**, including in countries in special situations, such as SIDS and LLDCs.
- Efforts are also being taken across the system to implement a **“SDG-investment push”** ahead of the G20’s Finance Ministers Meeting in November 2022 including through **the G20 Sustainable Finance Working Group**.
  - Lastly, add that **in your role as Climate Champion for Egypt ahead of COP27**, efforts are also being taken to align finance with the SDGs and Paris Agreement, which will be absolutely critical to ensure that this year’s “African COP” is a success.
  - Note that you look forward to the rest of today’s deliberations.