

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

**Menu of Options
for the Considerations
of Ministers of Finance**

Part II

SEPTEMBER 2020

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External Finance, Remittances, Jobs and Inclusive Growth

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Discussion Group I: Executive Summary

The whole world is struggling with the impacts of Covid-19. The worst is yet to come. The international community must work together to overcome this crisis.

Reiterating our support for the Addis Ababa Action Agenda for FFD, the Sendai Framework for Disaster Risk Reduction, the Paris Agreement on Climate Change, and the 2030 Agenda, we, Bangladesh, Egypt, Japan and Spain, the co-leads of Discussion Group 1, embarked on the work of developing a menu of policy options for dealing with the impact of Covid-19 on external finance, remittances, jobs and inclusive growth.

An overarching consideration for our work has been the need to fully align all policy options with the SDGs, having people at the center to leave no one behind and to reach the furthest behind first. Alignment with the SDGs should be further promoted at all levels, especially at the local government and business level, and in all efforts to strengthen both private and public resource mobilization.

We are mindful of the need to base all policy choices on comprehensive, up-to-date, and accurate data on trends in development finance, in all its aspects. Capturing the trends of development finance and other forms of assistance, with an emphasis on drawing a transparent and data-driven picture of overall financial flows from all sources, is the first step to addressing

issues of development finance. In this regard, the creation of country-specific comprehensive databases of all flows geared towards development is our first recommendation.

We note that the implementation of the policy options is voluntary, and as appropriate to the national context, priorities and needs of each country, especially the small and vulnerable economies. There is no one-size-fits-all solution. We need to take into account particular vulnerabilities of each country, and place ownership and empowerment of recipient countries as basic principle of international cooperation.

In the following, we will address five issues: (1) Private investment and finance; (2) Public finance and investment; (3) Remittances; (4) Officially supported international resources, including ODA; and (5) Decent jobs and inclusive growth. For each of these issue areas, we provide a succinct summary of the key issues and policy options based on the rich collection of detailed policy action proposals from member states, international organizations, and other stakeholders. These are contained in the annex. Gateway and institutional contact information will allow countries interested in choosing any of the options to find further details and institutional back-up on the respective issue area.

1. Private investment and finance

Private flows occupy the largest portion of total financial flows into developing countries. Foreign direct investment (FDI) occupies about one third of external finance flows towards developing countries in the year 2019.¹ Global FDI flows and supply chains suffered from multiple shocks caused by Covid-19, with flows forecast to **decrease by up to 45% in developing economies.**² This impacted not only MNEs, but also millions of SME suppliers worldwide, particularly in developing countries. At the same time, **SDGs financing is scaling down** and at a slower pace (except for health). Reversing the decline of FDI, revitalizing global supply chains, overcoming disruptions, and building resilience at the time and beyond the crisis, requires immediate and mid- to long-term policy responses to promote trade and investment, support SME and social economy suppliers, and expand productive capacity for essential goods and services, particularly in the areas of food and health as well as other SDG sectors, especially in small and vulnerable economies.

Recommendations include, in the short-term, to:

1. Establish a global coordination and cooperation mechanism for joint trade and investment promotion for crisis-relief, economic recovery and sustainable reconstruction.
2. Mobilize all sustainability-themed funds, including pension funds, sovereign wealth funds, private equity funds and impact investment.

Recommendations in the mid-to long-term include to:

1. Develop solid institutional and regulatory frameworks with transparency, legal stability, and predictability, along with

modernized infrastructure for digital, physical, and institutional connectivity at regional and sub-regional levels.

2. Considering the transformation of GVCs and the changing trade-investment landscape, integrate regional value chain-based export expansion into strategic policy direction and strike a balance with from a GVC-driven, segment-targeted export orientation
3. Adapt investment promotion/facilitation to the new investment-development path.

Recommendations for promoting investment in the SDGs in developing countries include:

1. Mainstream the SDGs in national and international investment policy frameworks, re-orient investment promotion/ facilitation and establish regional SDG Investment Compacts
2. Foster new forms of partnerships and sustainability-themed financial instruments, including ESG investment, impact investment and blended finance instruments. Provide incentives for ESG investors, (e.g. tax benefits for certified sustainability).
3. Deepen SDG and ESG integration into capital markets and international direct investment through effective systemized mechanisms (e.g. the UN Sustainable Stock Exchange initiative) and a universal sustainability matrix.

Gateway information:

<https://unctad.org/en/pages/DIAE/DIAE.aspx> and <https://investmentpolicy.unctad.org/>; <https://www.greenclimate.fund/>

Institutional contact:

James Zhan, Director, DIAE-UNCTAD, at: james.zhan@unctad.org

¹ UNCTAD database on FDI and MNEs.

² See UNCTAD *World Investment Report 2020: International Production Beyond the Pandemic*, chapter 1.

2. Public finance and investment

Public finance rushed to the fore during the first months of the Covid-19 crisis as central banks, development banks and Export-Import banks provided urgent liquidity to rescue firms and households. Only governments provide this relief and public finance will also do the heavy lifting for the recovery and reconstruction needs ahead. Investment must be long-term, patient, catalytic and ideally on concessional terms – the basic mandate of public finance. Even before Covid-19, public finance provided around 90% of infrastructure investment in developing countries, and it can also be cheaper than other complex financial engineering instruments.

In the short-term, the following options could be considered:

1. Renew emergency public finance relief packages and expand cover to countries that were not able to provide sufficient relief themselves. Higher-income countries could offer support through public financial institutions in low income countries, including development and EXIM banks. QE policies by banks in advanced economies could be used to support relief efforts in developing countries, as could Perpetual Bonds.
2. Ensure QE and lower interest rates benefit low-income households and SMEs; avoid distorting effects on asset prices and spillovers to developing countries.
3. Rapidly boost public investment in urgently needed infrastructure, especially public water, even on a temporary infrastructure basis.

Longer-term options to be considered (some of which could also be enacted immediately):

1. Utilize finance for national, regional, and multilateral development banks; including through bringing in new members and access to international capital markets; supporting Green Bonds and Gender Bonds.
2. Increased collaboration between different public finance institutions, to further scale up finance and guide it more effectively; link finance better to the real economy; take into account national development goals at national, regional and multilateral development banks and even non-bank public finance institutions.
3. Revise the portfolio allocations and mandates of public banks, e.g., by easing development banks requirement to get ‘triple-A’ credit ratings and defining targets for “policy steering”, including to social infrastructure (health, education, and care), gender equality and climate change; allow banks to consider viability of projects by clusters rather than individually, to increase ‘bankability’, and over project life cycle not just construction; reform governance of heritage MFIs to align voting with economic weight.
4. Increase public bank effectiveness, including linking with SDG Localization processes and capacity development for local governments, SMEs and social economy organizations, encourage triangular as well as South-South cooperation to provide knowledge and experience as well as finance; revisit trade and investment treaties that constrain public banking.

Gateway information:

www.UNCTAD.org; in particular <https://unctad.org/en/pages/GDS/GDS.aspx>

Institutional contact:

Richard Kozul-Wright, Director, GDS-UNCTAD, at: richard.kozul-wright@unctad.org

3. Remittances

Remittances occupied around one fourth of external finance flows towards developing countries in the year 2019.³ Measures to contain the spread of Covid-19 are projected to result in a **20 per cent decline of remittance transfers**, leading to a loss of crucial finance for many poor households.⁴ Ensuring service continuity and helping spur the recovery and the resilience of one billion people (200 million migrants who send money home – half of them women – and their 800 million family members in low- and lower- middle-income countries, who rely on remittances) is a must.

1. *Short-term relief measures include:*

Declaring remittance services essential; further seeking reduction of remittance transfer costs; providing financial and policy support to eligible RSPs; gather and disseminate data on remittance market and families' needs; waive taxes on remittances transactions; promote public-private working groups; and incentivize use of digital remittance products both in sending and receiving countries.

2. *Remittance family measures are related to their financial support:*

Providing financial inclusion of remittance families in gender-sensitive financial and digital education programmes; and considering the contribution of migrant returnees back into local economies.

3. *Measures for more competitive and resilient remittance markets and an enabling environment involve in the short to medium term:*

Making information on costs of sending and receiving remittances accessible and transparent; reviewing the policy framework of payment systems to enable competition and innovation; and developing and encouraging emergency remittance-related savings, loans, and insurance. They also include international support measures for migrant workers to cope up with the COVID-19 job market and beyond, including through reskilling and reintegrating.

Gateway information: Remittance Community Task Force (<https://familyremittances.org/idfr-2020/the-remittance-community-task-force/>) and Call to Action: Remittances in Crisis: How to keep them flowing”

Institutional contact: Pedro De Vasconcelos, Manager, Sustainable Production, Market and Institutions Division, Strategy and Knowledge Department, IFAD, at: p.devasconcelos@ifad.org

4. Officially supported international resources, including ODA

Official Development Assistance occupied around one-tenth of external finance flows towards developing countries in the year 2019.⁵ ODA could decline by up to 8% in 2020 due to the economic crisis.⁶ In a context of scarce public resources exacerbated by the impact of Covid-19 there is a need to protect ODA levels and to enhance ODA quality, by optimizing ODA allocation and leverage capacity use, and ensuring the humanitarian-development-peace nexus. Official flows from bilateral and multilateral providers other than ODA have grown.,

3 <https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history>

4 Ibid.

5 <https://www.oecd.org/development/oecd-and-donor-countries-working-to-focus-development-efforts-on-covid-19-crisis-building-on-a-rise-in-official-aid-in-2019.htm>

6 Ibid.

including between developing countries. Covid-19 makes engaging all sources of international official support that duly respect international standards in a transparent manner and maximizing aid effectiveness ever more important.

Short-term policy options:

1. Identify and gather in one place access to respective funding mechanisms provided by various international organizations in response to the impacts of the Covid-19 pandemic.
2. Strengthen the role of ODA that supports institution-building for economic growth, stimulates domestic funds, leverages increased private financing, through building resilience, improving trade and investment environments, supporting productive capacity building, legislation, tax systems, vocational training, diversification and job creation.
3. Make every effort to meet the 0.7 ODA/GNI target, with a focus on LDCs by disbursing at least 0.15- 0.20 per cent of GNI on the most vulnerable countries, explore to expand access to concessional finance to countries most in need by revising access criteria to consider factors beyond per capita income (e.g. vulnerability), and better coordination and use of reverse graduation processes and exceptional/temporary support measures.
4. Support international public goods in response to Covid-19, especially for inclusive and accessible health.

Longer-term policy options:

1. Capture and exploit all sources and methods of official support: enhance availability and quality of data and information sharing, on all officially supported resources,

including through TOSSD. There is a need for better information on activities that promote macroeconomic and financial stability at regional and global levels to assess funding gaps and support needed.

2. Invest in quality infrastructure in accordance with international standards such as the “G20 Principles for Quality Infrastructure Investment” to address mid- to long term needs.
3. Promote the alignment of finance with the SDGs, particularly blended finance, and innovative financing.

Gateway information:

Organisation for Economic Cooperation and Development (OECD), in particular <http://www.oecd.org/dac/financing-sustainable-development/>

Institutional contact:

Haje Schütte, Senior Counsellor and Head of Division, Financing for Sustainable Development, OECD, at: Haje.SCHUTTE@oecd.org

5. Decent jobs and inclusive growth

The economic fall-out from the Covid-19 pandemic could reduce employment by up to 400 million full-time jobs, and negatively impact 1.6 billion informal workers.⁷ This unprecedented global job crisis requires large-scale and globally coordinated actions with strong financial support.

Short-term policy options:

1. Support jobs by providing strategic priority of public financing to policies/ programmes that can produce better jobs and income support outcomes, esp. for people in vulnerable situations.

⁷ ILO Monitor: Covid-19 and the world of work, 5th edition.

2. Scale up and extend social protection to the uncovered population and strengthen it for all, by large scale international support and policy coordination.
3. Provide targeted job and income support for workers in the informal economy.
4. Support firms and workers linked to global supply chains, including by immediately filling out the unmet gaps of 97% DFQF market access for products from LDCs.
5. Ensuring equal access to finance and economic opportunities, skills development and labour force participation for women during the Covid-19 pandemic and beyond.
5. Address supply chain disruptions through targeted international support; enhance technology support for product and market diversification for countries in need, including through the UN technology bank for LDCs; harness untapped potentials of regional trade in education and skills development, health, infrastructure, energy, ICT, etc.
6. Ensuring equal opportunities for women in policy options and financing strategies at all levels in the context of building back better.

Gateway information:

International Labour Organization (ILO), in particular <https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/lang--en/index.htm>; and <https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/regional-country/lang--en/index.htm>

Institutional contact:

Sangheon Lee, Director, Employment Policy Department, ILO, at: lees@ilo.org; Shahrashoub Razavi, Director, Social Protection Department, ILO, at: razavi@ilo.org.

Mid- and long-term policy options:

1. Consider a multilateral framework on universal social protection; prioritize the “100% Decent Work Initiative”.
2. Encourage UN member states to participate in the negotiation of the legally binding instrument on Business and Human Rights (the 3rd draft).
3. Mobilize national and global resources to extend social protection schemes for all workers and most people in vulnerable situations.
4. Provide technical, vocational education and training and apprenticeship schemes to informal workers; extend social protection coverage to them and other people in vulnerable situations; mobilize external finance to support their work and skills development.

Discussion Group I: Menu of Options

1. Private investment and finance
2. Public investment
3. Remittances
4. Official development assistance and other officially supported resources for the SDGs
5. Decent jobs and inclusive growth

1. Private investment and finance

A. FOREIGN DIRECT INVESTMENT AND GVC POLICIES

The COVID-19 crisis will cause a dramatic fall in foreign direct investment (FDI). Global FDI flows are forecast to decrease by up to 40 per cent in 2020, from their 2019 value of \$1.54 trillion. This would bring FDI below \$1 trillion for the first time since 2005. FDI is projected to decrease by a further 5 to 10 per cent in 2021 and to initiate a recovery in 2022. FDI flows to Africa are forecast to fall by 25 to 40 per cent in 2020. FDI flows to developing Asia are projected to fall by 30 to 45 per cent. FDI in Latin America and the Caribbean is expected to halve in 2020. FDI flows to economies in transition are expected to fall by 30 to 45 per cent. The outlook for FDI in structurally weak and vulnerable economies is extremely negative (up to - 50 %).

The crisis caused by the COVID-19 pandemic arrives on top of existing challenges to the system of international production arising from the new industrial revolution (NIR), growing economic nationalism and the sustainability imperative. These challenges were already reaching an inflection point; the pandemic looks set to tip the scales. The decade to 2030 is likely to prove a decade of transformation for international production.

Reversing the decline of FDI, revitalizing global supply chains, overcoming disruptions, and building resilience at the time and beyond the crisis, requires immediate and mid- to long-term policy responses to promote trade and investment, support SME and social economy suppliers, and expand productive capacity for essential goods and services, particularly in the areas of food and health as well as other SDG sectors, especially in small and vulnerable economies.

Recommendations include, in the short-term, to:

- (1) Establish a global coordination and cooperation mechanism for joint trade and investment promotion strategy for recovery and reconstruction.
- (2) Mobilize all sustainability-themed funds, including pension funds, sovereign wealth funds, private equity funds, and impact investments.

Recommendations in the mid-to long-term include to:

(1) Embark on a new investment-development path: Shifting strategic policy direction from a GVC-driven, segment-targeted export orientation towards RVC (regional value chain)-based export expansion, with domestic industrial clustering to build linkages and resilience. In following the new path, countries could consider balancing modern (open) industrial development policies (as stipulated in UNCTAD's [World Investment Report 2018: Investment and New Industrial Policies](#)) with built-in national economic security and resilience mechanisms.

(2) Develop a new ecosystem: Promoting a business environment attractive to new investment activities and conducive to technology dissemination and sustainable development. Important components of the new ecosystem should be the modernization of infrastructure for digital, physical, and institutional connectivity at regional and sub-regional levels as well as transparency, legal stability, and predictability.

(3) Build dynamic productive capacity: Shifting the focus from narrow specialization to the expansion of the manufacturing base. Strengthening industrial clustering (including cooperatives of micro and SMEs for scale and scope of production) and retooling SEZs and science parks are viable approaches that match with MNE regionalization and diversification strategies. Such approaches can also help low-income countries to foster a resilient and inclusive economy by crowding in domestic micro and SMEs and facilitating backward linkages.

(4) Formulate a new investment promotion strategy: Adapting investment promotion and facilitation to the new investment-development

path. This includes resetting priorities for investment promotion, targeting diverse investment activities and business functions, and facilitating green and digital investors, as well as impact investors, to promote investment in the SDGs. (See UNCTAD's [World Investment Report 2020: International Production Beyond the Pandemic](#); chapter IV, for an in-depth analysis).

B. INVESTING IN THE SDGS

UNCTAD first estimated investment requirements for the SDGs in 2014, identifying 10 relevant sectors (encompassing all 17 SDGs) and estimating an annual investment gap of in developing countries of \$2.5 trillion.⁸ Progress on investment in the SDGs – from all sources (domestic and international, public and private) – is now evident across six of the 10 SDG sectors: infrastructure, climate change mitigation, food and agriculture, health, telecommunication, and ecosystems and biodiversity. However, overall growth is falling well short of requirements. As the COVID-19 pandemic spreads around the world in 2020, it is becoming increasingly clear that its economic impact will be unprecedented and surpass that of the 2008 global financial crisis. While developed countries have the financial resources to enact unprecedented recovery and stimulus packages, developing countries do not have the capacity to manage the economic and fallout resulting from the crisis. With capital flight from developing countries happening at a swift pace and an economic recovery that is nowhere in sight, the impact on SDG financing and investment can be of unimaginable proportions.

1. Action plan for investing in the SDGs

As current trends confirm that the transition towards sustainable-development-oriented investment in developing economies is so far not

⁸ See UNCTAD, [World Investment Report 2014: Investing in the SDGs: An Action Plan](#), chapter IV.

happening at the necessary scale and pace, a big push to mobilize and channel investment towards the SDGs is urgently needed. Building on the six transformative actions proposed in its Investment Policy Framework for Sustainable Development, countries could consider UNCTAD's new Action Plan which combines several policy instruments to provide an implementation framework for the UN Secretary-General's Strategy for Financing the 2030 Agenda for Sustainable Development.

The Action Plan presents a range of policy options to respond to the investment mobilization, channelling and impact challenges faced especially by developing countries. Its transformative actions that can be considered include:

(1) Mainstreaming the SDGs in national investment policy frameworks and in the international investment treaty regime:

a) At the national level, a coherent and comprehensive road map for attracting investment into SDG sectors and ensuring it contributes to sustainable development should be an integral part of national strategies and development plans, including through the use of UNCTAD's [Investment Policy Framework for Sustainable Development \(IPFSD\)](#) and the Integrated National Financing Frameworks (INFFs).

b) This includes reviewing, updating and possibly lifting investment restrictions in line with national security and other public concerns.

c) At the international level, the SDGs should be a core objective when negotiating new international investment agreements (IIAs) and modernizing "old-generation" treaties.

(2) Re-orienting investment promotion and facilitation strategies toward SDG investment:

a) New investment promotion and facilitation policies and the revision of existing ones should be guided by sustainable development priorities, including based on [UNCTAD's Global Action Menu for Investment Facilitation](#).

b) Promotion policies should pay specific attention to those SDG sectors where individual countries see the biggest need for investment, and efficient monitoring systems should be in place to regularly assess the effectiveness of existing investment promotion schemes for sustainable development.

c) National, bilateral, regional, and international investment guarantees and insurance schemes should incorporate sustainable development priorities.

(3) Establishing regional SDG Investment Compacts:

a) Regional SDG investment compacts should be further pursued, based on the IPFSD's core principles for investment policymaking, which have provided the foundation for the G20 Guiding Principles for Global Investment Policymaking, among others, to set regional investment cooperation on an SDG-oriented path.

b) Regional and South-South economic cooperation should pay special attention to regional industrial policies ([World Investment Report 2018: Investment and New Industrial Policies](#)) and regional SDG SEZs ([World Investment Report 2019: Special economic Zones](#)).

(4) Fostering new forms of partnerships for SDG investment:

a) Bilateral, regional, and multilateral investment promotion partnerships should emphasize the development of investment-ready and ESG-aligned financial products and investment projects in developing countries, including through online pools of bankable SDG projects. Specifically, this includes:

- i. Facilitate close collaboration at domestic and international levels between project developers, national and local governments, multilateral and regional development banks, and private investors, including diaspora investors, to scale up long-term investment and address risks, including through public-private partnerships.
- ii. Develop scalable pipelines of investment-ready projects based on national strategies and planning.
- iii. Scale up support by the international community to help countries build the internal capacity necessary and have adequate resources to deliver cost-efficient, low-carbon and resilient investible projects.
- iv. Explore and scale up aspects of diaspora investment
- v. Enhance availability and quality of data, as well as information sharing, on competitive SDG investments. Emphasize and promote the various investment opportunities that are generated from countries moving towards sustainable economies.

b) SDG projects should include SDG-oriented linkages programmes with local suppliers.

c) SDG projects should include capacity building of local actors, including local administration, local MSMEs, and social economy actors.

d) Global initiatives such as the [Family Business for Sustainable Development Initiative \(FBSD\)](#) jointly developed by UNCTAD and The Family Business Network, should further mobilize firms to embed sustainability into their business strategies and serve as a model for galvanizing business uptake of support for the SDGs.

(5) Deepening ESG integration in financial markets by establishing a global monitoring mechanism with a harmonized approach to disclosure:

a) The deepening of ESG integration in financial markets should be boosted

i. by the widespread adoption of the [UNCTAD Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals, and the implementation of the UNCTAD Accounting Development Tool](#);

ii. by further strengthening the [UN's Sustainable Stock Exchange \(SSE\) Initiative](#) to assist stock exchanges worldwide to implement sustainable finance mechanisms,

iii. by establishing a global monitoring mechanism backed by a facilitation of comparability and consistency across different disclosures and taxonomies, and development of reliable evaluation and analysis to strengthen the transparency and credibility of sustainable financial products.

b) Sustainability can be fully integrated along the entire investment chain and across public and private markets, and more sustainability-themed capital market products dedicated to the SDGs could be developed. Specifically, this also includes:

i. Promote innovative financing vehicles, tools, and platforms, including blended finance structures where appropriate, to channel capital flows into sustainable investment opportunities, particularly in the areas of health, hygiene, and nutrition areas, and adaptable to different scale investment scenarios, regional, national, and local.

ii. Support the development of finance instruments that address the impact of COVID-19, such as innovative social and sustainability bonds, and facilitate their alignment with the SDGs

iii. Develop instruments and tools based on guarantee systems for private direct investment in developing countries and for the expansion of existing systems, including sound SDG-impact assessment procedures and ESG safeguards.

iv. Explore viable instruments for the coverage of interest rate or exchange rate risks in low income countries.

v. Promote alternatives to boost external financing in local currency.

vi. Develop and expand instruments for strengthening the capacity of public managers in low-income countries in the field of PPPs.

vii. Adapt incentive and rewarding schemes in MDBs, DFIs to prioritize SDG impact vs primarily high leverage.

viii. Reduce the cost of funding in IFIs depending on the SDG impact.

ix. Consider developing sustainable labelling systems to align financial flows towards investments in low emission, climate-resilient infrastructure.

(6) Contributing to changing the global business mindset:

a) The [UN Secretary-General's Global Investors for Sustainable Development Initiative](#) should be fully embraced by all MNEs and should accelerate its work on changing the global business mindset in line with the Secretary-General's strategy and road map for SDG financing.

b) Training programmes for SDG investment should be developed and widely adopted by institutions of higher learning (e.g. fund management/financial market certification).

c) Entrepreneurship training programmes based on, inter alia, UNCTAD's Entrepreneurship Policy Framework could be extended to reach people who are vulnerable, such as migrants, women and youth.

d) Corporate reporting and benchmarking on gender equality and diversity should be improved.

