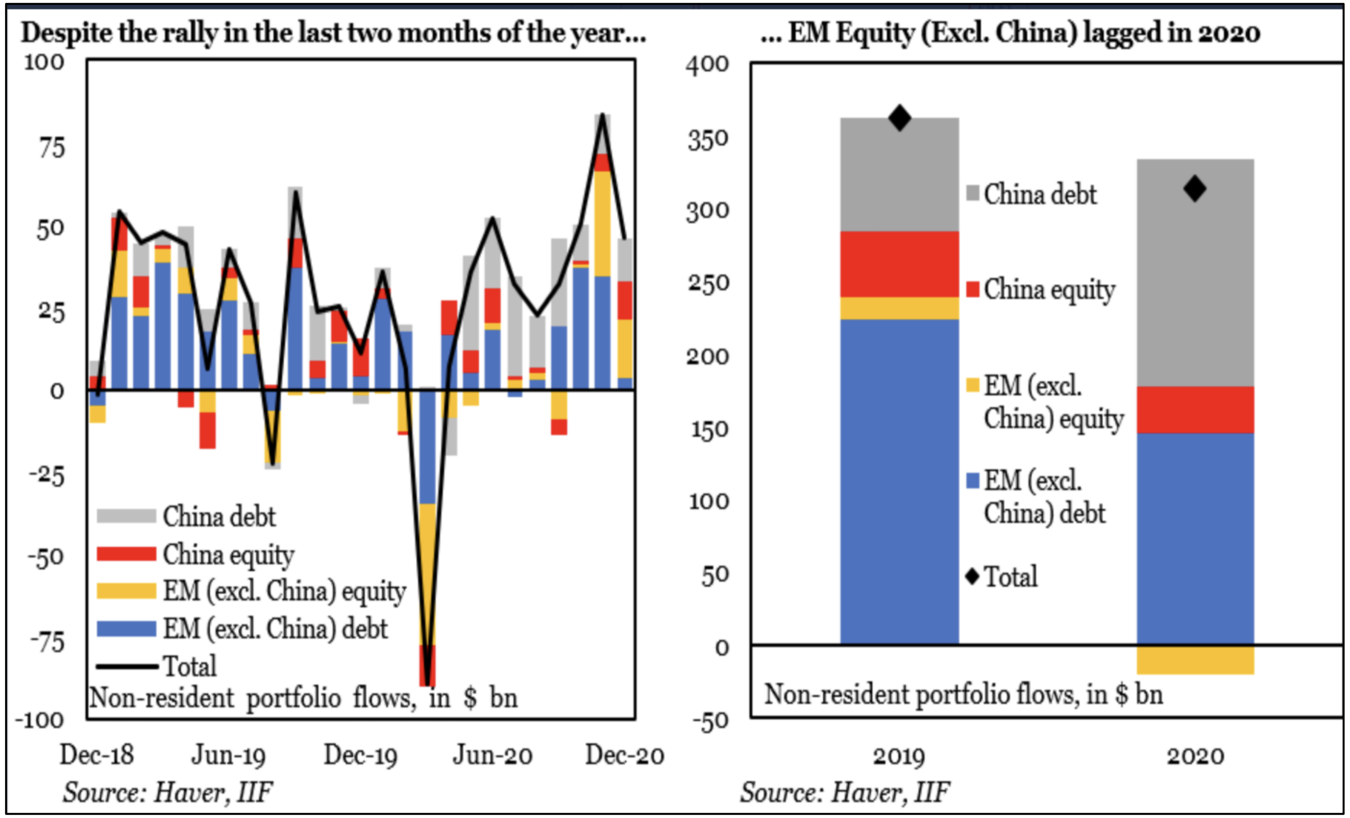
The impact of the COVID-19 pandemic and crisis responses: Going beyond "business as usual"

Intergovernmental Group of Experts on Finance for development

Intervention by Daniela Gabor

Professor of Economic and Macrofinance (UWE Bristol)

COVID19 shock: portfolio glut = sudden stops in dollar-based global financial cycle



FfD business as usual: attract portfolio glut into investible SDG assets

1. COVID19 crisis: deepen the status-quo

2. Status-quo: planting budgetary time-bombs when derisking development for portfolio investors

3. Market-access solutions – the ECA/PIMCO Liquidity and Stability Facility – threaten to sharpen rather than resolve faultlines in the international financial architecture

1. COVID19 crisis: renergise the *Maximising Private Finance for Development* status-quo

How to attract institutional investors and their asset managers into financing the SDG?

a. produce investible SDG assets via PPPs (infrastructure as an asset class, nature as an asset class)

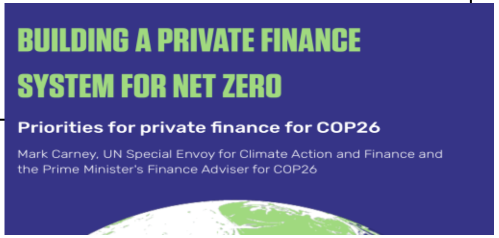
b. change financial structure towards local bond-based finance to accommodate portfolio investors (and align the turn to ESG criteria with SDG)

GISD Global Investors for Sustainable Development Alliance

Unleash partnerships, collaboration and innovation to fund the Goals

The scale of the challenge calls for reinvigorating public-private partnerships (PPPs) to a degree not experienced since World War II—and a degree that has perhaps never been seen in peacetime.