2. Pension funds and other institutional investors

With assets of nearly \$200 trillion under management, institutional investors, such as pension funds, *sovereign wealth funds (SWFs)*, *insurance companies and banks*, can be important financiers of the SDGs. *The long-term investment horizon adopted by many of these institutional investors also make them ideal investors in long-term development projects. However, their*

investments in SDG-related sectors or areas are still only a small part of their portfolios, with amounts invested in developing countries remaining negligible. The willingness to invest in good has not yet adequately translated into large-scale investments on the ground.

The market turbulence caused by the COVID-19 has resulted in unprecedented fluctuation in assets under management of institutional investors. For example, total assets of OECD pension funds are estimated to have fallen from \$32.3 trillion in 2019 to \$29.8 trillion (-8 per cent) in the first quarter of 2020. On the other hand, the pandemic has also exposed substantial material risks that can be posed by disasters associated with environmental degradation and has accelerated the ongoing trend towards sustainability-aligned investment by institutional investors

In order to fully tap into the potential of these institutional investors to finance the SDGs in the long term and to address the challenges posed by the pandemic in the short term, the following policy measures can be considered.

(1) Facilitate further integration of sustainability in the investment decision making of pension funds, SWFs, and other institutional investors, and encourage a transition from responsible investment to sustainability-dedicated investment that targets SDG-related sectors or themes.

- a) Create an enabling market environment for the development of sustainable finance by putting necessary market standards and benchmarks in place.
- b) Establish effective mechanism for disclosure by institutional investors on the SDG impact of their investments.

c) Provide appropriate fiscal or financial incentives to encourage pension funds and other institutional investors to invest in SDG-themed financial instruments or projects.

d) Make ESG and SDG performance (and, eventually, certification) as a requisite/criterion in national and international public tenders.

e) Enable SWFs to adopt more catalytic and developmental investment strategies.

f) Review and adjust fiduciary codes and investment restrictions to support long-term investment by pension funds in development projects through private market investment.

(2) Prepare readily available and bankable SDG projects or instruments targeting institutional investors.

a) Develop financial instruments that bundle smaller deals together to meet the scale required by institutional investors.

b) Expand the use of risk-sharing tools such as PPPs, investment insurance and blended financing to develop SDG projects with appropriate risk-return profiles required by long-term institutional investors.

(3) Strengthen international coordination to enhance the credibility of sustainability-oriented investments.

a) Further develop existing benchmarks, taxonomies and indicators that can be used to evaluate and eventually certify the sustainability of financial products and make them readily available for institutional investors. Such efforts will not only help address the “SDG washing” concern, but also enhance consistency and convergence of national or regional standards.

- b) Globally, establish a single comprehensive and robust global SDG standards management system that incorporates the elements of the ISO 26000 guidance on social responsibility for companies, development finance institutions and investors with mandatory reporting requirements and transparency to avoid “SDG-washing”.
- c) Consider developing more transparency and competition rules for “People-first PPPs” for the SDGs and blended finance instruments to level the playing field and avoiding crowding out private sector, including through measuring impact, harmonizing reporting on additionality, and ex ante transparency procedures (transparency of bidding processes, terms and conditions of finance, make grants part of the bidding process).
- d) Consider implementing, as appropriate, the UNECE “Guiding Principles on People-first PPPs” to set the institutional requirements for a new model of PPPs aligned with the SDGs.
- e) Consider a People-first-PPPs Initiative globally under the auspices of the UN regional Commissions to enhance the transition from traditional PPPs to People-first PPPs for the SDGs.
- f) Further develop a clear criterion for “sustainable FDI” and its measurement.

(4) Promote and facilitate more investment by institutional investors towards developing countries.

- a) Leverage the capital market to attract international institutional investment through the development of sustainable finance (such as green bond, social bond and SDG bond market) in developing countries.

- b) Enhance the capacity of developing country investment promotion agencies to target, promote and facilitate investment by non-traditional investors such as pension funds and sovereign wealth funds.
- c) Encourage partnership between local institutional investors, such as local SWFs, and international institutional investors, for example through establishment of joint funds, to facilitate investment in SDG sectors.
- d) Provide policy support to SWFs to better collaborate in South-South or triangular investment strategies.
- e) Increase collaboration between SWFs and national development banks, exploring synergies and possibilities for sharing finance, skills, and capacities.

(3) ESG investment, impact investment and blended finance

Sustainable finance (including ESG investment, impact investment and blended finance) has seen a surge during the pandemic as investors take greater interest in non-financial factors. The pandemic has, for example, expedited the issuance of bonds focused on relief issues and SDG 3 (Good health and wellbeing) as well as other SDGs, reaching a total value of \$55 billion by mid-April 2020 – already surpassing the value of all social bonds issued in 2019. This includes two of the largest dollar-denominated social bond transactions in international capital markets to date: the issuances of a \$3 billion African Development Bank bond and an \$8 billion World Bank bond.

However, while blended finance has grown rapidly, the evidence on its development impact is less robust. Most blended finance goes to MICs, motivated by the size and ease of

transactions, with only a small proportion going to LDCs, in part because blended finance is not appropriate for all investment or activities.

Policy options that contribute to a more stable and resilient financial system that better supports the SDGs and assists with the COVID-19 'building-back-better' recovery include:

ESG Financing instruments

(1) Support the development of financial instruments that address the impact of COVID-19, such as innovative social and sustainability bonds, diaspora/migrant financial products, and facilitate their alignment with the SDGs.

(2) Promote technical cooperation and capacity building to increase domestic and international resource mobilization via SDG-aligned domestic and international financial products.

(3) Provide incentives for ESG investors, such as tax benefits for certified sustainability or SDG themed financial products (e.g. green bonds, social bonds).

(4) Promote gender lens investing and gender bonds via a range of investment vehicles in private and public markets, including debt, bonds, index funds, exchange-traded funds, and exchange-traded notes, venture capital and private equity. Use gender lens investing to promote the advancement of gender equality while generating financial returns through investing in (a) women-led or -owned businesses (b) companies supporting gender equality in the workplace and (c) companies developing products/services that impact women's quality of living.

Blended finance and PPPs

(5) Develop more transparency and competition rules for SDG-oriented PPPs and blended finance instruments to level the playing field and avoiding crowding out private sector.

(6) Support capacity development efforts in the area of blended finance to facilitate a switch from a primary focus on bankability to a greater focus on impact, based on country needs and ownership, with a judicious use of blending in circumstances where it is determined to be the best suited tool. This capacity development can help countries identify and apply appropriate instruments (IATF 2020).

(7) Capitalize on blended finance, including through national development banks and other local financial actors such as local pension funds, with a focus on reinforcing country ownership and strengthening sustainable development impact, particularly on disadvantaged population groups. This should be based on a judicious use of blending in circumstances where determined to be the best suited tool. Capacity development towards these efforts can help countries identify and apply instruments, in line with national financing plans.

(8) Call for innovative finance for sustainable development. This could also include objectives for innovative tools such as blended finance (only 6% going to LDCs), new green/blue/SDG bonds, risk sharing, and other mechanisms.

(9) Support the development of an innovative blended finance instrument that provides a continuum of concessional and private finance to fill the "missing middle income gap", along the different stages of SME development in LDCs. This financing instrument can be complemented with business advisory support to help prepare a pipeline of bankable SDG-positive growth SMEs in LDCs (see *UNCDF policy option proposal for development of pipeline of investable SMEs*).

(10) Support the development of a blended social bond to support a network of micro-finance institutions to facilitate financial inclusion for micro-enterprises in selected

countries. To be developed in collaboration with MDBs, private asset management companies and private investors.

Safeguards and best practices

(11) Ensure best practices when using public finance to catalyse private finance for financing development: Mechanisms can take into account, among others, the OECD DAC Blended Finance Principles. Forthcoming OECD Guidance will help donors implement the OECD DAC Blended Finance Principles.

(12) Ensure that the use of public funds in blended finance to leverage and de-risk private investments does not contribute to debt crises or overly burden the public finances of recipient countries.

(13) Ensure that blended finance does not contribute to a decline in country programmable aid and increase the debt burden of developing countries.

(14) Promote efforts to strengthen the measuring, tracking, and assessing of development results from blended finance projects.

(15) Promote efforts to strengthen developing countries' capacities to regulate, manage and monitor blended finance projects.

Enabling environment

(16) Strengthen institutional and regulatory frameworks to build a conducive enabling environment for sustainable investments as an important driver of inclusive growth and job creation, including transparency, legal stability, and predictability.

(17) Strengthen corporate sustainability-related disclosures with ESG reporting requirements: Enhance availability and quality of data on environmental and social impacts.

(18) Clarify investor duties on sustainability: Guide investors on the integration of sustainability into their decisions and enhance the possibility for investment funds to invest in SMEs in developing countries.

(19) Strengthen corporate governance to support sustainability: Introduce board responsibilities related to environmental and social factors.

(20) Build market capacity and expertise on sustainability: Facilitate the training of market participants on sustainability topics.

2. Public investment

In the immediate months of Covid-19 lockdown and social distancing, public banks and public investment took the lead role and will likely continue to do the heavy lifting in the recovery and reconstruction phase, because public banks and public investors are mandated to provide the long-term, patient, and catalytic finance that is required. Even before Coronavirus, the public sector accounted for around 90% of infrastructure investment spending in developing countries and this will not change in the more demanding circumstances of a post-COVID world, especially in sectors or regions of the world that have historically found it difficult to attract private finance. Also, while financial engineering can potentially be used to create instruments that attract private investment even in these cases, it can be cheaper to use public finance. Technical support can help developing countries determine the most cost-effective capital structure and build institutional capacity for project planning, preparation and negotiation (FfD report 2020). Also, while scaling up finance is essential, 'soft' support is also needed in terms of infrastructure planning and institutional capacity building.

With this in mind, the following options could be considered:

(1) Scaling up the finance available to multilateral, regional and national development banks and other development finance institutions so that they can better support national country needs and regional projects. Policies to achieve this include increased capitalization of banks by their government shareholders, so they can expand their loans, including by an injection of funds from country or regional SWFs; or by adding new shareholders (including but not only for LDC banks).

(2) Focus on financing (instead of or as well as capitalization), to ensure funds are targeted to where the needs and risks are greatest.

(3) Enable banks to use the finances they have more effectively by releasing public and development banks from the 'triple-A' ratings straitjacket that most are bound by, so they can invest in more developmental projects or to increase their gearing ratios in order to borrow more for on-lending.

(4) Signal wholehearted support on the part of government owners because perceived political support will help banks to access international capital markets more readily, and at cheaper rates, as well as encouraging them to fulfil their mandated developmental lending. At present, many banks do not feel able to lend to their full capacity. Even the credit ratings agencies have noted that lending could be higher by \$1 trillion without affecting credit ratings.

(5) Allow central banks to be more developmental in the way they create and guide capital; move away from a single-minded focus on inflation targeting and allow for other objectives including employment or economic growth. This is already happening in many places and banks have more policy space existing for this than is often assumed (UNCTAD2019).

(6) Support country efforts to maintain different kinds of institutions in the development finance landscape, with distinctive and diverse roles and avoiding duplication or cherry picking. This includes regulating concentration and encouraging not only national and regional development banks, for example, but also non-banks that help banks through providing implementation skills, creating jobs, or strengthening the financial landscape. Ideally this would be regulated from the top by the Central Bank.

(7) Acknowledge the ground-breaking role that has been played by South-South financial institutions and banks over the last decade – these now dwarf the historical Bretton Woods DFIs in terms of lending, for example. High income countries could give a bigger share of their ODA to help support them; or offer triangular cooperation benefits including soft capital skills and expertise as well as capital.

(8) Creating platforms at the national level to help co-ordinate the different DFIs; also to enable more effective interaction between international and national public finance institutions. Such platforms would also serve as vehicles for coordination among development cooperation providers in a framework fully owned by recipient countries at national level through the creation of platforms

(9) Redesign performance metrics and targets to clearly align the incentives for development banks to lend to projects that are truly development oriented. Concerns for financial viability should not undermine their ability to lend to projects or areas where developmental returns are high even if financial returns are low. This could be helped by targets for the proportion of lending to green infrastructure or transformation to greener modes of production; lending to the care economy and activities that will benefit women and girls; social and

developmental projects (health, education, gender equality); also a defined proportion of lending to be on concessional terms.

(10) Connect SDG Localisation processes promoted at subnational, territorial, and local levels, including cities and the urban-rural linkages, as SDG investment opportunities: local development roadmaps, public-private innovate collaboration and arising new investment portfolios at a local scale. Specifically:

a) Establish a “Localizing the SDGs” Global Strategy Hub, in support of the Local 2030 Initiative, to facilitate SDG localisation processes, oriented to attract long term sustainable investment into territories, focused on four key areas:

i. Capacity development for local actors to be able to develop robust long-term SDG local plans and policies and ensure multilevel coherence and multi-stakeholder collaboration, capacity building for local business SME sector to integrate SDG in the business models.

ii. Scale-up Local SDG Strategies: Multi-stakeholder long term local SDG plans and policies and local integrated financing frameworks (L-INFFS).

iii. Create capacities for data generation from all public and private stakeholders to allow better risk analysis, returns and impacts expected, in line with the Subgroup of Interagency Task Force led by UNEP and ILO on SDG 12.6 to provide private and public data and build a common taxonomy that help investment analysis and trigger investment decisions;

iv. Connect Local SDG plans to FFD and investors, connecting policies and concrete projects with the sustainability and impact investment industry.

b) Establish an SDG Localisation Fund linked to the Joint UN SDG Fund with two branches: 1) grants window, aimed at capacity building to localize the SDGs; and 2) loans, blending and guarantee facility.

(11) Sovereign gender bonds issued by public banks that support government loans to women-led or -owned companies; also green bonds. Consider the creation of a global green public finance fund, and a global gender public finance fund.

(12) Prioritize public investments in social infrastructure (including public health, early education, child- and longer-term care) as these have longer-term development dividends, including supporting a more gender equitable and inclusive growth process.

(13) New and more developmental forms of credit rating, especially for developing countries and banks, and climate change. Creation of publicly owned credit rating agencies, so that agencies are not both market evaluators and market players as at present.

(14) Revisit constraints on policy space in trade and investment treaties for public banking.

(15) Conduct a review of the capital adequacy of development banks by an external agency with specialist knowledge of development finance institutions as compared to ‘ordinary’ banks, eg BIS.

(16) Revisit international banking regulations and their impacts on developing country public banks, which need a different metric from other banks.

- (17) Seek a more integrated approach between public financial institutions and regional capital markets; also between financial policy and industrial policy (UNCTAD Report 2019, chapter 6, and pages 20-26).
- (18) Support governments in linking public projects with SDGs and in maintaining a SDG-impact-based monitoring and evaluation system.
- (19) The heritage multilateral public banks need increased capitalization, but more importantly they also need governance structures that more fully reflect today's global political economy. Voting rights should reflect economic weight in the global economy.
- (20) The World Bank in particular, should conduct developmental audits at all stages of the lifecycle in projects they support, not just the construction phase.
- (21) The IMF should offer concrete low-cost hedging mechanisms for governments of developing countries to manage exchange-rate risks coming from international shocks, averting the boom-bust financial cycles of recent decades, and putting the global economy on a sustainable path. Austerity packages should not be part of the conditions for support. The Board of the Fund should also revisit governance and voting systems to more appropriately reflect today's world economic realities.
- (22) Support for South-South and regional foreign exchange reserve funds can further help to ensure a global financial safety net is more equitably provided for all countries.

3. Remittances

Remittance flows are expected to drop by about \$100 billion in 2020, or roughly 20 percent from their 2019 level, the sharpest fall registered.

Unlike previous shocks, the economic impact and scale of the Covid-19 is simultaneously affecting remittances sending and receiving countries. The decrease in flows threatens decades of progress made towards the achievement of the SDGs, including poverty reduction, income equality, nutrition, health, and education.

Migrant workers are among the most directly affected by the economic fallout of this crisis, as employment and wages for this segment have plummeted. With limited access to unemployment benefits, many migrants are unable to continue sending money to support family members in home countries or have been forced to deplete their savings to continue sending remittances. Overall, one billion people – half of them women -- who send money and their 800 million family members in low and middle-income countries (LMICs) have been impacted by the crisis.

The continuity of remittance services has been severely impacted. Even if certain providers were able to continue providing remittance transfer services, many non-bank remittance service providers in sending and receiving countries were not deemed to be "essential" by several governments.

Despite slight reduction in costs in the past years, the global average cost of sending \$200 remains high at 6.8 percent in the first quarter of 2020. This has a large impact on receiving families, as each percentage point in transaction costs deprives them of about \$5.5 billion per year. Remittances represent an average (for urban and rural families) of 60 per cent of recipients' family income, and more than double its disposable income. SDG Target 10.c and Addis Ababa Action Agenda set the following target on remittances: 'By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5

per cent.’ The G20 also committed to reducing the cost of sending international remittances and aligned its work with the 2030 Agenda.

Impact of volumes and pricing. For the vast majority of RSPs the immediate impact of the crisis was to see a reduction in remittance volumes. For cash-based businesses the decline was by around 60 percent, whilst for digital-only providers the fall was either significantly lower or they actually saw an increase.

Among the factors accounting for the high costs of transfers in some corridors are the cost of compliance with anti-money laundering and countering the financing of terrorism (AML/CFT) regulations, as well as the decline in correspondent banking relationships in some countries.

Several initiatives have coordinated responses for resilience and recovery of the remittance market directed to member states, service providers and diaspora groups, aiming at maintaining the flow of fast, cheap and safe remittances during the post-COVID-19 crisis, as follows:

- March 24, 2020: the [Remittance Community Task Force \(RCTF\)](#) was launched by the Global Forum on Remittances, Investment and Development (GFRID) 2020 co-organizers: the International Fund for Agricultural Development (IFAD), the African Union (AU) and the World Bank Group. To date, [39 organizations](#) have joined the RCTF, including international organizations, inter-governmental bodies, industry and private sector groups, diaspora networks and international experts on remittances. The RCTF includes a reference group of government representatives and national development agencies. As of July 2020 and towards providing the Financing for Development process in the area of remittances, the RCTF has been mobilized towards delivering a comprehensive set of

measures and respective actions presented in this policy option document. Several participating bodies involved in the DG1, such as IOM, ESCAP as well as Switzerland, UK are active members of the RCTF and key contributors to its outputs herewith.

- 1 April 2020: [Financial Action Task Force \(FATF\)](#) called for the continued implementation of the FATF Standards to facilitate integrity and security of the global payments system during and after the pandemic through legitimate and transparent channels with appropriate levels of risk-based due diligence.
- 3 April 2020: [World Bank Call to Action](#) outlined a set of actions to support the remittance sector over the near and the medium terms, to accelerate efforts to reduce remittance costs and to respond to the challenges of widespread unemployment and the plight of migrant communities in host countries.
- 22 May 2020: Call to Action “[Remittances in Crisis: How to Keep them Flowing](#)”, issued by Switzerland and the United Kingdom, with the support of the World Bank (KNOMAD), UNCDF, IOM, UNDP, IAMTN, and ICC. Several states and entities signed up since.
- A non-paper submitted by the European Commission to the G-20’s Global Partnership on Financial Inclusion (GPI) proposing to include a coordinated response to the impact of COVID-19 on remittances in the work programme of this group.
- 28 May 2020: A [High-Level Event on Financing for Development in the Era of COVID-19 and Beyond](#), by the United Nations Secretary-General, the Prime Minister of Canada, and the Prime Minister of Jamaica, identified key areas of action to reposition the UN Financing for Development Framework in the context of pandemic-related crisis. Proposals for concrete

action were presented at the ministerial meeting to be held during the High-level Political Forum on Sustainable Development (HLPF) on 14-16 July, Ministerial with continued actions leading up to the UN General Assembly sessions in September and December 2020.

Overall, International support is required for managing the fall in remittances through creative policies and financial tools, including through public and private funding and job creation.

Mindful of these already ongoing international processes to deal with the impact of Covid-19 on remittances⁹, the measures below could be considered.

A. IMMEDIATE RELIEF MEASURES

(1) Declare remittance services as essential services

a) Essential status should be extended by public authorities across all types of remittance service providers (RSPs), banking and non-banking financial institutions and their networks of agents.

(2) Consider extending financial relief measures to eligible RSPs to assist with crisis-induced credit and liquidity risks

a) Identify senders and receivers who would be impacted by the failure of the businesses

b) Identify service providers who are impacted

c) Develop appropriate solutions, including eligibility criteria for RSPs to receive emergency financial support. The criteria could include indicators such as sustainability levels prior to the crisis, the ability to

extend services to key target groups and sectors, or operators with their capital tied up in pre-funded correspondent accounts.

d) Consider a range of financial instruments including grants, credit lines with flexible repayments or tax relief schemes, among others.

(3) Consider the revision of transaction and balance with a view to making them permanent at a later stage based on risk outcome during Covid-19, in line with the recent 2019/2020 guidance by FATF on digital identity and the use of digital platforms

a) Pre-pandemic/phase 2, conduct a risk-based (RBA) review of transaction and balance limits

b) Learn from experience of other countries that reduced transaction and balance limits already

c) Identify if there is room to adjust limits and conduct an impact assessment

d) Depending on results then determine whether to make changes

e) Set specific timelines for the transaction limits introduced in response to the pandemic, review monthly and as soon as situation normalizes.

f) Conduct a robust RBA review

(4) Strengthen efforts that support the global commitment of reducing the costs of remittances to reflect new economic realities since the onset of crisis

a) Most of the actions are those outlined in objective 20 of the Global Compact for Safe, Orderly and Regular Migration (GCM)

⁹ Contributions on diasporas and diáspora investments are not included in this topic.

- b) In the short term consider subsidising transactions or providing relief/support to businesses in exchange for them offering reduced/zero fees
 - c) Improve and encourage the access to digital payments
 - d) Support currency exchange mechanisms that can simplify the value chain and reduce the costs/increase sustainability of these services (foreign exchange markets, regulatory guidance and coordination between sending and receiving countries); coordinated efforts at country-level to disentangle value chains
- (5) Collaborate in host and home countries to gather data on the needs of remittance families and disseminate information that would enable them to make informed choices about the use of remittances and remittances-linked services
- a) Develop secure portal(s) to provide reliable, trusted and regular information to senders and receivers of remittances
 - b) Support diaspora and migrant organizations with targeted campaigns sensitizing their members on safe alternatives for money transfers to make pricing and routing decisions
 - c) Liaise with diaspora organizations to collect primary information on the needs of diaspora members, especially on financial literacy and digital literacy.
 - d) Establish regular communication channels between home and host country governments and diasporas to: (i) ensure safety measures and adopt emergency protocols; and to (ii) facilitate remittance flows during times of crisis.
- (6) Institute waiver of taxes on remittances transactions
- a) Remittance taxation should be waived or lowered as an emergency response.
- (7) Promote current or new public-private working groups at the national level (similar to the RCTF) to improve awareness and preparedness
- a) Share information on remittance market trends and customer needs
 - b) Identify any needs to change existing laws or regulations to facilitate the continuity of services to remittance families
 - c) Encourage the development of new products and/or other improvements in access, lower costs and awareness of new products that are available. This should have a view toward coordination on the sequencing of actions in the switch to digital modalities
- (8) Develop COVID-19 business continuity plans while ensuring safety of staff and customers
- a) Regularly test that the business can be run from any location with access to secure internet
 - b) Ensure chain of command cover plan in case of team members become incapacitated
 - c) Consider the safety and security of staff and agents in contingency plans
 - d) Ensure the channels for regular communication such as teleworking are available
 - e) Consider the need to close-down and sanitize a location, and full re-staffing when branch/office staff members become quarantined

(9) Incentivize the switch to and use of existing digital remittance products through targeted, time-bound offers, supported by full transparency in fees and foreign exchange margins for the customer

a) Incentives may include waiving fees, tax incentives for RSPs for a specific period of time or specific corridor, as well as discounts on digital channels.

b) Explore changes to KYC requirements, including authorising eKYC procedures

B. REMITTANCE FAMILY MEASURES

(10) Provide financial support to remittance-receiving families

a) Develop financing programs for urban/rural households who have lost their income/support and cannot invest in income-generating activities.

b) Develop guarantee schemes for financial institutions supporting business development and job creation, including regular remittance recipients

(11) Create programs that contribute to incorporate migrant returnees back into local economies

a) Identify new skills brought by returnees that can be employed in local economies

b) Provide financial and non-financial support to returnees

c) Refinance loans of migrants and returnees who have incurred in debt to pay for migration expenses

(12) Rely on RSPs payment network and expertise to deliver urgent services, such as humanitarian aid

a) Consider promoting for-purpose remittances that enable migrant workers to transfer essential non-financial products through RSPs, such as food or medicine, groceries, agriculture raw materials, directly to their families in home countries.

b) Enable home delivery of cash transfer services by agents, subject to required safety and standard operating procedures.

C. MARKETS AND ENABLING ENVIRONMENT

General Principle 1: Transparency and Consumer Protection

(13) Make information on costs of sending and receiving remittances easily accessible and in understandable forms

a) Strengthen and/or improve disclosure requirements on RSPs to increase price transparency in the remittance market.

b) As much as possible, information should include the amount that the receiver will get in the receiver's currency, the total cost (e.g. fees at both ends, foreign exchange rates including the margins applied on them, and other costs to the user), the time it will take the funds to reach the receiver, and the locations of the RSP's access points in both sending and receiving countries.

c) Develop (or use existing) portals to disseminate information and promote awareness

(14) Support immediate inclusion of remittance families in gender-sensitive financial and digital education programmes in both sending and receiving countries

a) Include specific remittance modules in national financial literacy programmes and strategies

- b) Include module on using licensed and legal vs unlicensed and illegal operators (and how to identify them) to protect and support inclusion
 - c) Identify the critical teachable moments that the RSP or digital portal can use to deliver the appropriate guidance to the sender/recipient
 - d) Promote awareness of unregulated remittance transfer risks, how to identify them and alternative solutions for consumers in appropriate language
 - e) Include web-based educational tools to encourage the use of digital services, such as “how-to” videos on sending and receiving digital transfers, through social media, TV and radio programs.
 - f) Provide easy to understand and transparent information about service cost, including fees and foreign exchange mark-ups.
- (15) Promote the collection and dissemination of national data on the remittance market to improve resilience in times of crisis
- a) Introduce automated data collection processes to obtain data from RSPs. Standardised data reporting and consolidation approaches should be considered
 - b) Strengthen the collection of demand-side data of the remittance market (e.g. changing needs and behaviour of remittance families) as well as the supply-side (e.g. volumes, costs, methods used to transfer, new players, new business models), and incorporate it into existing regular National Surveys. Use/develop digital based data collection tools. Results should be disaggregated by corridor
 - c) Where possible, disaggregate data by gender and by rural and urban locations to assess gender gaps and to better inform reaction of local markets.
 - d) Ensure data is publicly available on the regulator’s site, or other appropriate location, in a variety of formats and in languages understood by migrants. If a centralized ‘home platform’ on remittances is available, it could promote cross-sector collaboration.
- General Principle 2:
Payment System Infrastructure**
- (16) Encourage use of digital channels for sending and receiving remittances and meeting their other payment needs
- a) Public authorities should encourage digital payment instruments for sending and receiving international remittances where feasible.
 - b) Promotion of domestic retail or regional payment systems and hubs that enhance interoperability and fast payment services.
 - c) Allow remittance service providers access to domestic retail or regional payment systems and hubs to enable digital means of sending and receiving remittances.
 - d) Utilise government payments to help accelerate adoption
 - e) Help accelerate partnerships (especially with regulatory approvals) with service providers in poor and remote areas such as rural finance institutions and postal networks.
- (17) Review and eliminate unnecessary stringencies in customer due diligence (CDD) regimes, and contemplate simplified CDD

mechanisms, for transactions and account opening, enabling remote identification without lowering existing AML/CFT standards

a) Propose alternative forms of identification proofing, replacing higher risk and less accessible paper documents with more robust modalities that are accessible for migrant workers and rural remittance-receiving families, such as SIM card registration documents, biometrics or image/voice recognition systems, among others, provided that these do not lower existing standards.

b) Consider FATF guidance on remote CDD, along with delayed verification, where allowed. Agent-based CDD should be encouraged to facilitate access in rural areas, where the principal remains responsible

c) Where remote, non-face-to-face identity proofing is not possible provide guidance on provide guidance on legitimate rationale for lack of customer information disclosure resulting from confinement or health-related issues.

d) Encourage use of non-face-to-face customer-identification and transactions based on reliable, independent digital ID systems with appropriate risk mitigation measures in place, in line with FATF's guidance on digital ID where applicable.

e) Facilitate the development of digital identity proofing solutions e-KYC solutions [consider the possibility of harmonizing CDD policy approaches to remittance services, especially for countries in trading blocks (e.g. SADC, UEMOA) and countries that have high-volume corridors.]

General Principle 3: Market Structure and Competition

(18) Enable easier entry of new business models, new entrants, and existing RSPs to the remittances market

a) Fast-track license applications for services that can help address the key issues related to the crisis.

b) Registering and licensing procedures, minimum capital and trading history requirements should be proportionate to the risk posed and the type of services provided.

c) Defined and transparent approval processes should be developed and communicated, for examples a regulating for innovation test and learn process to speed up the testing and deployment of new solutions.

(19) Ensure access criteria to domestic or regional payment systems infrastructure for non-bank remittance service providers¹⁰ that is fair, transparent, and risk-based

a) Where appropriate, create licences for non-bank RSPs to access payment systems directly to enable a level playing field and increase competition

b) Consider sponsor-bank regulations and specified criteria to enable access to local and international settlement for smaller institutions.

c) Enable access to payment systems by service aggregation platforms/ operators and hubbed processing/ operational facilities for RSPs to scale quicker without incurring disproportional operational and regulatory costs.

¹⁰ Non-bank RSPs refer to money transfer operators (MTOs), mobile money service providers, FinTechs and certain postal operators.

(20) Develop and encourage emergency remittance-related savings, loans and insurance

a) Promote the development of customized products to meet remittance recipient needs, such as emergency savings and remittance-linked insurance products offered by financial institutions (microfinance institutions, cooperatives, local banks)

b) Enable the linking of e-money or other remittance-recipient accounts with FSP savings accounts to enable seamless transfers between instruments

General Principle 4: Governance and risk management

(21) Provide additional guidance to banks on compliance requirements, including for RSPs as account holders, to assess exposure to money laundering and terrorist financing risks in order to create greater availability of banking services to RSPs

a) Public authorities should support RSPs' efforts to secure access to banking services, provided that RSPs comply with international risk mitigation standards set out by FATF.

b) These requirements should be tailored to country context and encourage dialogue between RSPs and their correspondent banks to resolve issues, such as a potential limitation to open an account and other negative "derisking" practices by financial institutions.

c) Direct action should be taken by governments where dialogue does not resolve the situation and severe service reductions could result

d) Promote a risk-based approach for correspondent banking services and hold correspondent banks accountable in cases of inappropriate, non-evidence based derisking decisions.

e) Separate compliance risk from AML/CFT risk and consider harmonising guidance in both sending and receiving market in order to reduce conflicting guidance/compliance requirements that lead to overly conservative approaches by correspondent banks.

4. Official development assistance and other officially supported resources for the SDGs

Given DAC members' own budget pressure in 2020, the overall level of ODA could decline in 2020. The OECD calculates that if DAC members were to keep the same ODA to GNI ratios as in 2019, total ODA could decline by USD 11 billion to USD 14 billion, depending on a single- or double-hit recession scenario on member countries' GDP.

Short-term: Mitigating the Covid-19 fall-out:

(1) ODA providers should make every effort to meet the 0.7 ODA/GNI target, with a focus on LDCs by disbursing at least 0.15- 0.20 per cent of GNI on the most vulnerable countries, explore to expand access to concessional finance to countries most in need by revising access criteria to consider factors beyond per capita income (e.g. vulnerability), and better coordination and use of reverse graduation processes and

(2) Capitalize on the DAC committed to strive to protect ODA levels, that have proved to be recession-proof in the past, including during the 2008 financial crisis, and implement the Addis holistic approach optimizing ODA allocation and mobilizing other sources of financing. Take into consideration the specific needs of countries in different contexts and stages of development through the transition finance approach and available tools that articulate with the INFFs.

(3) A proposition could be made to create a transition club in the DAC to ensure proper management of key transition milestones, including graduation for ODA, and avoid transition finance gaps as well as ensure peer-to-peer learning and experience sharing as well as monitoring of performance after graduation.

(4) Strengthen the role of ODA in DRM, PFM, and tax reforms that would support domestic resources and capacity building. Experiences like Tax Inspectors without Borders (OECD-UNDP), BEPS show the significant potential of measures pertaining to tax avoidance, tax evasion and other IFFs.

(5) Identify and gather in one place the access points to respective funding mechanisms provided by various international organizations in response to the impacts of the COVID-19 pandemic.

Medium to long-term: Building back better:

(1) Capture and exploit all sources and methods of official support: enhance availability and quality of data, as well as information sharing, on all official and officially supported resources for sustainable development (such as TOSSD) and on competitive SDG investments. There is a need for better information on activities that duly respect international standards in a transparent manner and promote macroeconomic and financial stability at regional and global levels (TOSSD Pillar II), to assess funding gaps and support needed.

(2) Further explore and expand the role of ODA in institution building for economic growth and stimulating domestic funds and leveraging increased private financing, including through building resilience and improving trade and investment environment, including through supporting productive capacity

building, legislation, tax systems, vocational training etc. and ensuring diversification of the economies and job creation.

(3) Invest in quality infrastructure in accordance with international standards such as the “G20 Principles for Quality Infrastructure Investment” to address medium to long term needs, including in the communication and financial sectors.

(4) Partnerships with local governments and empowering all people and communities.

(5) Promoting support to international public goods such as health, hygiene, and nutrition systems for COVID-19 response, including for inclusive and accessible health.

(6) ODA has an important role to play in promoting the alignment of finance with the SDGs by supporting country-led SDG financing strategies, mobilizing and aligning private external finance with the SDGs (e.g. business or investment climate, upgrading of SMEs, facilitation of intra-GVCs transfers) with the development of new forms of partnerships and tools for opportunity and risk sharing.

(7) Call for private investment in international public goods to help provide a global response to the COVID-19 pandemic e.g. research on a vaccine and/or treatment, developing more effective tests, sharing of best practices; while providing specific support to developing countries, specially to countries and populations more in need.

(8) Call for supporting country SDG financing strategies, INFFs and other supporting assessments such as OECD Transition Finance Country Diagnostics or TOSSD.

(9) Ensure best practices in these aspects.

5. Decent jobs and inclusive growth

During the first quarter of 2020, an estimated 5.4 per cent of global working hours (up from 4.8 per cent as estimated previously) were lost relative to the fourth quarter of 2019, equivalent to 155 million full-time jobs. ILO projections suggest that the labour market recovery during the second half of 2020 will be uncertain and incomplete. In the baseline scenario, working-hour losses are likely to still be in the order of 4.9 per cent (equivalent to 140 million full-time jobs) in the fourth quarter of the year. However, under the pessimistic scenario, which assumes a second wave of the pandemic in the second half of 2020, working-hour losses would be as high as 11.9 per cent (equivalent to 340 million full-time jobs) in the last quarter. Even in the optimistic scenario, which assumes a fast recovery, global working hours are unlikely to return to the pre-crisis level by the end of 2020.

In response to this unprecedented job crisis, 206 countries and territories announced at least 1,298 social protection measures between 1 February and 29 July 2020. The overall response rate in the world is 93 per cent (based on 222 countries and territories). The estimated financing gap in 2020, considering the impact of COVID-19 – to achieve universal social protection coverage for children, maternity, disability, old age, and health in the current year – is US\$1,191.6 billion or 3.8 per cent of the GDP of a selected number of developing countries for which data was available. There has been a massive country response to the COVID-19 crisis in terms of domestic financing. More than 193 countries have introduced domestic fiscal measures, totalling approximately US\$10.3 trillion as of 5 June 2020. Based on data from 62 countries on average 56 per cent of commitments have been allocated to health and social protection.

Informal workers are particularly vulnerable. According to the ILO, over 2 billion workers, 62 percent of workers worldwide, are earning their livelihoods in the informal economy in 2020, while they represent 90 percent of total employment in low-income countries, 67 percent in middle-income countries and 18 percent in high-income countries. Informal workers earn much less than the formal ones and do not enjoy any job-related insurance (e.g. social and medical). Additionally, they are generally in high-risk employment as they tend to be laid off in case of any negative shock. COVID-19 virus is estimated to negatively impact 1.6 billion informal workers, with women over-represented in the most hard-hit sectors. This has the potential of raising the incidence of poverty among informal workers and their respective families. Additionally, COVID-19 has the potential of increasing the percentage of informal employment since laid off workers from the formal economy would most likely seek employment in the informal sector.

Jobs in global supply chains have been hit hard. World merchandise trade is set to plummet by between 13 and 32% in 2020 due to the COVID-19 pandemic. A 2021 recovery in trade is expected, but this depends on the duration of the outbreak and the effectiveness of the policy responses. Nearly all regions will suffer double-digit declines in trade volumes in 2020, with exports from North America and Asia being hit the hardest. Trade will likely fall steeper in sectors with complex value chains, particularly electronics and automotive products. Services trade may be most directly affected by COVID-19 through transport and travel restrictions. As a result, export earnings are expected to be lower in all developing countries, with those dependent on commodity exports, playing a significant role in complex value chains and as destinations for tourism most affected. This is particularly worrisome

for LDCs, including those scheduled to graduate over the next few years, as well as other vulnerable economies such as SIDS and LLDCS.

In light of these developments, policy actions are called for in all areas relating to decent jobs, particularly in four areas: (a) supporting jobs; (b) strengthening social protection; (c) supporting informal economy; (d) export earning support.

A. SUPPORTING JOBS

Immediate and short-term

1. Provide strategic priority of public financing to policies and programmes that can produce better outcomes in terms of jobs and income support, especially for people in vulnerable situations.
2. Provide large-scale international support for extending social protection systems in developing countries (including unemployment benefits, sickness benefits and social assistance) to workers and people in vulnerable situations and access to health care to all.

Mid- and long-term

3. Consider a multilateral framework on universal social protection financed through global FTT and digital tax.
4. Prioritize “100% Decent Work Initiative”: widespread value-chain standards and compacts to ensure 100% respect for labour rights and environmental and disaster risk reduction standards and legislation.
5. Emphasize the benefits of incentivizing a proper investment environment, especially in developing countries, that will encourage UN member states to actively and constructively participate in the negotiation of the legally binding instrument on Business and Human Rights (3rd draft),

while pursuing capacity building for local companies to integrate SDG impacts and ESG approaches in their business models.

6. Strengthen social economy enterprise initiatives as an important source of decent job creation, establishing a financial eco-system in which they have better access to finance.
7. Promote gender-equality in education and at work and prevent gender-based violence
8. Expand and improve the care economy and the green economy for creating decent jobs
9. Accelerate the creation of youth-enabling employment and self-employment eco-systems to prioritize the improvement of both the quantity and quality of jobs for young people, including by ensuring their access to integrated and adequate services as well as productive resources.

B. STRENGTHENING SOCIAL PROTECTION

Immediate and short-term

1. Scale up existing social protection mechanisms and extend and adapt them to cover previously uncovered populations (including unemployment benefits preventing job losses and supporting those who lost their jobs, sickness benefits and social assistance)
2. Coordinate social protection responses with other economic and social policies, including labour market and employment policies, and policies promoting occupational safety and health.

Mid- and long-term

3. Safeguard and extend the coverage of social health protection mechanisms during and beyond the crisis.

4. Ensure the sustainable and equitable financing of social protection in times of crisis and beyond.
5. Ensure that humanitarian cash transfer interventions are aligned with, complement and further strengthen national social protection systems.
6. Mobilize resources at national and global levels on the basis of solidarity to support the extension of social protection schemes in developing countries for workers and people in vulnerable situations.
7. Strengthen collaboration between Ministries of education and Ministries of social protection so as to target additional support to people in vulnerable situations
8. Use equitable funding formulae for allocation in education budgets.

C. INFORMAL SECTOR SUPPORT

Immediate and short-term

1. Develop labor market programmes, such as employment guarantee schemes (EGSs) especially in public works, to prevent returning migrants and dismissed workers from seeking informal jobs.
2. Provide cash transfers and emergency relief and extend access to health care to workers in the informal economy.

Mid- and long-term

3. Invest in assessment and diagnostics of factors, characteristics, causes and circumstances of informality to shape country specific policies to facilitate the transition to the formal economy.

4. Reduce the cost of being formal (e.g. taxes, registration fees, using digital technology for cost- and time-effective registration, etc.) and increase the benefits of choosing to be formal (e.g. access to finance and free training) especially for micro and small enterprises.
5. Adopt, review and enforce national laws and regulations to ensure social protection coverage to all categories of workers and economic units.
6. Adopt integrated policy frameworks to facilitate the transition to the formal economy, as a part of national development strategies or plans,
7. Provide technical, vocational education and training (TVET) and apprenticeship schemes to improve the marketability and productivity of informal workers.
8. Establish a convergence framework for civil society, banks, and NGO efforts to increase awareness on financial literacy, managerial skills, credit, and market linkages.
9. Advance financial inclusion through digital financial services, whilst addressing and mitigating potential risks.
10. Extend social protection coverage to workers in the informal economy and other people in vulnerable situations.
11. Mobilize external finance and remittances to support work and skills development in the informal sector.

D. EXPORT EARNINGS SUPPORT

Immediate and short-term

1. Special support measures and access to international financing for MSMEs from developing countries to ensure

their sustenance in global business and continued contribution to job creation and inclusive growth.

Mid- and long-term

2. Targeted international cooperation and, by taking into account national circumstances, actions to address supply chain disruptions including through capacity building, reducing digital divide, standardization, diversification of supply base, optimizing production and distribution capacities, speeding up borders and customs clearance processes, redressing protectionism and export restriction measures, avoiding new tariffs and para-tariff barriers.
3. Enhanced technology support for product and market diversification for countries in need including through the UN technology bank for LDCs.
4. Targeted international support through ODA and other financial means to develop new areas of comparative advantage, export diversification, market access, and enhanced integration into the global value chain for developing countries in the post COVID era.
5. International support for harnessing untapped potentials of regional trade in the areas of education and skills development, health, infrastructure, energy, ICT, etc.
6. Immediately filling out the unmet gaps of providing 97% DFQF market access for products from LDCs based on the notion of “everything but arms” by all advanced economies.

Recovering Better for Sustainability

**PREPARED BY
DISCUSSION GROUP II**

**CO-LEADS:
FIJI, RWANDA, UK, EU**

**LEAD SECRETARIAT:
UNDP**

Discussion Group II: Executive Summary

We, the Co-Chairs, thank the participants of Discussion Group II for the significant contribution that they have made to the crucial issue of recovering better from COVID-19. The pandemic is threatening to reverse decades of progress made on sustainable development and the fight against poverty. It is essential therefore as part of the crisis response that we begin designing policies and investment pathways that will lay foundations for a green, healthy, inclusive and resilient recovery. It is clear that investing in sustainable, just transitions offers our best chance for repairing the damage done by the pandemic to our health, economies and societies, and creating jobs and inclusive growth.

This is a collaborative agenda. The recovery must be coordinated, driven by a spirit of global solidarity, multilateralism and collaboration between governments, international organisations, international financial institutions, civil society and the private sector, to get our shared goals back on track. Within this we must focus on leaving no-one behind and supporting the most vulnerable, including SIDS and LDCs and vulnerable people and communities within them.

This menu presents the most transformative policy options for recovering better, building on agreed international and regional frameworks and taking Agenda 2030 and the Paris Agreement as its core guiding frameworks. It calls for a recovery which:

- Creates strong, resilient and inclusive health systems, underpinned by Universal Health Coverage, that focus on equitable access, quality and financial protection.
- Creates environmentally sustainable, inclusive and dynamic economies, driven by clean, resource-efficient and climate-resilient growth that reduces emissions, protects our biodiversity and natural capital and promotes sustainable consumption and production patterns.
- Invests in digitalisation and new technologies, with a focus on open, inclusive, affordable and secure access to digital technology and developing digital literacy and skills for all. This includes digital technologies to address exclusion, health, climate, environmental and other challenges.
- Creates fairer, more equal societies, especially for women and girls, children, people with disabilities and marginalised and crisis affected groups; places with accountable, inclusive, transparent and resilient institutions.
- Expands support for the most vulnerable, including through social and financial protection, and education and health systems, so that no-one is left behind.

- Engages, leverages and strengthens the positive role of the financial system in meeting these goals, drawing on public and private sources and governed by global standards and norms. This should focus on future-proof investment and built-in resilience, with costs and sustainability as underlying drivers. All sources of finance, including for developing countries, should be engaged and leveraged in the best possible manner, fully aligned with the SDGs and the Paris Agreement.
- Improves the integration of climate, environmental sustainability and resilience to future risk into national planning processes and development finance.

To achieve this type of recovery, the menu includes policies for global standards for alignment and disclosure, national planning, finance and policy frameworks, private sector actors and international development institutions.

Countries will select those options which best meet their needs and circumstances in support of an SDG and Paris Agreement aligned recovery. All governments, and other actors, are encouraged to embrace the opportunities presented by the policies set out in this document.

A. Global standards and norms

Governments, the private sector and other actors need clearer, more consistent global standards and norms to align relevant public and private decision-making and investment with the SDGs and the Paris Agreement; and to report in a comparable and transparent manner. These standards and norms are essential for public and private capital to focus on a recovery that is sustainable and inclusive of the most vulnerable.

1. ALIGNMENT

Countries should commit to developing comparable frameworks for aligning finance with the SDGs and the Paris Agreement. The frameworks should: address inequality and exclusion, including for women and girls; be in line with the best available science; and address the needs of vulnerable countries, taking national and regional contexts into account. The work should build on the experience of taxonomies, targets and other metrics developed by international organisations, countries and regional groups, including the G7-OECD-UNDP alignment initiative. The frameworks should be promoted through other fora including the G20 and the International Platform on Sustainable Finance.

2. DISCLOSURE AND REPORTING

Countries should commit to a **sustainability-related disclosure framework that aligns with global standard-setting initiatives, including those related to natural capital accounting, for all public and private market actors** to increase transparency on available resources, how they are applied to sustainable activities and to assess what their impact is, so as to increase the scale and impact of finance. The framework should take account of material sustainability risks and incorporate businesses' impact on the economy, society, climate and the environment. Official actors should increase transparency on official and officially-supported financing sources contributing to sustainable development and should be encouraged to report their activities under a broader measurement of development support in line with the 2030 Agenda, such as Total Official Support for Sustainable Development. The international community should ensure that public financing, including ODA, is consistent with the Paris Agreement, and increasingly funds

renewable energy. For disclosure of material climate risks, frameworks should be based on the recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD).

3. CARBON PRICING

The international community should establish and promote common methodologies and guidelines for **carbon pricing instruments**, building on existing instruments and the work of the Carbon Pricing Leadership Coalition, whether through **emissions trading systems** or through **carbon taxation**, which countries should be supported to follow and implement.

B. Governments

Governments have a critical role. Their different capacities and resources will affect implementation of the policies proposed. They should have access to support from the international community.

1. ALIGNMENT OF NATIONAL PLANNING, SPENDING AND IMPLEMENTATION

In the wake of the COVID-19 pandemic, most government planning efforts will require considerable revision.

- Governments should coherently update and enhance **Nationally Determined Contributions (NDCs)** and other national plans – including SDG implementation plans, adaptation plans, biodiversity plans and long-term strategies – and reflect this ambition in their COVID-19 recovery plans.
- **National Disaster Risk Reduction Strategies**, with appropriate financing, should be established or revised, incorporating multiple, inter-related risks including climate change.