- But to unlock private financial flows, we need bespoke solutions for these countries: we need public private partnerships, pipelines of bankable projects, and new market structures, to facilitate commercially viable opportunities for sustainable investment.



2. ‘Development as derisking’ = budgetary time bombs

already….

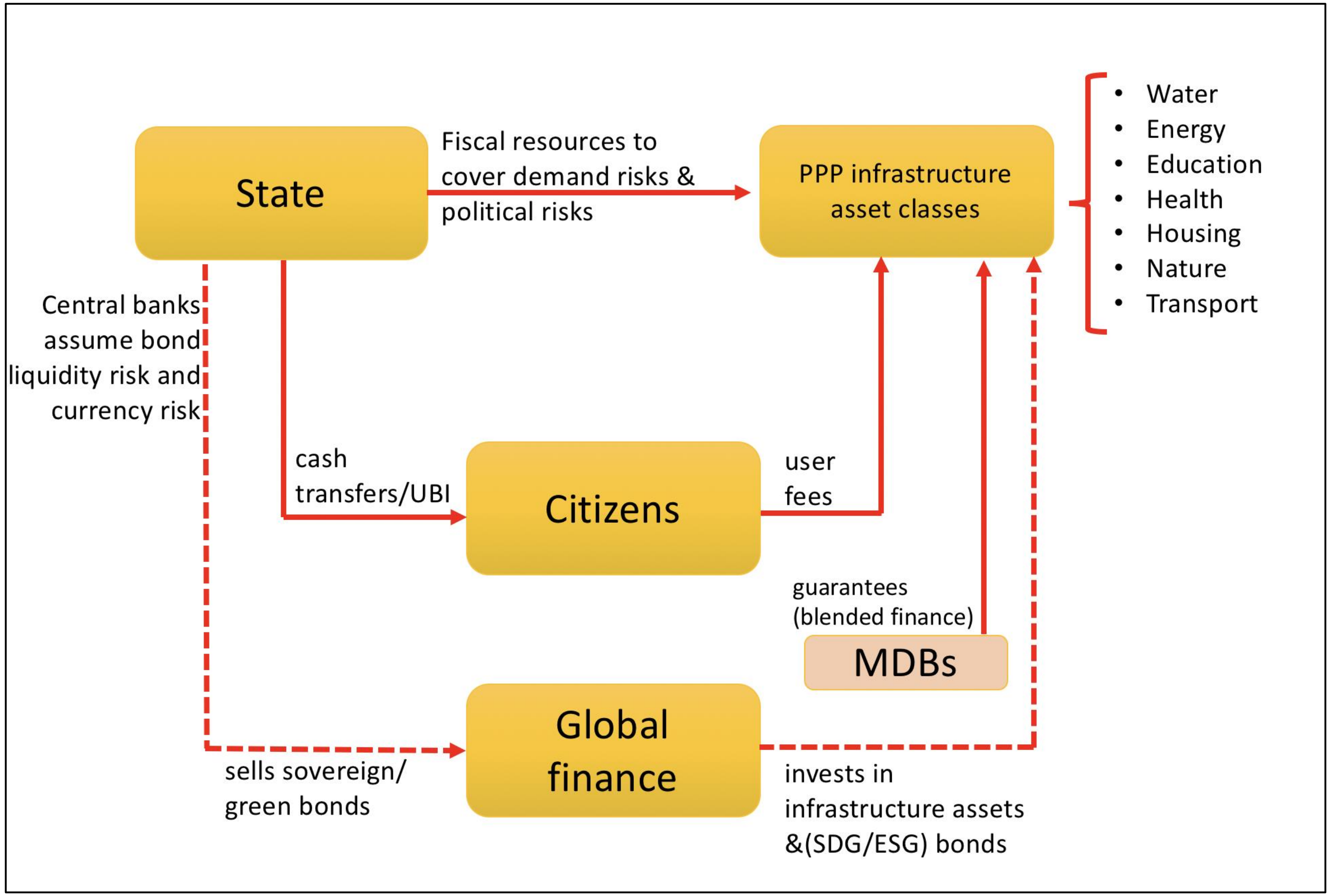
Ghana – paying ‘’about US$500 million annually for power generation capacity that it does not use’ (IMF, 2019a)

Senegal – ‘the dearth of information regarding the obligations taken on by the public sector in connection with PPP contracts contributes to the creation of significant fiscal risks’ (IMF, 2019b)

Nigeria – compensate Nigerian Azura Power Plant, the PPP ‘template for lighting up Africa’.