- To promote sound financing, **Integrated National Financing Frameworks (INFFs)** are useful tools.
- Governments should **translate their plans into specific policies and investment plans, integrated into national gender-sensitive budget and planning processes**, in line with the SDGs and the Paris Agreement, with **inclusion and gender at the heart of financing and recovery plans**.
- Governments should **increase access to financial resources for local governments and sub-national authorities**, with a focus on the most vulnerable. Local civil society should be involved to monitor and manage delivery.

Ministries of Finance should amend the legal mandates of **local, national and regional development banks** in order to align their activities with the SDGs and the Paris Agreement.

Separately, **central banks and financial supervisors** – within their mandates and legal frameworks – could: integrate sustainability-, climate- and environment-, gender- and inequality-related risks into financial stability monitoring, macro and micro prudential supervision and macroeconomic models and forecasting tools and should integrate sustainability/climate factors in portfolio management. For climate-related risk, stress testing should use NGFS reference scenarios.

2. FISCAL MEASURES

Governments should improve the **collection, use and distribution of resources**, including: supporting domestic revenue mobilisation and progressive and fair and sustainable fiscal policies; strengthening tax systems; embedding fiscal incidence analysis in public finance systems to help address inequality; and ensuring collaboration on these matters, such as through signing up to the new mandate of the Addis Tax

Initiative post-2020 and through engagement on the OECD unified approach negotiations to find a multilateral solution on taxing digital.

They should use fiscal measures to change incentives through **carbon pricing and taxation instruments and phasing out fossil fuel subsidies that encourage wasteful consumption and other non-sustainable activities**, with just transition plans for communities affected.

3. ENABLING ENVIRONMENT

Governments should create favourable conditions for responsible actions by the private sector by:

- With other actors, developing a pipeline of sustainable projects, creating investment frameworks, increasing transparency and reducing investment risks. Support to strengthen developing country capacity to develop this pipeline should be put in place.
- Developing **domestic financial and capital markets**: including through frameworks to establish Sustainable Finance instruments such as SDG/green bonds and developing sustainability-oriented market indices and benchmarks.
- Attracting private capital through fiscal and regulatory tools to lower risk and enhance low-carbon and resilient investment opportunities, including exploring additional opportunities to support the conservation and restoration of ecosystems.

4. INVESTMENT PRIORITIES

As part of their revised national plans for recovery from COVID-19, Governments should prioritise policies and investment to:

- Accelerate **affordable renewable energy**, including just transition support, cost-reflective energy pricing, increased energy efficiency and energy access.
- support **sustainable consumption and production** strategies, promote resource efficiency and a transition to circular economy.
- Safe, smart, sustainable low-emission mobility
- Sustainable and resilient **infrastructure** to accelerate recovery and reduce risk.
- **Nature-based solutions** to deliver sustainable ecosystems, climate-smart agriculture, sustainable forest management and circular bio-based products, disaster resilience and food and water security.
- Inclusive, resilient and equitable **health systems** to achieve Universal Health Coverage, delivering quality health services, including sexual and reproductive health and rights, and acting on the wider determinants of health. This involves taking a One Health approach to preventing, detecting and responding to health threats.
- Working at a global, regional and national level, increase innovation and safe, affordable and equitable access to medicines, vaccines, diagnostics, **medical equipment and other health technologies** for COVID-19 and other health priorities.
- promote open, inclusive, affordable and secure access to **digital technology**, developing digital literacy and skills for all. This includes digital technologies to **improve work processes and service delivery**, including for financial services; health, mobility, climate and the environment.

- Address all forms of **inequality and exclusion**, including **fighting gender gaps**, reaching and protecting all citizens, especially women and girls, people with disabilities and marginalised and crisis-affected groups. Put Human Rights-Based principles of inclusion and gender at the heart of recovery packages.
- Deliver core and shock-response **social protection systems** to better protect and build the resilience of poor and vulnerable people and be ready to respond to future crises
- **Inclusive education systems** that can respond flexibly and quickly to shocks; supporting all children to return to school and catch-up, and ensuring the right of every girl to have 12 years of quality education.
- **Reskilling for re-employment** in the recovery from COVID-19 impacts and the transition from fossil fuels.
- **Sustainable agricultural** practices and supply chains including agri-processing, with business community engagement, and redirecting public support to agriculture to support and reward low emission, environmentally sustainable land use and food system practices (e.g. improved soil quality and water use efficiency) to ensure sustainable, nutritious food systems that support economic growth, respecting land rights and land governance systems.

C. Private sector

Consistent with the measures outlined above, the private sector should support the COVID-19 recovery by **shifting finance and business models into low-carbon and resilient investment** that maximises overall environmental and social benefits. The role of

micro-, small- and medium-sized enterprises and businesses in job creation and local economic resilience should be supported.

In line with government actions to revise national plans, corporate boards should be invited to review their **corporate strategies** and business models to:

- integrate commitments related to sustainable development, climate and natural capital in corporate goals, business models and reporting and publish credible transition plans;
- align investment portfolios with the SDGs and net zero carbon emissions;
- revise compensation structures to incentivize long-term objectives, with transition plans; and
- strengthen scenario analysis to assess strategic resilience, improve climate and environmental risk modelling and enhance preparedness.
- protect the livelihoods of workers within global supply chains, and provide high-quality jobs and training, particularly for women and girls, marginalised groups and those living in poverty.

Credit rating agency regulators, with the agreements of the agencies themselves, should devise common guidelines to progressively incorporate longer-term SDG-aligned, social and environmental indicators into agency ratings, including factors such as net zero transition plans and climate and inequality risk.

D. International development institutions

All parts of the public and private international system should strengthen the **alignment of their strategies and activities** with the 2030 Agenda, the Addis Ababa Action Agenda, the Paris Agreement and the Sendai Framework.

Multilateral development banks, other development finance institutions and development agencies, should align their operations as a priority with the SDGs, the Paris Agreement and the post-2020 Biodiversity Framework, while ensuring public finance is used efficiently and effectively, to support countries to recover from COVID-19 in a clean, safe, inclusive and

resilient way. They should be encouraged to use their resources, knowledge and convening power to direct more investment, to countries more in need. With their public mandates, major collective investment portfolios and counter-cyclical roles, **Public Development Banks** are highly relevant to the reconciliation of economic recovery and sustainable development.

Through the Finance in Common Summit, to be held during the Paris Peace Forum in November 2020, Public Development Banks should work together in a coalition to provide sustainable development and climate finance at scale, using complementary and enhanced forms of cooperation.

Discussion Group II: Menu of Options

The COVID-19 pandemic is threatening to reverse decades of progress achieved on sustainable development and the fight against poverty. However, even before the current crisis, the world was not on course to achieve the Sustainable Development Goals and the Paris Agreement. This global pandemic is a reminder of the major shortcomings still to be addressed, now exposed and magnified by the social, health, and economic impacts from COVID-19. The drivers of the pandemic are in many ways the same as the drivers of persistent poverty and inequality and those with the least capacity to cope have been disproportionately affected. Having said that, the pandemic also offers us a once in lifetime opportunity to address these long-standing challenges.

We are committed to continue to address the immediate impacts of the crisis and at the same time, seize this important opportunity to build back better, to achieve a recovery that delivers cleaner, safer, healthier, more resilient and more inclusive economies and societies, and that accelerates progress towards the 2030 Agenda for Sustainable Development and other international agreements including among others, the Addis Ababa Action Agenda and the Paris Agreement, the Sendai Framework, the New Urban Agenda, the Istanbul Programme of Action for the Least Developed Countries, the SAMOA Pathway and the Africa Union Agenda 2063.

This recovery should be with full respect for human rights and a commitment to leaving no one behind and should include a just transition for those most affected. These principles apply across the range of policy options set out below.

This paper sets out the outcome of Discussion Group II (DGII) on a number of key Policy Options relevant to recovering better for sustainability. These options are summarised in the associated Executive Summary. DGII is one of six groups working in parallel on the FFD process. To maintain the specific focus assigned to this group, the Co-Chairs have not included policy options that can be addressed appropriately under the mandates of one of the other working groups. In distilling the hundreds of individual policy suggestions, the Co-Chairs have sought to focus on options with transformational potential, recognising different capacities that exist within different country contexts, and where there is a credible entity or group of actors to support the options going forward. The co-chairs recognise the importance of addressing the particular needs of vulnerable countries such as SIDS, LDCs and other countries whose specific characteristics demand urgent and targeted solutions. They also recognise the importance of targeted support to address the needs and priorities of people living in poverty, women and girls, children, people with disabilities and marginalised and crisis affected groups.'

A. Global Standards and Norms

Governments, the private sector and other actors need clearer, more consistent global standards and norms to align relevant public and private investment with the SDGs, the Paris Agreement and the Sendai Framework; and to report in a comparable and transparent manner. The international community should consider how to galvanise momentum for these proposals to help further determine the specific priorities, governance and implementing architecture to deliver these global standards and raise other priorities to align the financial system with the SDGs.

Guided by international discussions, Governments should introduce measures to guide financial decisions taken by both public and private sector actors, including through the adoption of:

- minimum overarching standards;
- tools and instruments to incentivize SDG- and Paris aligned investments (including phasing out subsidies to industries with negative impact and the creation of markets for increased SDG-aligned activity);
- new regulatory rules (including enforcement of non-financial reporting legislation, and updates of fiduciary duty).

This new body of global norms and standards would allow to engage strengthen and leverage the positive role of the financial system in meeting current challenges of the moment, drawing on public and private sources, which will be fundamental to delivering a recovery that is better for sustainability. This should focus on future-proof investment and built-in resilience, with cost and sustainability as underlying drivers.

1. SUSTAINABLE FINANCIAL SYSTEMS FRAMEWORKS

In order to transform investment behaviour and promote sustainable investments that are supportive of recovering better from COVID19, countries, working together with the private sector and civil society, should commit to developing comparable frameworks and approaches to measuring alignment of both public and private finance with the SDGs and the Paris Agreement, including commitment to net zero goals, both at global and regional scales, building on existing initiatives. The frameworks should address inequality and exclusion, including for women and girls, should be in line with the best available science and should address as a benchmark the needs of the vulnerable countries.

They could be used to support consistent definitions of “sustainable” and “green” actions and instruments, aiming to raise investors’ awareness and confidence, enhance public policies related to sustainability and unlock public and private finance in support of those policies (e.g. building on the EU Taxonomy regulation and planned Green Bond standards).

i) This work should be pursued immediately by the international community, in cooperation with Government Ministries and regulatory bodies, building on the G7-OECD-UNDP alignment and other initiatives, using the experience of taxonomies, targets and other metrics developed by international organizations, countries and regional groups. The promotion and adoption of the frameworks and approaches to measuring alignment can be accelerated through multiple fora, commencing in Q4 2020, including UN Regional Commissions, the G20, the Asia-Pacific Economic Cooperation, the International Platform for Sustainable Finance and the Paris Peace Forum and Finance in Common Summit 2020.

ii) The private sector should be encouraged by Governments to support the regulators' and others' development of frameworks (e.g. by publicly committing to their adoption and to reporting on their implementation).

iii) National and regional contexts should be taken into account, and the specificities of the different communities of investment actors, such as pension funds, investment banks, insurers and rating agencies.

iv) Particular attention should be given to the structural challenges of the SIDS and LDCs and how these frameworks can support mobilization of support for these countries.

2. GLOBAL DISCLOSURE AND REPORTING

In line with the adoption of sustainable financial systems frameworks, **countries should commit to a sustainability-related disclosure framework** that aligns with global standard-setting initiatives for all public and private market actors, to increase transparency on available resources, how they are applied to sustainable activities and to assess what their impact is. This would aim to promote the shift in finance from brown to green or blue, and the increase in the scale of finance and impact on substantive issues, such as inequality, gender and protecting the most vulnerable including in SIDS and LDCs.

i) To support the disclosure framework, the international community, including standard-setting bodies, should agree, formalize and harmonize a **common set of standards for non-financial reporting**, including developing digital reporting platforms and the integration of material non-financial data into financial decision-making.

➤ The work can build on the many initiatives on non-financial reporting, building on the International Public Sector Accounting

Standards (IPSAS) for the public sector and on the work of various organisations for the private sector, including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC) and the International Accounting Standards Board (IASB).

➤ UNDP, UNCTAD, UNEP, UN Global Compact, the Regional Economic Commissions, the OECD and others could support this work, consistent with their engagement on SDG metrics, data and analysis as a way to adapt these systems to different regional and national contexts.

➤ This should initially take account of material risks and ultimately incorporate businesses' practices and impact on the economy, society, climate and the environment.

➤ This includes better defining the relationship between non-financial and financial performance through more explicit linkages of disclosure data to corporate sustainability goals, agreeing on a common definition of key concepts.

➤ It also includes promoting the System of Environmental-Economic Accounting (SEEA) as an integral part of the System of National Accounts ('natural capital accounting') and exploring other nature-related risks and dependencies to which our economies and financial systems are exposed.

➤ Methodologies and standards for disclosure and risk management should as far as possible be universally applicable and implementable in all countries in line with their taxonomy, recognizing the data and technical constraints that exist and need to be bridged in some countries.

ii) Particular attention should be given to identifying and mitigating risks in endemically high risk countries such as SIDS and LDCs, so that tools like disclosure and risk management are used to manage risk and reduce the potential erosion of access to finance or catalyzing a liquidity and insolvency crisis. **Governments should support the development of internationally agreed standards for climate-related financial disclosures and other environmental, social and governance factors.** Governmental regulations and public policy frameworks should also consider incentives for the private sector to adopt and implement best practices in terms of environmental, social and governance criteria, taking account of country-specific circumstances. For material climate risks, disclosure frameworks should be based on the recommendations developed by the Taskforce on Climate Related Financial Disclosure (TCFD).

iii) Given the important role of **public local, national and regional development** banks and development agencies in supporting sustainable development, they should pursue enhanced cooperation between them and with the international community to support the establishment of globally harmonized sustainability reporting standards.

iv) **The private sector plays a crucial role in increasing transparency and accountability for a sustainable recovery.** In advance of government regulation, it could voluntarily commit to improved practice and disclosure standards on climate and broader environmental impacts of their current and planned operations, in line with Taskforce on Climate Related Financial Disclosure recommendations in the case of climate-related disclosure.

v) The international community should ensure that public finance, including ODA, is consistent with the Paris Agreement, and increasingly fund renewable energy.

vi) Countries and other actors (including multilateral institutions and public development banks) should commit to increase transparency on official and officially-supported financing sources in line with the 2030 Agenda, the Paris Agreement and the UNFCCC. They should be encouraged to report under a broader measurement of development support, such as **Total Official Support for Sustainable Development (TOSSD)**, which includes climate finance coherent with UNFCCC reporting, and, in accordance with the work of the IAEG-SDGs Working Group on Measurement of Development Support, strive towards integrating such broader measurement into the SDG indicator framework.

3. CARBON PRICING

It is crucial to use the recovery period to support the phasing-out of fossil fuel and other environmentally harmful subsidies, in line with the Paris Agreement and in accordance with the timescales assessed in the Special Report of the IPCC on 1.5, taking into account national circumstances and local and regional contexts. Phasing out fossil fuel subsidies and introducing carbon pricing can generate revenue to spend on poverty reduction and job creation measures, like social protection schemes, and environmentally sustainable economic development. Current low oil prices increase the feasibility of this policy option.

i) The international community should work together to establish common methodologies and guidelines for carbon pricing instruments. Methodologies should build on the experience of existing instruments, science-based evidence developed by the UNFCCC and the work of the Carbon Pricing Leadership Coalition; and be developed in consultation with civil society groups to ensure fair transitions.

ii) Countries should be encouraged, within their specific national and regional contexts, to adopt and implement carbon

pricing instruments, whether through emissions trading schemes (ETS) or through carbon taxation. The work of the international community should prioritize procedures for phasing in and transitional pathways.

iii) The private sector, and large firms in particular, should be encouraged to introduce internal pricing, covering the full scope of their footprint and that of their suppliers, immediately to change business practice and behaviour.

B. Governments

Governments, including where applicable regional and local authorities, have a critical role in: setting sound financial policies and frameworks, including tax systems; devising policies for sustainability and inclusion; creating enabling environments for business and promoting private investment and allocating resources to priority areas. It is essential that there is global solidarity in the recovery process, recognizing that governments have different capacities and resources available to implement the policies proposed in this paper. Governments, including those in LDCs and SIDS, should have access to financial and technical support from the international community, including where eligible through official development assistance and other sources of public and private finance.

1. ALIGNMENT OF NATIONAL PLANNING, SPENDING AND IMPLEMENTATION

i) In the light of COVID-19 impacts, governments should **update their national plans to align them with the 2030 Agenda and the Paris Agreement** and ensure they are properly financed.

- This should include **Nationally Determined Contributions (NDCs)** and other national plans – including SDG implementation

plans, national adaptation plans, biodiversity plans and long-term strategies, including restoration of ecosystems as well as nature-based solutions.

- Countries should enhance the ambition in their NDCs in line with the temperature goals of the Paris Agreement and reflect this ambition in their COVID-19 recovery plans.
- Revised and enhanced plans should be used as a source of developed and actionable green projects that can be brought forward to aid economic recovery
- Governments should engage Parliaments, local and regional authorities, civil society and the private sector in planning, delivering and monitoring clean, healthy, inclusive and resilient recovery plans, that can also deliver the international climate objectives under the Paris Agreement and the UNFCCC. [Where relevant, Governments could conduct sustainability impact assessments before passing new legislation]. The international donor community should ensure support is available for capacity constrained countries such as SIDS and LDCs.
- Governments should increase access to financial resources to local governments and sub-national authorities and regulate to decentralise decision-making, in line with territorial and local 2030 strategies, including for climate-resilient infrastructure and development projects. This includes increasing the proportion of humanitarian, development and climate finance that can be accessed by local and national civil society actors (including through direct funding channels), particularly those representing women, people with disabilities, indigenous peoples and marginalised groups. SIDS and LDCs should be supported to make this a reality.

ii) **National Disaster Risk Reduction Strategies (NDRRS)**, with appropriate financing, should be established or updated to build multidimensional risk assessment into public and private investment decisions, reduce existing and prevent new risk, in line with the global Sendai Framework and regional frameworks where they exist. Stronger NDRRS, combined the global standards and norms have the potential to change the way risk is priced by the financial market, therefore, allow for stronger resource mobilization by all countries including SIDS and LDCs.

- Disaster risk reduction, including a cross-border outlook, should be integrated into national planning and financing process, such as INFFs, to ensure expenditure and investments in all sectors are disaster risk informed, to reduce hazard exposure and vulnerability and prevent future disasters, stranded assets and the creation of new risks.
- Disaster risk and financial sector risk assessment tools need to be linked operationally to improve understanding systemic risk and consequent investment decisions. Financing instruments and taxonomies for DRR need to be further developed to improve understanding of the systemic nature of risk.
- Countries should review and integrate their crisis and disaster risk management and climate adaptation laws, policies and plans to ensure that they reduce climate change risks and exposure on people and the environment. Where appropriate countries should join the Risk-Informed Early Action Partnership to facilitate this.
- Countries should work together to develop the financing and delivery mechanisms connected to effective early action plans, to act ahead of predicted disaster, to invest in early warning system

infrastructure and institutions and to target early action in 'last/first mile' communities and the most vulnerable.

- Countries should work together to develop responses to avert, minimize and address loss and damage associated with climate change impacts, including extreme weather events and slow onset events.

iii) **In revising national plans, countries should make use of Integrated National Financing Frameworks (INFFs)**, as referred to in the Addis Ababa Action Agenda. INFFs can bring together the full range of financing options and improve the impact of available resources, including through incentives for investment and regulatory frameworks in support of sustainable finance. They can help to formulate SDG-aligned and costed financing strategies.

iv) National Governments, through reviews of **central banks and supervisor mandates**, should issue guidelines for sustainable financial systems, with combinations where appropriate of guarantees, subsidies, risk management rules, risk-informed standards for credit rating, and macro- and micro-prudential measures to promote SDG-aligned investment and building resilience.

v) Ministries of Finance should amend the **legal mandates of national development banks** to align them with the SDGs and the Paris Agreement.

vi) Separately, **central banks and financial supervisors**—within the remit of their mandates and legal framework—could:

- integrate sustainability-, climate- and environment-related and other risks, consistent with the Sendai Framework, into financial stability monitoring and macro and micro prudential supervision including running climate

- stress tests using 'Network for Greening the Financial System' Reference Scenarios and;
- reinforce their analytical toolkit by considering inequality, gender, climate, ecosystem and systemic risks in their macroeconomic models and forecasting tools; and,
 - integrate sustainability and climate factors in their portfolio management.

2. FISCAL MEASURES

Building on established mechanisms such as the Addis Tax Initiative and multilateral negotiations at the OECD, as well as working together at both regional and global scale, Governments should improve the collection, use and distribution of resources, including supporting domestic revenue mobilisation and progressive and fair fiscal policies. These steps should be taken forward by Governments, as part of their revised national plans for recovery from COVID-19, with clear, public transition plans and timelines, taking account of the specificities of each country's tax system.

- i) Governments should strengthen **tax systems** and increase transparency and accountability for how funds are raised and used (including in relation to supporting sustainable and green growth).
- Governments should embed fiscal incidence analysis, and gender and inclusion analysis within finance systems.
- Governments should use fiscal measures to raise the cost of carbon-emitting action **through carbon pricing and taxation instruments and phasing out fossil fuel subsidies** that encourage wasteful consumption and other non-sustainable activities, with just transition plans for communities affected.

- They should strengthen sectoral analysis by defining tax bases in relation to activities related to the digital economy, in particular those related to digital and commercial platforms.
- They should engage multilaterally via Pillar 1 of the OECD's Unified Approach to seek a global, long-term agreement on profit allocation in the digital economy, in particular those related to digital and commercial platforms and via Pillar 2 on minimum global effective corporate income tax rates.

ii) Working together, Governments should ensure collaboration on these matters such as through signing up to the new mandate of the Addis Tax Initiative post 2020.

iii) As recommended by the UNSG Digital Finance Task Force report, governments should move to digitize their tax systems to improve tax collection and make public financial management more transparent. Advanced economies should support emerging economies, SIDS and LDCs in how to implement a digital tax system.

3. ENABLING ENVIRONMENTS

- i) Governments should create **favourable conditions for the private sector**. This includes aligning their strategies and business models to the SDGs and the Paris Agreement and including where necessary international public finance support. This needs to be taken forward in parallel with regional and global measures, in order to avoid a race to the bottom in attracting private capital. These steps should be taken forward by Governments, as part of their revised national plans for recovery from COVID-19, with clear, public transition plans and timelines. This enabling environment must foster fairer, more equal societies, places with accountable, inclusive, transparent and resilient institutions.

- Governments should also work closely with international financial institutions, development partners and development finance institutions at all levels to develop a pipeline of sustainable projects, providing technical assistance to create investment frameworks, increase transparency and reduce regulatory and political risks for new markets and private sector investment. Support to strengthen the capacity of SIDS and LDCs to develop this pipeline of projects should be put in place.
- Governments should develop **domestic financial and capital markets**: including through frameworks to establish sustainable finance instruments such as thematic bonds (e.g. green, blue, social or sustainable), focusing on sustainable and green industries and SDG-aligned activities, and other instruments supporting and incentivizing the transition such as indices, benchmarks and other tools. This should be in alignment with international efforts on sustainable financial systems frameworks, including regional frameworks.
- National Governments should work to **attract private capital** by deploying appropriate fiscal and regulatory tools to lower risk and enhance low-carbon and resilient investment opportunities and explore additional opportunities to support the conservation and restoration of ecosystems.
- Governments should also encourage boards of companies and investors, in particular those receiving public support, to integrate climate and sustainable development risks, concerns and commitments in corporate goals and business models, align investment portfolios with net zero and revise compensation structures to incentivize long-term thinking, with public transition plans. This is particularly important for

governments in which the largest multinational corporations are domiciled.

- They should develop public-private partnerships to provide access to markets, increase blended finance options and build technical capacity to derisk investment.
- They should also develop regulatory frameworks to facilitate digital solutions while protecting citizens' rights and security online and addressing inequalities.

ii) **Governments should reduce trade barriers and promote mobility of goods, people and services,**

- including by aligning trade agreements and the multilateral trading system with the SDGs and the Paris Agreement,
- building resilient local and regional value chains, promoting efficient transit procedures to facilitate international trade and the use of digital technology.

4. INVESTMENT PRIORITIES

Governments should translate their national plans into **specific policies and investment plans** integrated into national budget and planning processes, in line with the SDGs and the Paris Agreement and with key global and regional frameworks, such as Agenda 2063: the Africa We Want. Governments should incorporate sector investment plans into their revised national plans for recovery from COVID-19, with clear, public transition plans and timelines.

- i) Budgeting should be consistent with international practices and guidelines and take account of the value of and costs to the natural world, the social cost of carbon, vulnerability to disaster and climate risks. When necessary,

governments should be provided support to calculate these externality costs, including from UN agencies, the IMG, WBG and others.

ii) Governments could consider, where appropriate, **bringing decision-making as close as possible to the citizens** to better support the SDGs and Paris agreement, in line with territorial and local 2030 strategies, including for climate-resilient infrastructure and development projects.

iii) Critical areas for government action include the following (noting that priorities will vary per region and country and that the private sector could be incentivised to also prioritize these areas of investments alongside governments). Actions in these priority areas have the potential to create millions of jobs, in inclusive and dynamic economies, driven by clean, resource efficient climate-resilient growth that reduces emissions, protects our biodiversity and natural capital and promotes sustainable consumption and production patterns:

- Accelerating **affordable renewable energy**, including just transition support, cost-reflective energy pricing, clear and predictable licensing and permitting procedures, and increase energy and resource efficiency, clean energy innovation and energy access, in accordance with circular economy principles.
- Safe, smart, sustainable low-emission mobility (e.g. supporting emissions reduction in transport, sustainable alternative fuels, digitalisation, active mobility such as walking, running and cycling and improved public transport).
- Sustainable and resilient **infrastructure including equitable access to digital infrastructure**, clean water and sanitation and housing, to accelerate a sustainable and inclusive recovery and reduce risk, including climate risk.
- **Nature-based solutions** to deliver sustainable ecosystems, climate-smart agriculture, sustainable forest sector management and climate-neutral circular bio-based products, disaster resilience and food and water security and nutrition.
- Ensuring that adaptation plans **mainstream adaptation across government**.
- Building on cost-effective examples of responses to COVID-19, investment in core and shock-response social protection systems to better protect and build the resilience of poor and vulnerable people and be ready to respond to future crises, and to help avert, minimize and address loss and damage associated with climate change.
- Investing in inclusive, resilient and equitable **health systems** to achieve Universal Health Coverage, delivering quality health services, including sexual and reproductive health and rights, and acting on the wider determinants of health. This involves taking a One Health approach to preventing, detecting and responding to health threats, connecting humans, animals, plants and their shared environments, and including infectious diseases, antimicrobial resistance and climate-related health threats such as water scarcity, through strengthened public health functions.
- At a global, regional and national level, all countries should also ensure safe, affordable and equitable access to medicines, vaccines, diagnostics and other health technologies for COVID-19 and other health priorities, including by supporting key initiatives such as the Access to Covid-19 Tools Accelerator (ACT-A).
- **Digitalisation and new technologies**, with a focus on: open, inclusive, affordable and

- secure access to digital technology, including broadband connectivity for locations with low levels of access; and developing digital literacy and skills for all through adequate and accessible dedicated education and vocational training. This includes the use of digital technologies to address, among others financial exclusion, health challenges and crises and climate and environmental challenges.
- Promoting the use of digital technologies, while ensuring personal data protection and confidentiality, to improve work processes and service delivery, including for financial services; health challenges and crises; smart, safe and sustainable mobility; and climate and environmental challenges. This includes using digital finance technology to invest in local infrastructure needs.
 - Investing in research, disaggregated data including by sex, age and disability, and evidence to address inequality and exclusion, including gender inequalities
 - Addressing **inequality and exclusion**, including **fighting gender gaps**, reaching and protecting all citizens, especially women and girls, people with disabilities and marginalised and crisis affected groups, supporting their leadership and empowerment. This includes investment in social protection systems, skills development, care services, decent job opportunities, support for informal sector workers, secure, equitable land tenure and governance, and gender-based violence prevention and services.
 - Putting Human Rights Based Principles of inclusion and gender at the heart of recovery packages, embedding a gender and inclusion and fiscal incidence analysis within financing decision-making, and addressing inequality and exclusion
- Investing in inclusive **education systems** that can respond flexibly and quickly to shocks; supporting all children – including those with disabilities – to return to school and catch-up on lost learning, addressing barriers of access, learning and safety, and ensuring the right of every girl to have 12 years of quality education.
 - Investment in reskilling for re-employment in the wake of COVID-19 impacts and the transition away from fossil-fuel intensive industries and activities.
 - Investing in **sustainable agricultural** practices, with business community engagement, to ensure sustainable, nutritious food systems that support economic growth, respecting land rights and land governance systems.
 - Redirect public support to and invest in agriculture and agri-processing to support low emission, climate resilient and sustainable technologies and practices that support food security, rural livelihoods and nutritious food.

C. Private Sector

The private sector should use the Covid-19 recovery to shift finance into low-carbon inclusive and resilient investment that maximises overall environmental and social benefits, particularly as investment is still not at the scale required to meet the goals of the Paris Agreement, the SDGs the Sendai Framework, the SAMOA Pathway and other international commitments, despite the rapid expansion of financial markets that support low-carbon and resilient growth. The role of micro-, small- and medium-sized enterprises and businesses in job creation and local economic resilience should be specifically supported by access to private finance, governments and

international public finance, both in the current emergency phase of the pandemic and as an enabler of a sustainable recovery.

1. CORPORATE STRATEGIES AND CREDIT RATINGS

In line with governments revising national plans, **corporate boards**, particularly of large domestic and multinational companies, should be encouraged to review their corporate strategies and business models to:

- i) Integrate commitments relating to sustainable development, climate and natural capital in corporate goals, business models and reporting, and publish credible transition plans;
- ii) Align investment portfolios with the SDGs and net zero carbon emissions and resource efficiency, including regarding pollution (e.g. using taxonomies, benchmark and portfolio warming metrics);
- iii) Revise compensation structures to incentivize long-term objectives, with transition plans;
- iv) Strengthen scenario analysis to assess strategic resilience and improve climate and environmental risk modelling.
- v) Consistent with the SDGs and the Paris Agreement, protect the livelihoods of workers within global supply chains, and provide high-quality jobs and training, particularly for women and girls, marginalised groups and those living in poverty. Investment should be with a gender and inclusion lens and promote women's economic empowerment, including by supporting efforts to address unpaid care and other barriers that women and girls disproportionately face.

vi) The **financial sector** should increase the availability of sustainable investment products. Investment advisors and portfolio managers should be required to ask their clients about their sustainability preferences, taking into consideration the recommendations released by the GISD.

vii) **Credit rating agency regulators, with the agreements of the agencies themselves, should adopt common guidelines to progressively incorporate longer-term SDG-aligned, social and environmental indicators into agency ratings.** Credit rating agencies should ensure that their ratings evaluate the net zero transition plans of, and capture the breadth of climate and inequality risks facing the entities they rate. Agency regulators acting together should set a timeline for the development and adoption of common guidelines.

viii) The **international community** should use all available organisations and channels to encourage the private sector to implement these recommendations, including the Global Compact, business, investment and insurance federations, the World Benchmarking Alliance, ICC and others, with full corporate transition plans. In line with the 'Disclosure' recommendations, annual corporate reporting should show progressive improvement, particularly on non-financial disclosure. The joint work of the UN with the GISD should help align the response and recovery measures with the implementation of the 2030 Agenda and scale up finance and investment for Sustainable Development in the post-COVID world.

D. International Development Institutions

All parts of the public and private international system, United Nations system, the International Monetary Fund, the World Bank Group, regional development banks, the G7, the G20, the OECD

and other regional and multilateral institutions, plus multinational corporations, should strengthen the alignment of their strategies and activities with the 2030 Agenda, the Addis Ababa Action Agenda, the Paris Agreement and the Sendai Framework. The participation of developing countries in the governance of multilateral organisations should be strengthened.

i) **Multilateral development banks, other development finance institutions and development agencies**, should align their operations as a priority with the SDGs, the Paris Agreement and the post-2020 Biodiversity Framework, while ensuring public finance is used efficiently and effectively, to support countries to recover from COVID-19 in a clean, safe, inclusive and resilient way. These actors should be encouraged to use their resources, knowledge and convening power to direct more investment to LDCs and SIDS. Working together, MDBs and other DFIs and development agencies should:

- Contribute to the development of globally harmonized sustainability alignment and disclosure standards across their portfolios of investments;
- focus on catalytic and transformational investments that help countries recover from COVID-19, in particular focusing on the priority areas for investment described above, including supporting governments and public sector institutions to develop green, inclusive and resilient project pipelines that support economic growth, job and income protection and creation and build self-sufficiency;
- support the scaling up and replication of inclusive and impactful resilience and disaster risk management projects

(including social protection), that rebuild and improve the health and resilience of households (including the poorest and most vulnerable) to shocks.

- progressively phase-out new investments in fossil fuel-based systems by scaling up concrete actions to align their portfolios with the Paris Agreement and the SDGs.
- Support social and environmental policies that focus on the most vulnerable members of society, both domestically and in solidarity with other nations requiring external support.
- Make the processes and procedures for accessing finance more accessible and provide support to recipients to access financial resources, particularly for LDCs and SIDS
- Embed gender and inclusion analysis within decision-making and address the needs and priorities of women and girls, people with disabilities and marginalised and crisis affected groups, supporting their leadership and political and economic empowerment.

ii) The approximately 450 public development banks around the world account collectively for 10% of total global annual investments and, with their public mandates and counter-cyclical roles, are highly relevant to contributing to the reconciliation of economic recovery and sustainable development. Through the Finance in Common Summit, to be held during the Paris Peace Forum in November 2020, public development banks should work together in a coalition to provide sustainable development and climate finance at scale, complementing each individual entity's operations and creating enhanced forms of cooperation.

Global Liquidity and Financial Stability

**PREPARED BY
DISCUSSION GROUP III**

**CO-LEADS:
COSTA RICA, GHANA, MALDIVES**

**LEAD SECRETARIAT:
UN ECONOMIC COMMISSION FOR
AFRICA AS CHAIR OF REGIONAL
ECONOMIC COMMISSIONS**

Discussion Group III: Executive Summary

Key Messages

1. COVID-19, primarily a health crisis, has had adverse impacts on the global economy, causing massive disruptions to global value chains, thereby resulting in global liquidity challenges.
2. This analysis identifies 4 action areas that could mitigate the liquidity crisis:
(i) General Allocation or Voluntary redistribution of Special Drawing Rights;
(ii) Expanding access to Central Bank Currency swaps and repo facilities; (iii) enlarging access to loans and grants; and (iv) Capital Account Management.
3. The 4 action areas, and their affiliated policy options are by no means mutually exclusive, but rather have immense potential to benefit from synergies. In addition, not all policy options may be applicable to a single country.

Introduction

COVID-19, primarily a health crisis, has had adverse economic effects for most economies in the world. Disruption of production and social distancing measures related to the health crisis that virtually all countries adopted to combat the pandemic led to a significant slowdown in economic activity. Consequently,

GDP growth projections for a majority of countries declining by between 5 to 10 percentage points between January and July (Map 1). In particular, Low Income countries (LICs), Small Island and Developing States (SIDS), as well as Middle Income countries (MICs) have come under severe pressures, with limited fiscal and monetary tools to respond to the crisis.

Governments of the major economies and IFIs have not been indifferent in this regard. In addition to the DSSI, the US Federal Reserve has extended US dollar swap lines to major developed and some developing country central banks and the IMF has increased its lending to low-income countries using different special facilities. The World Bank and regional development banks, including the Inter-American Development Bank and CAF (the Development Bank of Latin America), have also reacted swiftly and made more financial resources available to borrowing member countries.

Although several developing countries were able to issue new debt (e.g. Guatemala, Paraguay, Egypt, Albania and Brazil), many developing countries do not have this option. A number of countries, including SIDS and middle-income countries, have eased restrictions on capital account inflows and managed outward foreign currency payments to respond to the heightened capital flow volatility caused by the economic crisis associated with COVID-19.

Nevertheless, many countries continue to experience severe liquidity shortages. There is an urgent need for timely and sizable support to prevent a magnifying scale of financing challenges and a potential wave of debt and financial crises.

Process

Group III is chaired by Costa Rica, Ghana and Maldives, supported by the UN Regional Commissions, and has just over 60 members from Members states, IFIs, International Institutions and Civil Society Organizations. The group has had several meetings to deliberate on Global liquidity and financial stability issues in the face of the COVID-19 pandemic,

and policy options for the short, medium and long-term. Given the interrelationships between the topics in Group III (Global Liquidity and Financial Stability), Group IV (Debt Vulnerability), and Group V (Private Sector Creditors Engagement), the three Groups had several joint meetings to address overlaps and to avoid duplication in analysis of policy options.

Four Policy Action Areas

Upon review of the initial Issues Paper, Group III members provided several policy proposals. The proposals are grouped according to four action areas as represented in the table below:

TABLE 1:		
Time Sensitivity	Policy and Target Countries	Actors
Short term liquidity management	<p>A. Special Drawing Rights (SDRs)</p> <ul style="list-style-type: none"> • SDR General Allocation • Voluntary Redistribution of existing SDRs <p><i>Beneficiaries:</i> All IMF member countries: Low Income Countries, Emerging Markets, Developed Economies</p>	IMF, Central Banks
	<p>B. Central Bank Currency Swaps and repo facilities</p> <ul style="list-style-type: none"> • Broaden Central Bank Currency Swaps • Create IMF Swap Facility • Extension and enhancement of the FED Repurchase facility • Liquidity and Sustainability Facility <p><i>Beneficiaries:</i> Emerging Markets and some Lower Middle Income Countries</p> <p><i>Note: The IMF swap facilities could provide access to low income countries</i></p>	Central Banks, IMF

Short term liquidity management	<p>C. Enlarge access to loans and Grants</p> <ul style="list-style-type: none"> • Fund Against COVID-19 Economics (FACE) • Gold Sales <p><i>Beneficiaries:</i> <i>Emerging Markets and Developing Economies</i></p>	Ministries of Finance, Multilateral Development Banks, IMF
Medium to long term Financial Stability	<p>D. Capital Account Management</p> <p><i>Beneficiaries:</i> <i>Emerging Markets and Developing Economies</i></p>	Central Banks, Ministries of Trade

Potential Synergies and Trade-offs from policy options

The policy options above are not mutually exclusive and can be implemented concurrently. In addition, potential synergies can be identified from the different policy options. For example, under the Central Banks Currency swaps action area, currency swaps can be extended to countries within a given regional financing arrangement. Similarly, Central Banks can extend swap

facilities to regional financial arrangements and liquidity facilities, which would provide urgently needed liquidity for emerging market sovereigns with liquidity challenges.

The analysis recognizes that not all policies can be implemented by a single country. The analysis therefore explicitly identifies beneficiaries to which policy options within a given action area are suited.

Discussion Group III: Menu of Options

Key Messages

1. COVID-19, primarily a health crisis, has had adverse impacts on social welfare as well as the global economy, causing massive disruptions to global value chains and resulting in global liquidity challenges, which also threatens international financial stability and the attainment of the 2030 Agenda and the Sustainable Development Goals.
2. This analysis identifies 4 action areas that could mitigate the liquidity crisis: (i) General Issue or reallocation of Special Drawing Rights; (ii) Expanding access to Central Bank Currency swaps and repo facilities; (iii) enlarging access to loans and grants; and (iv) Capital Account Management.
3. The 4 action areas, and their affiliated policy options are by no means mutually exclusive, but rather have immense potential to benefit from synergies. In addition, not all policy options may be applicable to a single country.

1. Introduction

1. A. BACKGROUND

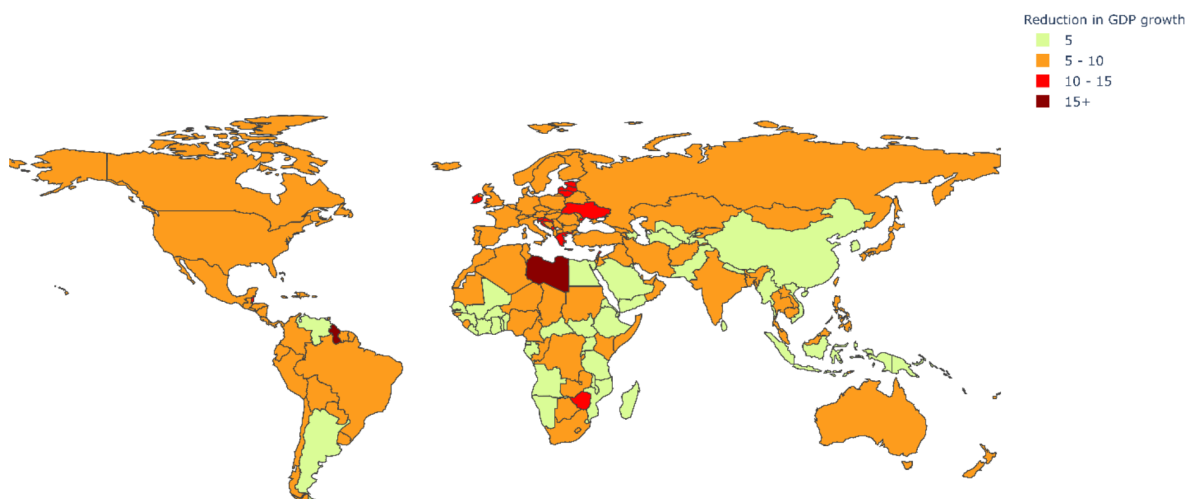
COVID-19 has had adverse economic effects for most economies in the world.

Disruption of production and social distancing measures related to the health crisis that virtually all countries adopted to combat the sanitary crisis led to a significant slowdown in economic activity. Consequently, GDP growth projections for a majority of countries declining by between 5 to 10 percentage points between January and July (Map 1). In particular, Low Income countries (LICs), Small Island and Developing States (SIDS), as well as Middle Income countries (MICs) have come under severe pressures, with limited fiscal and monetary tools to respond to the health crisis and the subsequent socioeconomic crisis.

Governments of the major economies and IFIs have not been indifferent in this regard. In addition to the DSSI, the US Federal Reserve has extended US dollar swap lines to major developed and some developing country central banks and the [IMF has increased its lending to low-income countries using different special facilities](#). The World Bank and regional development banks, including the Inter-American Development Bank and CAF (the Development Bank of Latin America), have also reacted swiftly and made more financial resources available to borrowing member countries. Challenges remain for some countries to access low-interest or concessional finance due to credit ratings or income per capita categorizations.

MAP 1:

REAL GDP GROWTH RATE PROJECTIONS FOR A MAJORITY OF COUNTRIES FOR 2020
DECLINED BY BETWEEN 5 – 10 PERCENTAGE POINTS, BETWEEN JANUARY AND JULY 2020



Source: ECA, IMF, UNDESA

Although several developing countries were able to issue new debt (e.g. Guatemala, Paraguay, Egypt, Albania and Brazil), many developing countries do not have this option. A number of countries, including SIDS and middle-income countries, have eased restrictions on capital account inflows and managed outward foreign currency payments to respond to the heightened capital flow volatility caused by the economic crisis associated with COVID-19.

Nevertheless, many countries continue to experience severe liquidity shortages, facing a “moral dilemma” of either meeting the sanitary and social needs created by the crisis or tending to the external financial obligations in order to maintain a “good rating”. There is an urgent need for timely and sizable support, such as a stimulus, to prevent a magnifying scale of financing challenges and a potential wave of debt and financial crises.

1.B. PROCESS

Group III is chaired by Costa Rica, Ghana and Maldives, supported by the UN Regional Commissions, and has just over 60 members from Members states, IFIs, International Institutions and Civil Society Organizations. The group has had several meetings to deliberate on Global liquidity and financial stability issues in the face of the COVID-19 pandemic and its macro and microeconomic effects, and policy options for the short, medium and long- term. Given the interrelationships between the topics in Group III (Global Liquidity and Financial Stability), Group IV (Debt Vulnerability), and Group V (Private Sector Creditors Engagement), the three Groups had several joint meetings to address overlaps and to avoid duplication in analysis of policy options.

1.C. 4 POLICY ACTION AREAS

Upon review of the initial Issues Paper, Group III members provided several policy proposals. The proposals are grouped according to four action areas as represented in the table below:

Potential Synergies and Trade-offs from policy options

The policy options above are not mutually exclusive and can be implemented concurrently. In addition, potential synergies can be identified

TABLE 2: 4 POLICY ACTION AREAS

Time Sensitivity	Policy and Target Countries	Actors
Short term liquidity management	<p>A. Special Drawing Rights (SDRs)</p> <ul style="list-style-type: none"> • SDR General Allocation • Voluntary Redistribution of existing SDRs <p><i>Beneficiaries:</i> All IMF member countries: Low Income Countries, Emerging Markets, Developed Economies</p>	IMF, Central Banks
	<p>B. Central Bank Currency Swaps and repo facilities</p> <ul style="list-style-type: none"> • Broaden Central Bank Currency Swaps • Create IMF Swap Facility • Extension and enhancement of the FED Repurchase facility • Liquidity and Sustainability Facility <p><i>Beneficiaries:</i> Emerging Markets and some Lower Middle Income Countries</p> <p><i>Note: The IMF swap facilities could provide access to low income countries</i></p>	Central Banks, IMF
Short term liquidity management	<p>C. Enlarge access to loans and Grants</p> <ul style="list-style-type: none"> • Fund Against COVID-19 Economics (FACE) • Gold Sales <p><i>Beneficiaries:</i> Emerging Markets and Developing Economies</p>	Ministries of Finance, Multilateral Development Banks, IMF
Medium to long term Financial Stability	<p>D. Capital Account Management</p> <p><i>Beneficiaries:</i> Emerging Markets and Developing Economies</p>	Central Banks, Ministries of Trade

from the different policy options. For example, under the Central Banks Currency swaps action area, currency swaps can be extended to countries within a given regional financing arrangement. Similarly, Central Banks can extend swap facilities to regional financial arrangements and liquidity facilities, which would provide urgently needed liquidity for emerging market sovereigns with liquidity challenges.

The analysis recognizes that not all policies can be implemented by a single country. The analysis therefore explicitly identifies beneficiaries to which policy options within a given action area are suited.

2. Policy Options

This section provides a brief overview of policies within the 4 action areas (Table 2). It should be noted that implementation of the first three policy areas could mitigate the adverse impact of COVID-19 on economies by strengthening liquidity in the short term, while the last option could strengthen financial stability in the medium to long term. Notwithstanding the medium to long term impact of action area 4 on financial stability, it is envisaged that implementation should begin immediately.

The policies are analyzed according to six parameters, which are summarized in radar charts. The parameters are: (i) provision of emergency liquidity; (ii) ease of implementation; (iii) inclusiveness, i.e. number of eligible countries; (iv) contribution to longer-term financial stability; (v) absence of policy conditionality; and (vi) reduction of the need for foreign-exchange reserves.

2.A. SPECIAL DRAWING RIGHTS

SDRs – General Allocation

Proposal: The IMF could have a General Allocation of SDRs. According to the Articles of Agreement, the IMF can create SDRs to meet the long-term global need to supplement its member countries' existing official reserves.

Structure: The allocations are made according to participating member's quotas.

Benefits:

- SDRs are an unconditional resource.
- The cost of using SDRs to users is currently low.

Challenges:

- A general allocation of SDRs requires an 85 per cent majority of total voting power of the members in the SDR Department, which is determined in proportion to quota shares.