Kenya – IMF pressure to include PPP-related contingent liabilities into public debt (8% GDP)

amplified when climate risks = demand risks, given systemic greenwashing in ESG/SDG



3. Market-access solutions are not a silver bullet – the LSF proposal

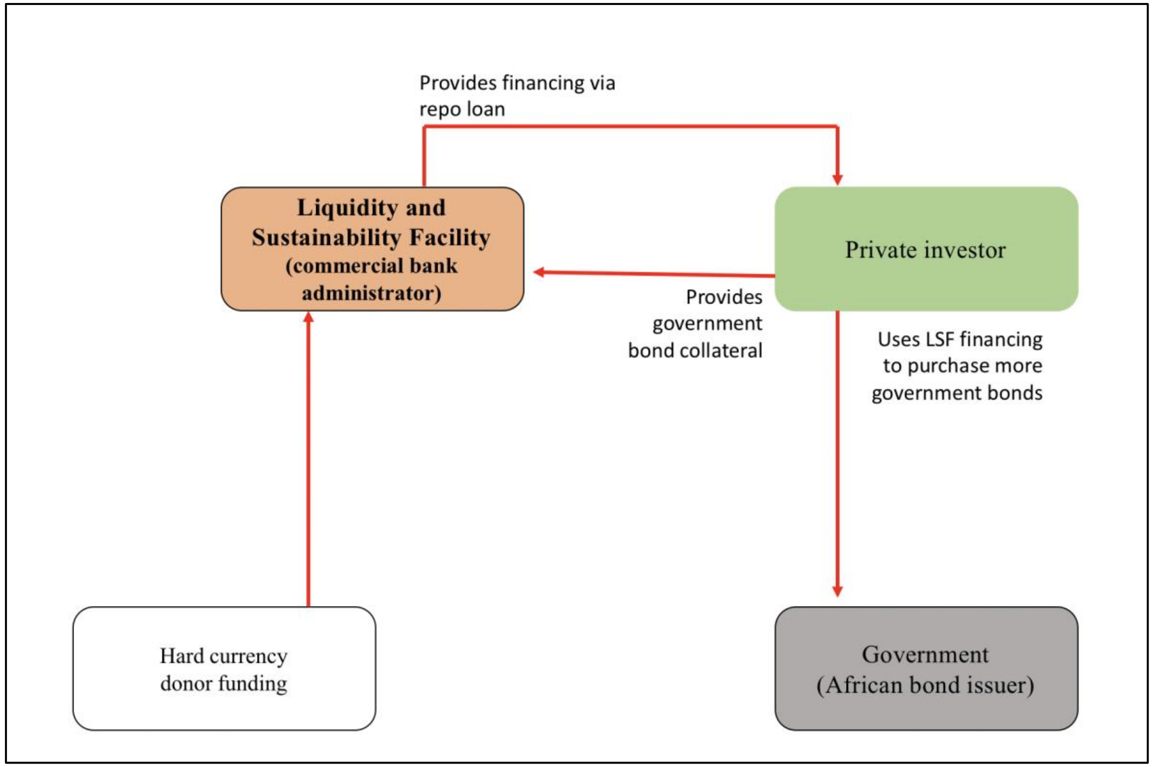
Proposition 1: For LSF subsidy to improve private creditors' appetite for African sovereign debt, the LSF needs to understand how sensitive investors' demand is to repo loan terms.

Proposition 2: A better understanding of collateral risk management is paramount to ensuring that the LSF does not worsen market access/shrink fiscal space for African countries.

Proposition 3: The LSF risks increasing African countries' vulnerability to foreign currency debt (Eurobonds).

Proposition 4: Decisions to change LSF haircuts may undermine monetary policy autonomy in African countries and create conflicts of interest for the private administrator/s.

Proposition 5: The DSSI negotiations throw into question the benefits of the public–private finance partnership for SDGs that the LSF promotes.



Beyond the status-quo

1. End unequal partnerships: regulate private finance (capital controls, mandatory DSSI participation), don’t partner with it.
   - bank-based not market-based financial systems – more systemically fragile.

2. Developmental not derisking state: public investment for low-carbon transitions
   - Uruguay-style caps on PPPs fiscal commiments
   - Only issuer of SDG bonds – the sovereign (public, not private sustainable taxonomies).

References

- Gabor, D. and N. Samba Sylla (2020) *Planting budgetary time bombs in Africa: the Macron Doctrine En Marche*. https://geopolitique.eu/en/2020/12/23/macron-doctrine-africa/

- Gabor, D. (2021) *The Liquidity and Sustainability Facility for African Sovereign Bonds: A Good ECA/PIMCO Idea Whose Time Has Come?* Report for NAWI Africa, Eurodad and Heinrich Boll Foundation.