Figure 3: General SDR Allocation has several benefits to effectively mitigate the liquidity challenge

SDRs – Redistribution

Proposal: Enact a voluntary redistribution of unused SDRs.

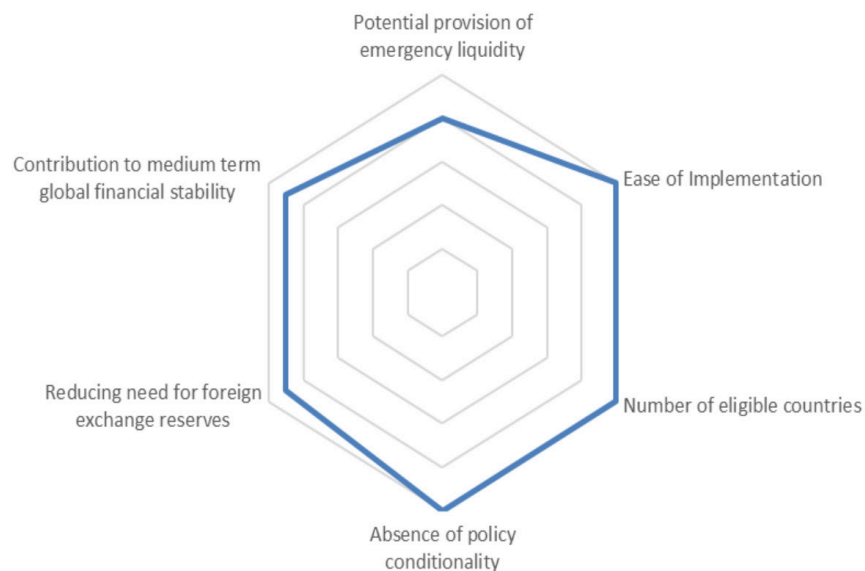
Structure: The creation of a new trust fund/ special purpose vehicle, whereby countries with unused SDRs may voluntarily and/or temporarily commit part of their SDR holdings.¹¹

Benefits & Challenges: Benefits and challenges are similar to option 1 above.

11 There have been suggestion to transfer SDRs to PRGT or CCRT instead of establishing a new trust fund for the purposes of a voluntary re-distribution of SDRs, however, in that case the SDRs would only be available to PRGT countries, precluding assistance to Emerging Markets with liquidity challenges.

FIGURE 3: GENERAL SDR ALLOCATION

GENERAL SDR ALLOCATION HAS SEVERAL BENEFITS TO EFFECTIVELY MITIGATE THE LIQUIDITY CHALLENGE



Beneficiaries of a General Allocation and voluntary redistribution of SDRs

- > General Allocation: All 189 IMF member states would benefit from a General Allocation of SDRs.
- > Voluntary redistribution of SDRs: A voluntary redistribution of SDRs from members that do not need them into a Trust Fund for use by other members with liquidity challenges could benefit a broad group of members but requires a high degree of cooperation and consensus among the members providing their SDRs. Transfer of SDRs by members to the PRGT and CCRT would limit access to eligible countries (currently, 69 low income countries for the PRGT and 29 approved countries for the CCRT) and would be governed by the applicable frameworks/rules for those trusts.

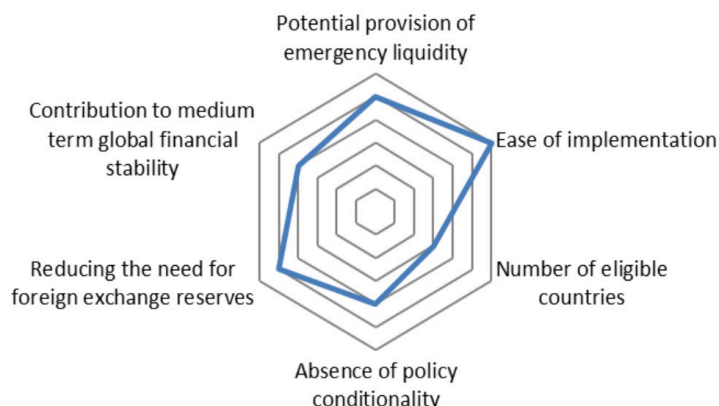
CENTRAL BANK CURRENCY SWAPS, IMF SWAP FACILITIES AND REPO FACILITIES

1. Central Bank Currency Swaps, link to IMF Facilities and Regional Arrangements

Proposal: Central Bank swap lines could be extended by including Regional Monetary Arrangements as recipients. They could also be extended by involving the IMF, that would declare a need for global liquidity support and recommend that central banks consider extending swap arrangements, including by linking the pre-qualification test to a recipient country's eligibility to an IMF emergency liquidity line, such as the SLL or RFI. The IMF could also on its own provide swap-type liquidity support on a revolving basis as long as the pre-qualification criteria persist, using the IMF's own resources

FIGURE 4: CENTRAL BANK SWAPS ARRANGEMENTS

SWAPS PROVIDE QUICK ACCESS TO LIQUIDITY AT NO MONETARY IMPACT



or administering funds from newly created or reallocated SDRs, with access limited to a certain percentage of the recipient country's quota.

Structure: A central bank – most often the Fed – provides a low-interest loan in dollars to a foreign central bank in exchange for an equivalent amount of foreign currency at the current exchange rate plus interest.

Benefits:

- Provides dollar liquidity insurance at very low funding cost.
- Currency of recipient central bank never enters circulation, i.e. it has no monetary impact.
- Central bank measures can potentially be much larger than financial resources available from international institutions.
- Extending existing swap lines to include Regional Monetary Arrangements as recipients or by involving the IMF

could substantially increase the number of recipient countries

Challenges:

- Inclusions into current swap line arrangements are uncertain, incomplete and asymmetric.
- Challenges in extension of existing swap networks or complement them with other arrangements that also reduce dollar funding costs, e.g. to swap arrangements of Regional Financial Agreements.

Beneficiaries:

- Countries that are members of Regional Financial Agreements such as the ASEAN +3 countries in the Chiang Mai Initiative Multilateralization (CMIM), the BRICS Contingent Reserve Arrangement (Brazil, Russia, India, China and South Africa), Arab Monetary Fund (22 Countries), European Stability Mechanism (ESM), the Latin American Reserve Fund (FLAR), EU Balance

of Payments Facility (EU BoP), Eurasian Fund for Stabilization and Development (EFSD), North American Financial Agreement (NAFA), and South Asian Association for Regional Cooperation (SAARC).

2. REPO Facility

Proposal: Extension and enhancement of the Fed established Federal Reserve Foreign and International Monetary Authority (FIMA) repo facility, effective from 6 April 2020, to last for 6 months, with foreign central banks. The duration of FIMA could be extended beyond the initial six months. Access to this facility could be enhanced if foreign central banks could place government bonds denominated in other key currencies, e.g. those included in the SDR, on a temporary basis with the using central bank assuming the exchange-rate risk.

Structure: The facility provides dollars in exchange for an equivalent amount of United States Treasury securities. The foreign central bank must repurchase the securities at maturity of the agreement.

Benefits:

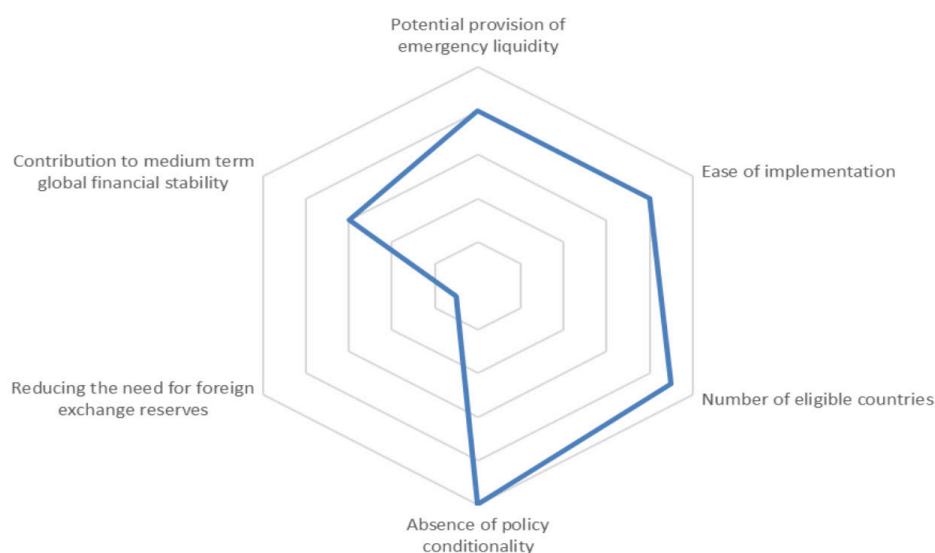
- Avoids need to sell foreign-exchange reserves to get access to liquidity.
- Allows significant use of foreign-exchange reserves without causing outsized changes in exchange rates or jeopardizing smooth functioning of financial markets.

Challenges:

- Fed sets conditions unilaterally by screening applications to use the facility.
- Possibility for Fed to accept government bonds denominated in another key currency than the dollar.

FIGURE 5: FIMA REPO FACILITY

ABSENCE OF CONDITIONALITY A STRENGTH OF FIMA



Beneficiaries:

- All countries with insufficient liquidity that are FIMA account holders with sizeable reserves.

3. Liquidity and Sustainability Facility

Proposal: The Liquidity and Sustainability Facility is proposed as a special purpose lending facility that would provide much needed liquidity to emerging market economies in the short run, while it is envisioned to support sustainable development activities in emerging markets in the long-run.

Structure: Lending to the facility provided by central banks(s) with sufficient hard currency reserves, or access to such reserves via dollar-swap lines. Private lenders will be able to pledge African, Asian and LatAm/ Caribbean bonds as collateral against the facility in order to obtain financing that can be used to purchase bonds from eligible

countries. Sponsoring central bank(s) would generate positive returns on the hard-currency capital, providing a key incentive.

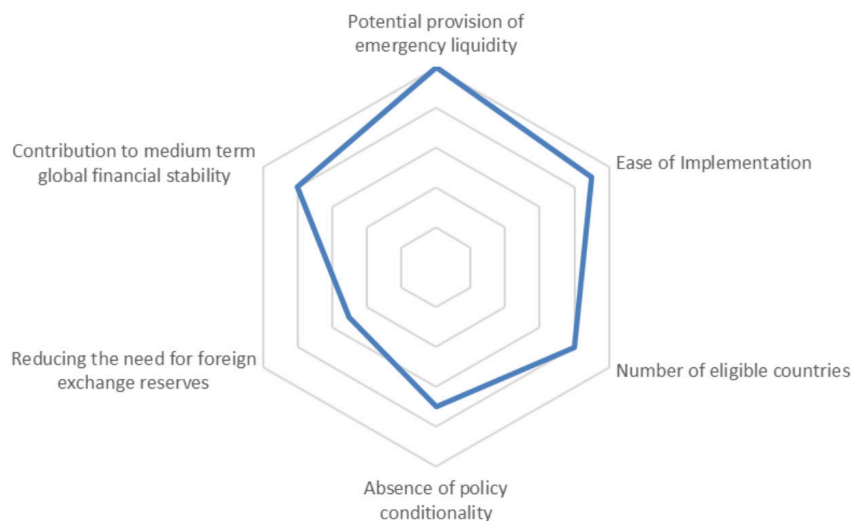
Benefits:

- In the near term, the facility could significantly lower borrowing costs, providing much needed bridge financing.
- The facility would benefit Official Sector Creditors and DFIs by improving overall debt sustainability.
- The facility is yet to be established
- The facility would require financing from Central Banks with hard currency reserves

Beneficiaries: Emerging market sovereigns in Africa, Asia and Latin America/ Caribbean, who have market access, and are facing liquidity challenges.

FIGURE 2: LIQUIDITY AND SUSTAINABILITY FACILITY

LSF COULD ADDRESS LIQUIDITY CHALLENGES AND STRENGTHEN FINANCIAL STABILITY



3. Enlarged Access to Loans and Grants

FUND AGAINST COVID-19 ECONOMICS (FACE)

Proposal: This fund would be financed with resources from powerful economies that represent 80% of the World's GDP, to be channeled through one/several multilateral development banks, which could blend concessional finance and investments from MDBs, international financial institutions and private lenders, among others, to provide extraordinary financing to developing countries, that have limited policy tools to respond to the crisis and continue en route to fulfilling the 2030 Agenda and its Sustainable Development Goals.

Benefits:

- Mitigate the impact of COVID-19 induced economic recession on poverty levels, businesses bankruptcies and political instability in emerging and poor economies.

- Responds to a multilateral "call for solidarity" and the need for the international financial system to evolve to respond to this unprecedented crisis.

Challenges:

- Willingness of high income and liquidity-rich countries to lend 0.74% of their GDP on concessional terms to finance FACE.
- Agreement between countries and implementing entities to administer FACE funds at no additional cost.
- Organizing the matching of creditor countries money and beneficiary countries, so as to avoid contradictions with geopolitical disputes.

Beneficiaries:

- All developing countries, especially low and middle income countries, and those at risk of debt distress or other fiscal constraints.

FIGURE 1: FUND AGAINST COVID-19 ECONOMICS (FACE)

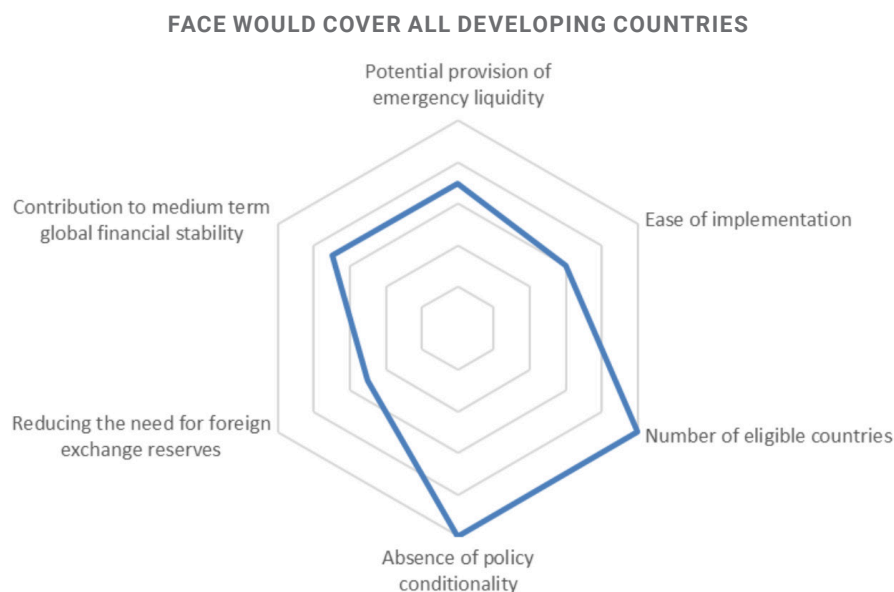
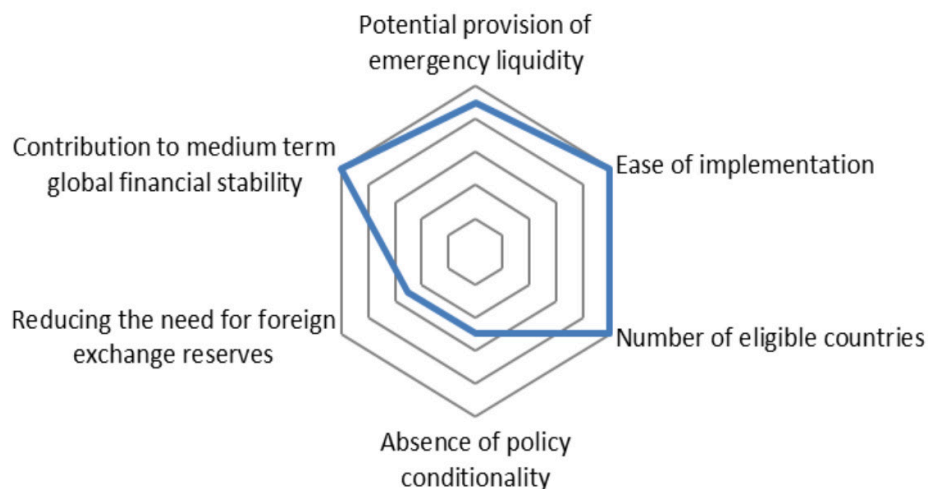


FIGURE 8: IMF GOLD SALES TO FUND THE PRGT

CHARACTERISTICS OF IMF GOLD SALES



- All countries lacking resources to attend the extra budgetary sanitary and socio-economic impacts of COVID-19 and remain on track to achieve their development goals.

IMF GOLD SALES

Proposal: The Fund currently holds around 2,800 metric tons of gold worth a bit less than USD180bn. The value has increased by more than USD40bn since the start of the global coronavirus pandemic. At the same time, the Fund continues to value gold at its balance sheet at its historic price of just USD35 per oz. (or less than USD5bn). The IMF could sell some of its gold holdings to generate resources for the purpose of financing the PRGT subsidies, thereby allowing the Fund to attract more non-concessional funds for the PRGT lending. Gold provides fundamental strength to the IMF’s balance sheet, benefiting both creditors and debtors alike and enabling the IMF to play its effective role as a crisis lender.

Benefits:

- Would provide concessional funding for PRGT countries, with the additional funding disbursed through existing IMF Programs.

Challenges:

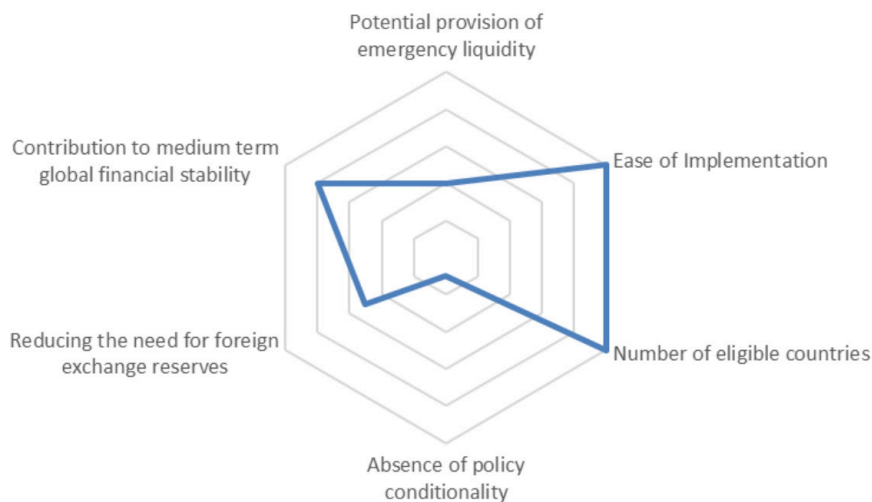
- The Fund’s gold holdings provide a fundamental strength to its balance sheet thus, its possible gold sales should be limited and carefully considered.
- Any gold sale requires
- The IMF’s Board decision with an 85 per cent majority of the total voting power.

IMF FACILITIES

Proposal: Enhanced access to fast disbursement support by the IMF – the Short-term Liquidity Line (SLL), the Rapid Financing Instrument (RFI), and the Rapid Credit Facility (RCF).

FIGURE 6: IMF EMERGENCY LIQUIDITY FACILITIES

IMF EMERGENCY FACILITIES HAVE A WIDE REACH



Options: Access could be further enhanced by increasing the amount or the percentage of quota that countries can draw.

Benefits:

- > For the SSL: Cheap, predictable, reliable, renewable, and rapid access to international liquidity.
- > No ex-post conditionality.
- > The SLL-process is confidential and avoids potential stigma in financial markets.

Challenges:

- > Requires approval by IMF Executive Board.
- > Total available funds required for the RCF/RFI facilities (roughly \$100 bn) are relatively small.
- > All facilities are subject to ex-ante conditionality.

Figure 6: IMF Emergency Facilities have a wide reach

Beneficiaries:

- > SLL and RFI: all 189 IMF-member countries with urgent liquidity needs.
- > RCF: IMF-member countries eligible to the Poverty Reduction and Growth Trust (PRGT) with urgent liquidity needs.

4. Capital Account Management

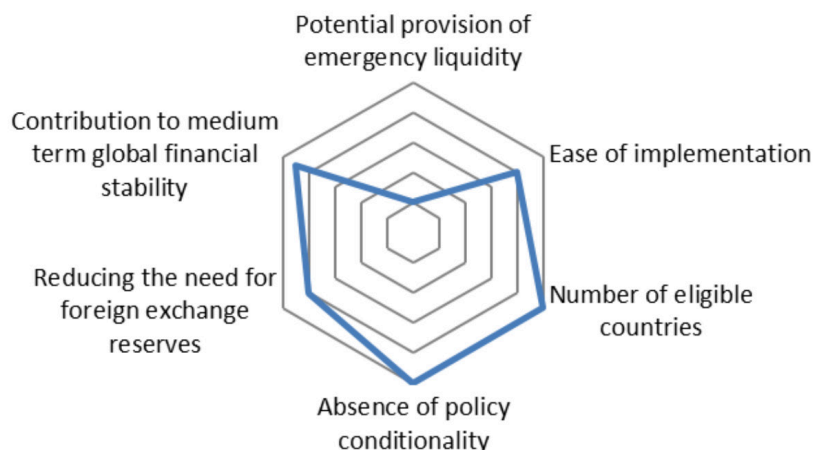
Proposal: Enable the use of capital account management tools as an integral part of countries' policy toolkit.

Benefits:

- > Capital controls, along with macro prudential regulations, are ex-ante measures – they regulate the accumulation of domestic assets held by foreigners and,

FIGURE 7: CAPITAL ACCOUNT MANAGEMENT

CHARACTERISTICS OF CAPITAL ACCOUNT MANAGEMENT



hence, the extent of panic capital outflows and needs for emergency dollar liquidity.

- Can be enacted quickly, if legislation providing for comprehensive and lasting capital controls is in place, and if their application is not prohibited by a country's trade and investment agreements.
- Can be used counter cyclically,

Challenges:

- Many developing countries have foregone the possibility to use capital controls by engaging in trade and investment agreements that prohibit their use.

- Applying capital controls can cause downgrading by credit rating agencies and make access to fresh borrowing more expensive.
- Capital controls are most effective if applied at both ends (i.e. in sending and receiving countries)

Beneficiaries:

All countries that do not have trade and investment agreements which prohibit the adoption of capital controls.

ANNEX I – Analytical Framework

The policy options are analyzed using six parameters, which we refer to as characteristics (Figure 8). The selection of parameters and the values they are given are to some extent subjective.

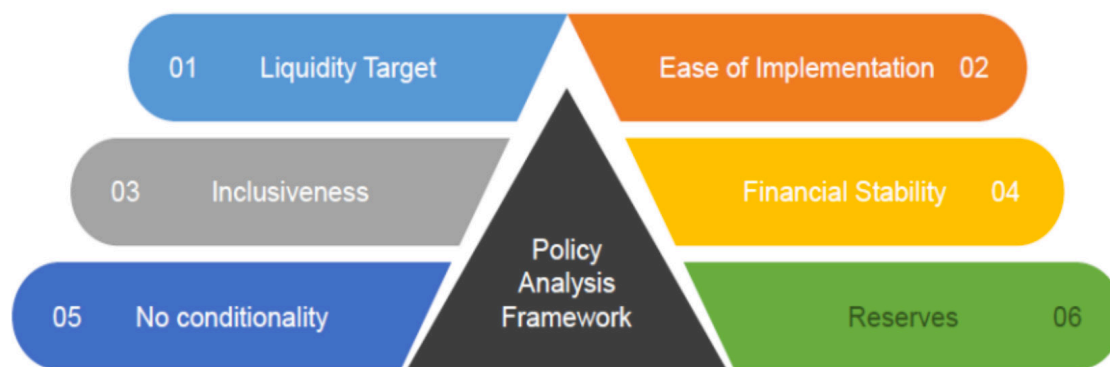
The variables are analyzed using radar charts. Radar charts help to compare policy options across a pre-selected number of parameters. They can highlight potential trade-offs between and within the various policy options, as well as the combination of what options may be best to attain certain objectives. Radar charts can be drawn for each option separately or reflect several options combined in one chart. A radar chart consists of a sequence of spokes, with each spoke representing one parameter. The length of a spoke is proportional to the value assigned to a parameter. A line connects the data values for each spoke and gives the plot a star-like or spider-like appearance, making radar charts also known as star or spider charts.

The charts relate to six parameters: (i) provision of emergency liquidity; (ii) ease of implementation; (iii) inclusiveness, i.e. number of eligible

countries; (iv) contribution to longer-term financial stability; (v) absence of policy conditionality; and (vi) reduction of the need for foreign-exchange reserves. The first four of these parameters arguably impose themselves from the focus of Discussion Group III. Parameter 05 is based on the assessment that it is desirable for countries to choose themselves how they wish to use the provided liquidity to spur post-COVID reconstruction, while parameter 06 reflects concern about the difficulty in accumulating foreign-exchange reserves in a post-COVID global economy characterized by sluggish global output and trade growth, as well as about potential costs involved in holding large foreign-exchange reserves. Some of the proposed broader policy options (discussed in section 7 at the end of this document) do not lend themselves for assessment based on the chosen six parameters.

Overall, the radar charts indicate that the different options have very different characteristics and that one single option is unlikely to meet all objectives.

FIGURE 8: ANALYTICAL POLICY FRAMEWORK



Source: UN Regional Commissions, SDG – Financing, UNCTA

ANNEX II: Policy Options

1. SPECIAL DRAWING RIGHTS ECONOMICS

Proposal:

The SDR proposal comes in two strands:

a. An IMF SDR general Issue of US\$ 500 billion. According to the Articles of Agreement, when certain conditions are met, the IMF may make a general allocation of SDRs to members participating in the SDR department. The allocations are made according to participating member's quotas. For example, a SDR General Issue of US\$ 500 billion, will result in an allocation of just under US\$ 200 billion to developing countries. Consequently, a second proposal was put forth:

b. A reallocation of SDRs from developed countries that do not require them, to countries with liquidity challenges. This could be done through a Trust Fund at the IMF, which would enhance the IMF's lending capacity.

SDRs are a claim on other currencies, and not a currency in itself. SDRs can be held by member countries, the IMF, and certain designated official entities, but not by private entities or individuals. Therefore, countries

allocated SDRs can exchange them at the IMF for a reserve currency. For instance, if a country is running low on currency to pay its foreign obligations, say dollars or euros, it can exchange its SDRs for the needed currency.

Currency Weights
(Determined in the 2015 review)

U. S. Dollar	41.73
Euro	30.9
Chinese Renminbi	10.9
Japanese Yen	8.3
British Pound Sterling	8.0

Benefits:

The special drawing rights has several benefits for developing countries:

1. **SDRs are an unconditional resource.** The nature of the COVID19 crisis is such that it requires countries to do whatever it takes to combat the crisis. In this respect, SDRs are an ideal policy option as it does not impose conditionality on countries at this time when all available resources are required to mitigate the crisis.

TABLE 9: SDRS ARE BASED ON A WEIGHTED AVERAGE OF 5 CURRENCIES

Currency	Weights (Determined in the 2015 review)
U. S. Dollar	41.73
Euro	30.9
Chinese Renminbi	10.9
Japanese Yen	8.3
British Pound Sterling	8.0

2. **The cost of SDRs to users is low.** For developing countries facing liquidity challenges, SDRs would be a relatively low cost source of liquidity, while developed countries who do not need their SDRs and are willing to exchange them for foreign currency would earn an interest on excess SDRs.
3. **There already exists an active internal market for SDRs.** A general issue of SDRs, or a reallocation of developed country SDRs to developing countries would not require new operation mechanisms as an internal market within the IMF already exists, has been used and is accepted, where all member states can exchange SDRs for foreign currency.
4. **Once agreed upon, implementation could take place within 6 months.** After the Global Financial Crisis (GFC) in 2009, an agreement in April 2009, saw the IMF have a general SDR issue in September 2009.

Challenges:

1. **Cost to Developed countries for a transfer/reallocation of SDRs to developing countries.** A transfer of SDRs from rich to poor countries comes at a cost for developed countries.
2. **A general issue of SDRs is subject to at least 85 per cent of total votes held by the IMF members.** A general issue would require the support of the United States, whose voting power is 16.5 per cent.

2. CENTRAL BANK CURRENCY SWAPS, IMF SWAP FACILITIES AND REGIONAL ARRANGEMENTS

The emergence of central bank swap lines in the wake of the Global Financial Crisis of 2008–2009 represents a major addition to the Global Financial Safety Net that used to comprise only the IMF and Regional Financial Arrangements

(RFAs). Central bank swap lines can provide virtually unlimited amounts of liquidity within a very short period of time, but they have mainly been confined to a few major advanced economies, and many countries lack access to RFAs as well. Central bank swap lines could become more inclusive if they could be extended to include RFAs as recipients and increase the currently small financial capacity of RFAs (Table 10).

Central Bank Currency swaps

Central bank swap lines could also be extended by involving the IMF that would declare a need for global liquidity support and recommend that central banks consider extending swap arrangements, including by linking the pre-qualification test to a recipient country's eligibility to an IMF emergency liquidity line, such as the SLL or RFI. The IMF could also on its own provide swap-type liquidity support on a revolving basis as long as the pre-qualification criteria persist, using the IMF's own resources or administering funds provided from newly created or reallocated SDRs, with countries not using their allocations making funds available to the IMF to finance such a facility and provide country-specific access limited to a certain percentage of the recipient country's quota.

Enhance the coverage of the Federal Reserve Repurchase Facility to include more EMDEs

The Fed established a repurchase facility (effective from 6 April 2020, to last for 6 months) with foreign central banks (and other international monetary authorities with accounts at the Federal Reserve Bank of New York) that provides dollars in exchange for an equivalent amount of United States Treasury securities. The foreign central bank must repurchase the securities at maturity of the agreement. The short maturity of the agreements (they are overnight but can

TABLE 10: RFA AND IMF RESOURCES AND EMDE'S SHARE IN LENDING CAPACITY ¹²

	Capital/swap amount (billion USD)	EMDE's share of lending capacity
International Monetary Fund	971.1	388.5
European Stability Mechanism	90.6	0.0
Chiang Mai Initiative Multilateralization	240.0	201.6
Contingent Reserve Arrangement	100.0	85.0
European Financial Stabilisation Mechanism	67.7	0.0
EU Balance of Payments Facility	54.1	0.0
North American Framework Agreement	14.0	0.0
Eurasian Fund for Stabilization and Development	8.5	8.5
Arab Monetary Fund	3.6	4.7
Latin American Reserve Fund	2.9	4.7
European Macro-Financial Assistance Facility	2.0	0.0
South Asian Association for Regional Cooperation	2.0	2.0
Total	1,556.5	695.0

be rolled over as needed) implies that the Fed can assess conditions on a daily basis. Access to this facility could be enhanced if its timeline were extended and if foreign central banks could also place government bonds denominated in other key currencies, e.g. those included in the SDR, on a temporary basis with the central bank assuming the exchange-rate risk.

Medium term implications of the FED's Repurchase Facility - Tends to reinforce incentive to accumulate foreign-exchange reserves as self-insurance. Accumulation of "earned"

reserves, i.e. from export earnings, may be difficult due to low commodity prices and prospects for generally low global output growth and plummeted demand for developing country exports to persist. This could spur incentives for an accumulation of "borrowed" reserves, i.e. from capital inflows, which would enhance resource transfers from developing to developed countries (yields on financial assets in developing countries tend to exceed those in developed countries), as well as the exposure of developing countries to capital-flow volatility.

¹² Table Source: Kevin P. Gallagher, Haihong Gao, William N. Kring, José Antonio Ocampo and Ulrich Volz. (2020) 'Safety First: Expanding the Global Financial Safety Net in Response to COVID-19'

3. LIQUIDITY AND SUSTAINABILITY FACILITY

A joint proposal by United Nations Economic Commission for Africa (ECA) and PIMCO

Proposal

We propose the creation of the LSF to facilitate the financing of debt service obligations in the first instance and issuing new debt for sustainable development over the medium to long term. The vehicle will initially focus on countries with established market access and solid macro-economic fundamentals prior to the crisis. They will include all vulnerable emerging market sovereigns that qualify, including vulnerable Middle-Income Countries. Target sovereigns would be those that, while experience liquidity issues, have overall strong macro-economic profiles and good market fundamentals.

If needed, the facility could have an initial equity injection in the form of funded commitment or guarantee. The size of which is likely to be determined by the senior lender (approximate range from \$1bln to \$5bln). Senior lending capital for the facility is to be provided by a coalition OECD central banks to lend between \$50bln-\$100 bln to private sector investors in eligible vulnerable emerging market countries. This would be on a “full recourse and fully collateralized basis” to eligible investors in the related debt. The program could begin in a targeted and phased manner (e.g., identifying some African/LatAm/Asian sovereigns to start) and expand based on success demonstrated.

Private lenders will be able to pledge African, Asian and LatAm/Caribbean bonds as collateral against the facility in order to obtain financing that can be used to purchase bonds from eligible countries. This injection of cheaper private financing to vulnerable emerging

market sovereign countries would represent the first of its kind for the regions. However, it would mimic facilities and market practices already widely used in developed markets. In essence it would confer the liquidity provisioning benefits enjoyed by developed markets to vulnerable emerging market sovereigns

Shifting risks to the private sector:

It is important to emphasize that virtually all investment/financial risk associated with the facility would lie with the private sector. It would be the private-sector investors that pledge assets as collateral to the facility, and they would be required to contribute more collateral/coverage to the facility should there be a sudden deterioration in the value of their pledged assets or the condition of their own balance sheets. However, it is important to stress that private-sector borrowers could be screened for creditworthiness, ensuring that those using the facility are financially sound and able to make-good in worse-case scenarios.

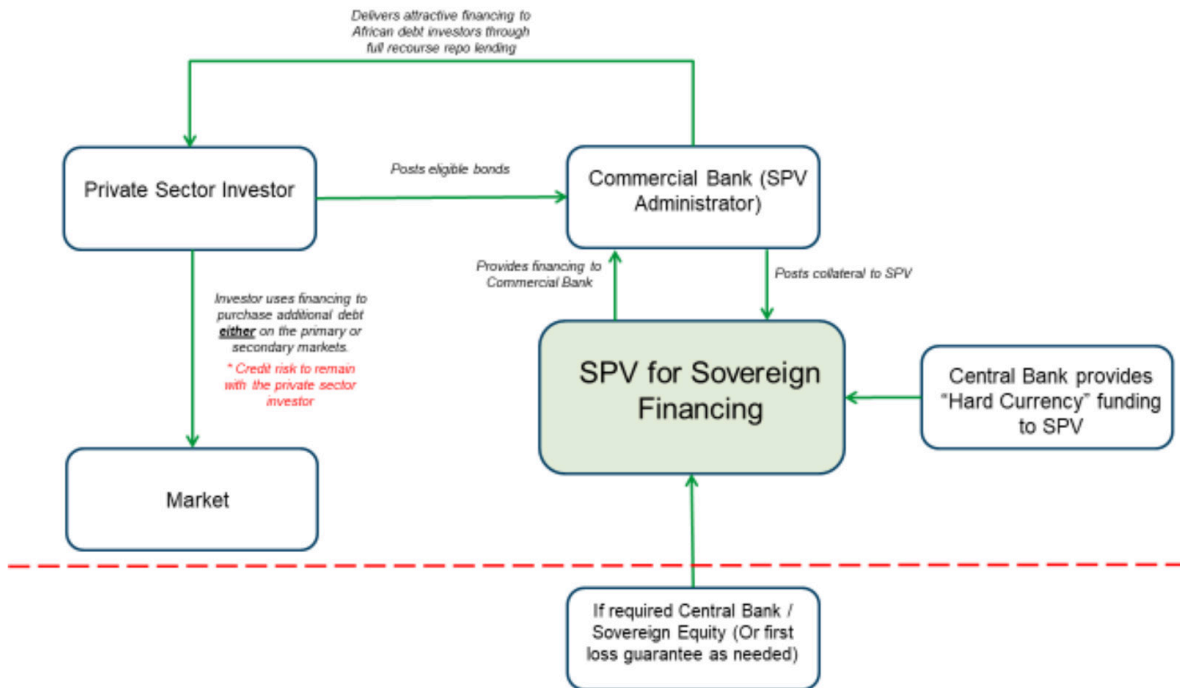
Equally, it is critical to stress the such a facility is not intended to be a “silver bullet” for COVID vulnerable emerging market sovereigns economic and financial duress—rather a mechanism for sovereigns to keep accessing the markets and while honoring their market obligations to creditors and preparing for the rebuild.

Rating agencies:

Preliminary conversations with the major credit rating agencies indicate they would view the facility in a positive light with respect to the ratings. This would be predicated on the extent the facility reduced sovereign borrowing costs, provided more market liquidity, and thereby supported better long-term debt dynamics.

LIQUIDITY AND SUSTAINABILITY FACILITY (REPO/SPV)

Mission statement: To incentivize private sector debt investment and reduce sovereign borrowing costs



As noted, the facility could serve to address longer-range sustainability initiatives and projects throughout emerging markets, beginning, for example, with the UN ECA's "SDG 7" initiative, which is intended to broaden and bring clean-energy projects to scale.

The facility would mostly likely create an instantaneous reduction in borrowing costs for sovereigns and help to re-open markets. It may also create new investment interest in the regions from non-traditional investors. Individual would then be able to take advantage of this cheaper financing and raise new money and or conduct liability management to term out debt and help reduce forthcoming principal and coupon

payment concerns. This new capital can be rapidly deployed in a direct and targeted manner to be determined by each individual sovereign.

Mechanics of the Facility

- It will accept a broad range of securities from all eligible countries
- Advance rates ("haircuts") against the collateral will be defined on a rating-based methodology but will be generous in nature
- The facility will be administered by global commercial banks who have existing relationships in place with eligible private-sector counterparties
- The facility will be exempt from regulatory capital charges typically faced

by commercial banks and thereby be able to lend at very attractive rates

- Repo will be available on shorter-term and longer-term maturities, i.e., on term 2-3 years
- However, in terms of broader sustainability initiatives the facility could endure to help create a central financing mechanism for the regions
- Pricing (repo terms) will be will generous in nature and similar in lending available in hard-currency sovereign markets— so as to encourage large scale participation (perhaps a small positive lending rate but close to zero)
- The facility will follow a mark-to-market protocol to be managed by the fund administrator(s) and a consortium of banks

Special Incentives for COVID and Sustainability Issuance

The initial purpose of the facility would be to support vulnerable emerging market sovereigns in raising capital – liquidity – to address COVID-related needs and associated economic disruptions. To help facilitate this, the facility could be structured in a way that gives more advantageous terms for COVID-related issuance, in the first instance.

Use of Proceeds (UOP) could be clearly stated to benefit COVID-19 challenges, directly or indirectly. More broadly, UOP could promote the Sustainable Development Goals (SDGs) over the medium and longer-term horizons—including, importantly, Climate Action aligned to the goals of the Paris Agreement. Here, again, more favorable borrowing terms could be built in to incentivize such UOP.

Further, new bonds and related instruments could be issued under a formalized framework that aligns with the SDGs and potentially meets ICMA’s Social or Sustainability Bond Principles. Such bonds could also be labeled “SDG COVID-19” bonds and linked to the official SDGs and relevant SDG targets/indicators.

With respect to longer range sustainable development needs, the facility could provide access to capital to address a range of critical socio-economic-environmental needs and priorities, including a focus on clean-energy investments in order to ensure recovery that is sustainable, inclusive and green (i.e., in alignment with the Paris Agreement).

4. FUND AGAINST COVID-19 ECONOMICS

The world is beginning to understand and “face” the magnitude of the economic impact of COVID-19 and its repercussions. As indicated by the United Nations Development Programme (UNDP), the World Bank has warned that the crisis could push between 40 and 60 million people into extreme poverty this year, with Sub-Saharan Africa hit hardest, followed by South Asia, while the International Labor Organization expects the equivalent of 195 million jobs lost. The World Food Programme projects that 135 million people are facing crisis levels of hunger or worse, while another 130 million are on the edge of starvation.

As countries are preparing to ease out of lockdown and start a gradual reopening of their economies, they continue to face record levels of deprivation and unemployment. Socio-economic measures are urgently needed to attend this human crisis that is hitting the poorest hardest, especially women and children. Governments must also deal with the increase of their national deficit, by implementing measures to strengthen national demand and boost the domestic market.

In this context, and given the scale and scope of the socio-economic impact of the pandemic, it is essential for governments to have access to additional funds, under exceptional financing terms that include low interests, grace periods, longer repayment terms and exemptions from commission payments and charges in general. International financial institutions must be ready to swiftly inject resources into the countries that need them.

Falling to implement effective recovery measures will result in increased poverty in poor and middle-income countries, which in turn will result in increased migration, and the advancement of illegal industries such as drug trafficking and money laundering. Many low and middle-income countries risk going into defaults, which could incite a domino effect that would affect the world economy and its financial stability. Political instability due to social tensions, as well as decreasing trade are also expected outcomes of global economies facing recession. Indeed, the cost of inaction will be much higher in the future.

In a globalized world, the same rationale behind the fiscal and monetary largesse implemented by high-income countries towards preventing bankruptcy and towards rescuing local firms, warrants the creation of a special fund for avoiding the worse consequences of the crisis in emerging and poor economies.

In a globalized world, the same rationale behind the fiscal and monetary largesse implemented by high-income countries towards preventing bankruptcy and towards rescuing local firms, warrants the creation of a special fund for avoiding the worse consequences of the crisis in emerging and poor economies. In this context, Costa Rica, convinced of the benefits of investing on education, health, and strong institutions, as fundamentals of sustainable development, is proposing the creation of

an *extraordinary support fund*, **Fund Against COVID-19 Economics (FACE)**. This fund would be financed with resources from powerful economies, those that represent 80% of the World's GDP, to be channeled by one or several multilateral development banks, which could blend concessional finance and investments from MDBs, international financial institutions and private lenders, among others, to provide extraordinary financing to developing countries, including low and middle-income countries, that cannot immediately expand internal resources. It would have the following characteristics:

1. FACE should reach a minimum equivalent of 3% of the GDP of the beneficiary countries.
2. FACE would be destined to mitigate the economic impact on individuals and on productive sectors caused by the economic crisis and to revive the economies once the pandemic has been overcome.
3. FACE would be lent to each country with a term of 50 years, 5 years of grace and a rate of zero percent interest or fixed at the current LIBOR (0.7%).
4. The beneficiary countries, with the advice of the financial institutions, would establish an accounting system and a registry of statistics to identify the fiscal cost of the pandemic, both the direct cost of dealing with it and the one derived from its economic consequences and the policies.
5. Financial organizations would not charge for the intermediation and administration of FACE resources. They can assume that by accepting lower profits.
6. FACE would be lent without fiscal, monetary or structural conditionalities, but with requirements for good governance, and a steady fight against corruption from countries.

7. Likewise, disbursement of FACE resources would be fully aligned with the fulfillment of the 2030 Agenda, building resilience and achieving the targets of multilateral environmental agreements, such as countries' NDCs, to accelerate progress towards sustainable development in the Decade of Action;
8. International financial institutions would maintain the assessments and dialogues on the macroeconomic and structural conditions of each country, which prevailed prior to the crisis caused by the pandemic.

In times of extreme demands, we as a global community, must respond in a decisive, innovative and organized manner, with a clear view on the investment these decisions represent for future generations. Not only should governments suppress the spread of the virus but also address the socio-economic devastation that it is causing in all regions. In doing so, we also should focus on a new way to address development, following principles of environmental and social sustainability, mainstreaming gender equality issues, and ensuring inclusive sharing of development benefits and opportunities so no one is left behind. The SDG's and the 2030 agenda should enlighten this path.

5. IMF FACILITIES AND IMF GOLD SALES

Background:

The pandemic-triggered crisis presents developing countries with huge challenges. Its impact will be profound and long-lasting. The global community has done a good job, quickly providing initial urgent response to the virus outbreak. But there is still a lot to be done to safeguard the most vulnerable and catch up with the Sustainable Development Goals in the post-pandemic world.

The global community should take a pragmatic approach to global liquidity prospects. Shortages are likely to persist against the background of higher public debt levels in many advanced and developing economies. Remittances will likely fall due to the combined effect of the coronavirus pandemic and lower commodity prices.

Proposal:

Sale of IMF's gold. The Fund currently holds around 2,800 metric tons of gold worth a bit less than USD180bn. The value has increased by more than USD40bn since the start of the global coronavirus pandemic. At the same time, the Fund continues to value gold at its balance sheet at its historic price of just USD35 per oz. (or less than USD5bn).

The IMF could decide to sell some of its gold holdings to generate resources for the purpose of financing the PRGT subsidies. This would also play a catalytic role, allowing the Fund to attract more non-concessional funds for the PRGT lending.

While gold sales have been rare since the Second Amendment to the Articles of Agreement, limited precedents exist involving the use of the Fund's gold: in 1976 to the Trust Fund; in 1990-2000 as part of the broader effort to raise funds for the PRGF-HIPC Trust; and in 2009-10 when the Fund sold gold as part of its "new income model".

While it is recognized that the Fund's gold holdings provide a fundamental strength to its balance sheet and, thus, its possible gold sales should be limited and carefully considered. Any gold sale requires the IMF's Board decision with an 85 percent majority of the total voting power. This means that an agreement on the matter will be challenging to achieve.

6. CAPITAL ACCOUNT MANAGEMENT

Undue and unwarranted excessive capital inflow into, and outflows from, a developing country due to exogenous factors, such as quantitative easing and low interest rates facilitated by central banks in developed countries, should allow unconditional capital flow management by developing countries. The objective is to prevent and address undue capital inflows and outflows that result in problems of liquidity, financial instability, debt repayment, currency speculation and financing the SDGs and sustainable development plans.

In order to apply smart capital flow management in those circumstances, different policies are important and need to be combined:

- The articles in trade and investment agreements that stipulate restrictions on the use of capital flow management tools, such as capital controls (e.g. articles related to capital movements, capital account and current account, transfers and (balance of) payments), should be reviewed to take account of exogenous circumstances.
- For existing trade and investment agreements, a new Memorandum of Understanding (MoU) or new Annex between the parties should be negotiated to provide for more flexibility regarding the use of capital account management tools in situations of exogenous capital flow pressures e.g. no ex-ante fixed duration of balance of payments safeguards. In trade and investment agreements still being, or going to be, negotiated, the articles on capital movements and transfers should provide for less restrictions and more flexibility for managing and controlling them. In addition, the new MoU or Annex, or the newly formulated articles, should provide for information exchange, and cooperation, between the central banks in order to avoid negative impacts by the policies of the central

bank of one party on the financial system (including debt sustainability) of the other party. Support for foreign exchange liquidity through swaps line arrangements in times of capital flow stress could also be included in the cooperation MoU/ Annex or article.

- In order to promote smart capital flow management and deal with complex and speculative financial markets, e.g. foreign exchange derivatives markets, central banks from developing countries should be able to receive technical support from central banks around the world.
- In a globalized financial system, the cooperation among central banks and other monetary authorities should be improved to prevent and avoid that the monetary policies of one country or regional monetary arrangement endangers the liquidity, stability of financial systems, and debt repayments, in other countries and globally. The Bank of International Settlements (BIS) should start dialogues to that extent to explore all possible options. These dialogues could inspire discussions on Integrated National Financing Frameworks, the application of the IMF's constitutional view on capital flow management.

7. ADDITIONAL POLICY OPTIONS

Proposal: Income-linked bonds, such as GDP- or export-linked bonds, can be used to address extreme volatility of income arising from external shocks in LICs and MICs. IFIs should support these instruments in order for them to become a common feature of the financing for development landscape.

Benefits: By linking debt service to a measure of the sovereign's capacity to pay, income-linked bonds can increase fiscal space. These bonds

are by nature counter cyclical and act to stabilize government spending, reducing the risk of default during times of economic contraction.

Challenges: GDP-linked bonds may be politically unpopular during periods of high growth. Economies with high volatility in GDP growth or reduced monetary policy options may not benefit as much from these instruments. These bonds may also create incentives to misreport GDP growth. Income- or export-linked bond may be an alternative in this regard

Beneficiaries: MICs and LICs

i. Natural Disaster Clauses

Proposal: Natural disaster clauses (first introduced in Grenada's debt restructuring negotiations of 2014/2015) should be supported by the IFI community and be a norm for debt restructuring or new borrowing (including from private creditors), for low and middle-income countries.

Benefits: Natural disaster clauses protect both borrowers and lenders. They offer immediate fiscal space in the event of a disaster by providing debt standstills and allowing governments to finance recovery. They also lessen the likelihood of payment default or of compromising debt sustainability. If such clauses can be supported by the IFIs they will become a normative feature of future borrowing requirements.

Challenges: The trigger (intensity or economic cost of a natural disaster) for activating the clause must be predetermined and the creditor and debtor must agree on the events that will be covered. Some investors may have the view that improving disaster insurance and establishing fiscal buffers were more appropriate means of preparing for hurricanes and natural disasters.

Beneficiaries: SIDS

ii. Resilience Funds

Proposal: IFIs, development finance agencies (e.g. the Green Climate Fund, GCF) and international development partners could support the creation of Regional Resilience Funds designed to assist small economies, commencing with the Caribbean Development Fund, possibly housed at the CARICOM Development Fund (CDF). Resilience Funds are intended to be the primary regional development funding vehicles for financing, inter alia, climate adaptation projects and infrastructure, as well as resilience-building; while also facilitating debt reduction through debt for climate swaps.

Benefits: The establishment of regional Resilience Funds will address the urgent need for low-cost medium-term finance to support sustainable development of small vulnerable economies, offering different forms of modalities of financing: grant, loan, guarantee, bonds.

Challenges: Climate development agencies such as the GCF may have to be convinced to participate in Resilience Funds and to be assured that their resources are not leaked into carte blanche debt reduction initiatives, beyond debt for climate adaptation swaps.

Beneficiaries: SIDS, developing countries affected by climate change

iii. Strengthened Regional and Interregional Monetary Cooperation

Proposal:

- Regional payments systems that dampen the volatility of cross-border capital flows and promote intra-group trade without using the dollar, thereby allowing existing dollar liquidity to be used for other needs.

- Reserve pooling that makes available short-term finance, such as through intra-group swap lines.
- The effectiveness of reserve pooling could be enhanced by linking regional monetary arrangements with major central banks currency swap lines.

Benefits:

- Avoids need to sell foreign-exchange reserves, potentially into illiquid markets, to get access to dollar liquidity.
- Allows access to dollar swap lines even for countries that are not included in swap lines extended by the Fed (or other major central banks).
- Builds on existing mechanisms and, once broadened, could be activated rapidly.

Challenges:

- Existing amounts of available dollar liquidity too small to constitute on its own a credible defence against reversals of international capital flows, especially when all members are subject to external shocks simultaneously.
- Amounts of dollar liquidity beyond a certain share of the maximum swap amount (30% for the CMIM) that each country can obtain is linked to a loan agreement with the IMF and related conditionality.
- Establishing swap arrangements between regional monetary institutions and a central bank issuing an international currency could significantly increase the amount of liquidity support available to members of regional arrangements.

Beneficiaries: All countries with insufficient short-term dollar liquidity.

iv. Bilateral Credit Guarantees

Proposal: Many lower credit-rated developing countries are facing liquidity constraints due to impact of Covid-19 on revenues and the disruptions to the capital markets. The cost of financing from international capital markets have become prohibitive. If investment rated sovereigns could provide a guarantee to these countries, this would reduce the cost of borrowings. To ensure that the guarantees are issued for solvent countries, that IMF can conduct the due diligence on behalf of the Guarantor. Furthermore, the receiver could commit for a program of reforms to ensure the repayment capacity.

Benefits: Liquidity constrained developing countries will not have to resort to costly borrowing from the capital market.

Challenges: A guarantor takes on some risk by issuing the guarantee. So will need the participation of investment rated sovereigns.

Beneficiaries: Developing countries, non-investment grade sovereigns.

v. Flexible Lending Instruments for IFIs

Proposal: The IFIs have been responsive to the Covid-19 crisis in providing rapid financial assistance. However, the financing need is greater and countries need to access traditional lending instruments of the IFIs. The traditional lending instruments still come with conditions that has a high economic and political cost to enacting during the current moment in time. IFIs could negotiate more flexible conditions and could condition reforms to kick in after reaching certain economic recovery targets.

Benefits: Countries can meet their short and medium term funding needs without onerous conditions. Ensure political and economic stability.

Challenges: Ensuring that countries abide by their commitments for reform after reaching the threshold for recovery, ex-post could prove difficult. Need institutional arrangement to ensure ex-post adherence.

Beneficiaries: All countries

vi. Review of Investment Guidelines for Global Asset Managers

Proposal: Engagements with Global Asset Managers to review investment guidelines which would allow Asset Managers purchase securities from developing countries. The Global Asset Management Report published by the Boston Consulting Group in May 2020 pegs total assets under management in 2019 at US\$ 89 trillion. We therefore propose for the introduction of an Alternative Investment bucket which will allow Asset Managers to invest say 5% (about US\$ 4.45 trillion) of assets under management in countries with ratings below investment grade and in “riskier assets”.

Benefits: To help developing and frontier economies deal with the liquidity challenges created by the pandemic in order to prevent a prolonged recession and enable them recover quickly post - Covid-19.

Challenges: Global Asset Managers with excess liquidity are unable to invest or place these funds in developing countries. This is due to investment policies that limit them to investment grade countries only.

Beneficiaries: Developing and frontier economies

vii. Utilizing Sukuk Like Structure to Raise Financing

Proposal: Use of structures similar to the Sukuk Bond structure to help raise funding and ease tight fiscal conditions. Sukuks are financial products whose terms and structures comply

with sharia, with the intention of creating returns similar to those of conventional fixed-income instruments. Unlike a conventional bond (secured or unsecured), which represents the debt obligation of the issuer, a sukuk technically represents an interest in an underlying funding arrangement structured according to sharia, entitling the holder to a proportionate share of the returns generated by such arrangement and, at a defined future date, the return of the capital.

Benefits: To help developing and frontier economies deal with the liquidity challenges created by the pandemic in order to prevent a prolonged recession and enable them recover quickly post – COVID-19.

Beneficiaries: Developing and frontier economies

IX. Provision of Government Guarantees to enable Private Sector Lending

Proposal: Proposal to design and implement a guarantee by governments that will

encourage commercial banks to increase lending to small businesses, operating in the value chain of key sectors of the economy in developing countries. The guarantee program should be provided by government and backed by MFIs or DFIs that could act as a first-loss facility to lower the perceived risks for banks, could be considered. Qualifying businesses can benefit from these programs and gain access to funding at favorable terms to help stimulate growth and kick start their economies back to life and create and/or protect jobs.

Benefits: To help developing and frontier economies deal with the liquidity challenges created by the pandemic in order to prevent a prolonged recession and enable them recover quickly post – COVID-19

Beneficiaries: Developing and frontier economies.

Debt Vulnerability

**PREPARED BY
DISCUSSION GROUP IV**

**CO-LEADS:
AFRICAN UNION,
NETHERLANDS, PAKISTAN**

**LEAD SECRETARIAT:
UN DESA AND UNCTAD**

Discussion Group IV: Executive Summary

COVID-19 and its economic fallout are devastating public balance sheets and exacerbating already high debt risks. Prior to the outbreak, almost half of all least developed countries (LDCs) and other low-income countries (LICs) were at high risk of or in debt distress. Many middle-income countries (MICs) and Small Island Development States (SIDS), which are not included in the G20 debt moratorium, are also highly vulnerable. In addition, countries are heterogeneous: while some have access to international financial markets, others were already on a trajectory toward default before the crisis. High debt servicing cost and/or debt distress impede countries' ability to respond to the pandemic and invest in both the recovery and the Sustainable Development Goals (SDGs). While the international community has taken a number of steps to help tackle mounting debt challenges, as the deliberations of Discussion Group IV on Debt Vulnerabilities have underlined, these steps have been insufficient, with a growing urgency to deal with not only liquidity, but also solvency risks.

Policy Options

To address near-term debt challenges and minimize the need for costlier action in the future, the Co-Chairs of Discussion Group (DG) IV are highlighting 2 sets of policy options for the immediate attention of policy makers

– (i) extension and expansion of the G20 and Paris Club Debt Service Suspension Initiative (DSSI), and (ii) near-term debt relief measures. These options should be elevated on the policy agenda for consideration during meetings of Ministers of Finance and Heads of State and Government in September.

These options were selected based on: (i) the impact they could have on fiscal space and financial stability (by freeing up **liquidity** and potentially avoiding **insolvency**); (ii) their reach to countries, including targeting measures or combinations of measures to countries' specific characteristics and needs; (iii) their ability to help address immediate challenges, and (iv) their lower level technical and/or political complexities.

(i) Extension of the G20 and Paris Club Debt Service Suspension Initiative. The G20 and Paris Club creditors could consider:

- **extending the DSSI term** to at least end of 2021 and consider a longer extension if the circumstances and analyses of IMF and World Bank give reason to do so;
- **broadening the scope of beneficiary countries** to make sure that the countries facing debt vulnerability, which request forbearance, get the required breathing space during this time of crisis;

- **providing adequate measures for multilateral debt** such as commitment to granting net positive flows.

(ii) **Near-term debt relief measures.** The international community can use several modalities, depending on country circumstances:

- **debt cancellations/write-downs** for official debt (bilateral or multilateral, e.g. establish or extend existing funds and facilities, such as the IMF's Catastrophe Containment and Relief Trust);
- **debt SDG/climate swaps** for official and/or commercial debt (through multilateral or regional facilities; or bilaterally, for which term sheets could be developed);
- **debt buybacks** for commercial debt (multilateral or regional debt buy-back funds).

Such measures would need to be financed, either bilaterally or multilaterally, such as through new issuance and/or **reallocation** of SDRs or other mechanisms (see DG III).

The options above have an inter-temporal dimension, as steps taken now (e.g. extending/expanding the standstill, or debt relief) may minimize the need for future action. The co-chairs of discussion group IV stress that further measures will also be needed beyond the immediate debt crisis response. The group will therefore continue its work on the full menu of policy options in the fall. In this second

phase, the discussion group will focus on longer-term policy options and more structural solutions, also included in the detailed menu of options of this document. Options such as strengthening long-term debt sustainability analysis; continuing work on debt management, transparency and risk-sharing instruments; and the international debt architecture; will be further explored during this second phase.

The near-term solutions proposed are designed to avoid problems of liquidity and solvency of vulnerable developing countries. However, to respond to the magnitude of the current crisis, these proposals may need to be supplemented by alternative measures, such as those considered in Groups III and V, and more durable solutions to debt issues such as those outlined in the longer-term measures in this paper. Further, Group IV has discussed the critical role of central banks of reserve currency countries and the important contribution that creation of new SDRs and reallocation of existing SDRs can play in avoiding debt difficulties and liquidity and solvency challenges.

Private sector creditors need to be part of the solution, rather than part of the problem. Innovative approaches, such as those discussed in Groups III and V, including support for larger market access for both middle-income and LDCs and other low-income countries, may provide avenues for voluntary private sector participation in reducing/eliminating debt vulnerability.

Discussion Group IV: Policy Options

Debt Moratorium (liquidity)		Near-term debt relief measures (solvency)
Bilateral Debt	Multilateral Debt	Multilateral and/or develop term sheets for bilateral: <i>Debt cancellation for vulnerable highly indebted countries</i> <i>Exchange or reprofile debt to reduce debt service and/or write-down debt</i> <i>Debt swaps for highly indebted countries</i> <i>Debt buy-backs*</i> <i>Support market access+</i>
Extending time horizon of DSSI Expanding eligibility of DSSI to additional countries/groups	Include multilateral debt in moratorium or equivalent measures	
	Private Creditors*	Other measures and architectural issues
	Include private creditors*	Long-term debt sustainability assessments Debt crisis prevention: <i>Improved public debt management</i> <i>Strengthening debtor/creditor transparency</i> <i>Strengthened use of international soft law principles</i> <i>State-contingent debt instruments (official and commercial debt*)</i> Debt crisis resolution:* <i>Other improvements to market-based approaches</i> <i>Legislative strategies</i> <i>Multilateral approaches to sovereign debt restructuring</i> <i>Voluntary Sovereign Debt Forum</i> <i>Sovereign Debt Authority or standing advisory</i>
Related Credit Rating Issues		

* To be coordinated with DG V + This option would provide liquidity to market access countries

Overview of Policy Options by Impact and Complexities

	Impact*			Complexity*		Time-frame
	Liquidity	Solvency	Targeted countries	Agreement needed	Other challenges	
G20/PC DSSI						
Extension 1-3 years			All	G20	Uncertainty	s-t
Broaden scope of eligible countries			MICs	G20	Level of official debt in MICs	s-t
Include multilateral debt			LICs/LDCs	Multilateral	Net financing flows; MDB credit ratings	s-t
Private sector participation			LICs/LDCs with private creditors	Private Creditors (see DG V)	Incentives and credit ratings	s-t
Near term debt relief measures						
Immediate debt cancellations			LICs/LDCs	Bilateral/ multilateral	Eligibility and size	s-t
Reprofile debt	Official debt:		LICs/LDCs/ MICs	Bilateral	Coordination and credit ratings	s-t
	Commercial:		LICs/LDCs/ MICs	Commercial		
Debt swaps	Official debt:		all countries/	Bilateral	Conditionality and need for 3 rd party funding	s-t
	Commercial:		all countries/ bond debt at discounts	3 rd party/ IFIs		
Resilience funds (e.g. regional)			Multilateral/ Regional	Multilateral/ Bilateral	Conditionality	s-t
Debt buy-backs/funds			Countries with bond debt at discounts	Multilateral/ Bilateral (funds)	Need for 3 rd party funding	s-t
Support market access			LDCs/LICs with market access	Bilateral/IFIs	Adds to the debt burden	s-t/ m-t
Other measures and architectural issues						
Long-term DSAs			All	Multilateral	Technical challenges	m-t/ l-t
Debt crisis prevention:						
Public debt management			All	National/ TA	Conditionality	m-t/ l-t
Strengthened transparency			All	National/ commercial	Confidentiality and collusion	m-t/ l-t
Soft-law principles			All	National/ multilateral	Monitoring and coherence	m-t/ l-t
State-contingent debt instruments	Official debt:		All/ SIDS	National	Potential cost and low take-up	l-t
	Commercial:			Commercial/ IFIs		
Debt crisis resolution:						
Market-based approaches			Market access countries	National/ commercial	Legacy debt	l-t
Coordinated legal strategies			Market access countries	National/ Multilateral	Coordination	l-t
Sovereign debt forum			All	All Stake-holders	Non-binding	l-t
Sovereign debt authority			All	All Stake-holders	Setting-up mechanism	l-t

*Darker green: higher impact

*Darker blue: more challenging

Detailed Menu of Near-term Policy Options

G20/PC Debt moratorium (DSSI)

On 15 April 2020, the G20 committed to allow International Development Assistance (IDA)-eligible and LDCs to suspend debt service payments owed to G20 country official creditors. The G20 called on private sector creditors to participate on comparable terms, and on multilateral development banks (MDBs) to explore options to grant suspension of debt service. Beneficiaries must use the fiscal space created to increase social, health or economic spending in response to the Covid-19 crisis, and abstain from contracting new non-concessional debt during the suspension period. Countries are expected to disclose all public sector financial commitments. The suspension period started on May 1st 2020 and will end at the end of 2020, although it can be extended. The suspension of payments will be Net Present Value (NPV) neutral through a rescheduling or refinancing over 4 years (including a one-year grace period). By end-August, 43 of the 73 eligible countries had signed up to the initiative, and 11 countries indicated that they would not seek relief. [**Term:** *short term* | **Countries covered:** *IDA-eligible and LDCs*]

Impacts:

- The DSSI helps countries address liquidity constraints. Estimates suggest that had all eligible countries participated, the DSSI would have freed up around USD 12 billion;
- This coordinated approach by G20 countries, based on an agreed-on term sheet, streamlines conditions and reduces transaction and coordination costs;
- The initiative includes provision of technical assistance by International

Finance Institutions (IFIs) to meet transparency requirements.

Challenges and complexities:

- Does not directly address solvency challenges or long-term debt vulnerabilities, though it buys time to consider options;
- Only includes official bilateral debt, which represents around one third of external debt service of eligible countries through the end of 2020;
- Without private creditor participation, public funds may be used to bail out private creditors.
- Participation is conditional on benefiting from, or having requested, access to IMF financing, which could potentially lead to new borrowing in some countries;
- Participation excludes countries accessing new non-concessional financing, which can limit some countries' ability to respond to the crisis;
- Moody's Investors Services has put several countries in the DSSI on watch for downgrade due to the potential for private sector participation, and the risk of triggering cross-default clauses;
- The DSSI is limited to an NPV-neutral moratorium; it does not address broader challenges arising in liquidity or solvency crises, such as exchange rate and capital controls, debtor-in possession financing or lending-into-arrears.

Given the breadth of the crisis, there are several proposals to extend and expand the moratorium

Time frame: near term. **These include:**

1. **Extend the term for an additional 1 to 3 years** to provide greater fiscal space for countries to address COVID-19 related financing needs. [**Term:** *short term* | **Countries covered:** *IDA-eligible and LDCs*]

Impacts:

- Helps countries address liquidity constraints that would allow a broader crisis and recovery response. For example, extending the moratorium through end-2021 would help DSSI eligible countries in the Asia-Pacific region alone channel about \$7.1 billion to COVID-19 response;
- It would also provide time to develop a coherent framework to assess which countries require additional support to achieve debt sustainability in the medium and long term.

Challenges and complexities:

- Achieving agreement amongst creditors, in particular given current uncertainty about the course of the pandemic and its eventual economic impacts, including on debt sustainability.
2. **Broaden scope of beneficiary countries** to: i) all highly indebted developing countries that request participation; or ii) heavily indebted countries, based on a set of revised criteria (such as by specified vulnerabilities) to be defined, iii) by implication, also consider de-linking participation from existing borrower status with the IMF. [**Term:** *short term* | **Countries covered:** *IDA-eligible, LDCs and MICs*]

Impacts:

- Widening the scope could help prevent liquidity crises from turning into solvency crises. Many MICs, which have not been included in the debt moratorium, are also highly vulnerable. Six middle-income SIDS that are not

eligible for debt suspension under the G-20 initiative have especially high public debt and debt service burdens. Even prior to the crisis, some MICs faced debt servicing costs on long-term public and publicly guaranteed debt of well over a quarter of their government revenues, with six middle-income SIDS not eligible for DSSI having an average debt service of over 40 per cent of public revenue.

Challenges and complexities:

- Does not directly address solvency issues (see above);
 - A debt standstill for all countries in need should not be understood as a call for universal forbearance for all MICs. Such a call could affect market access, including for countries with low debt burdens that have access to financial markets and may need to raise financing to cover their COVID-19 response efforts;
 - The majority of MICs' debt is held by private creditors; expanding eligibility without including private creditors may not address borrowing countries' needs;
 - Further, widening the scope of the DSSI to MICs without addressing concerns over credit downgrades and cross-default triggers would likely mean only limited participation.
3. **Include multilateral debt:** This could include a commitment to providing net positive flows. This might need to be complemented by appropriate capitalization of MDBs (see also DG III). [**Term:** *short term* | **Countries covered:** *LICs and LDCs*]

Impacts:

- Countries eligible under the DSSI owe multilateral creditors around 40% of total debt service payments owed to official creditors (or \$7 billion);

- A standstill on an NPV-neutral basis means that creditors are fully repaid so that doing so should not significantly impact credit ratings. Currently, MDBs also have the possibility to increase lending to the most vulnerable developing countries without losing their AAA rating.

Challenges and complexities:

- Does not directly address solvency issues (see above);
 - Diminishing loan reflows could affect availability of fresh financing, particularly from concessional windows. The World Bank has argued that debt suspensions could undermine its ability to offer COVID-19 financing and to maximize net new funding (though the net difference is likely to be minimal);
 - Granting debt payment suspensions or accepting permanent debt relief could potentially lead to questions about MDB’s implied preferred creditor status. However, MDBs could think creatively about ways to overcome these challenges; e.g. MDBs could provide alternative financing at close to zero interest rates (or the same interest rate used in the NPV calculation) to cover upcoming payments, as this should be equivalent to the moratorium on a cash flow basis.
4. **Enhance private sector participation:** (See outcomes of DG V): Voluntary proposals include creation of a mechanism aiming to give commercial creditors that participate seniority (e.g. creditors reinvest interest payments falling due to a joint credit facility for use by the recipient country, to be managed by an IFI with preferred creditor status). Other proposals include invocation of the doctrine of necessity (to temporarily suspend debt payments, including to private creditors, even where bond contracts do not

include a force majeure clause to trigger suspension based on unforeseeable developments beyond either parties’ control); a UN Security Council Resolution under Chapter VII preventing litigation from commercial creditors during the standstill; or making participation in official debt programs conditional on private creditor participation [**Term:** *short term* | **Countries covered:** *LICs, LDCs*]

Impacts:

- These approaches would see resources freed for the pandemic response without having to negotiate with individual private creditors on a case-by-case basis.

Challenges and complexities:

- Does not directly address issues of solvency;
- Invoking the doctrine of necessity would likely have negative repercussions on access to international financial markets, although wide application could reduce the stigma to any one country;
- The credit facility relies on voluntary private sector interest;
- Making official relief conditional on private participation could put the onus of addressing issues of creditor coordination on the debtor country and inhibit country participation;
- In all cases, credit rating agencies could judge participation/invocation as a credit event.

Near term debt relief measures

A moratorium will likely not suffice for many highly indebted countries. Debt relief may be needed to avoid widespread defaults and to facilitate investments in recovery and the SDG.

While more comprehensive measures will likely need a longer time period to implement, some measures can be taken in the near-term. These include:

- 1. Immediate debt cancellations for the most vulnerable highly indebted countries.** At present the IMF has canceled debt repayments due to it by the 27 poorest developing countries for the period May-November, amounting to around USD 215 million through its Catastrophe Containment and Relief Trust (CCRT). Such multilateral initiatives could be expanded, and other official creditors could consider similar measures. One proposal is for a multilateral debt cancellation mechanism modelled on the IMF's CCRT by MDBs and funded with Special Drawing Rights (SDRs), as MDBs are "prescribed" holders of SDRs and can thus also receive SDRs from IMF members. (See DG III for SDR proposals, and DGs I, II, and VI for possible additional or alternative avenues for the mobilization of financial resources for debt cancellations, such as dedicated taxation schemes for multinational enterprises.) Debt cancellation can also be done bilaterally. Under updated DAC rules, such debt relief would partially count as Official Development Assistance (ODA). [**Term:** *short term* | **Countries covered:** *LICs, LDCs*]

Impacts:

- Helps countries address solvency challenges. Debt cancellations (vs. NPV-neutral debt repayment suspension) would free resources for the COVID-19 response and help countries in debt distress;
- The sums involved might not be very high and could reduce the need for more costly and protracted debt restructurings in the future;

- Delivering even minor debt cancellation to the most vulnerable developing countries now might reduce the need for potentially costly and protracted sovereign debt restructurings in the future.

Challenges and complexities:

- Setting up the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) was a complex and lengthy process. A new initiative might need to be less ambitious but implemented more quickly to have an impact on the current crisis;
 - Determine the size of debt cancellations;
 - Many of the challenges are similar to those of expanding the DSSI: determining eligibility criteria and scope of creditor participation. (See DG V for addressing private creditor issues);
 - Debt relief should be additional to ODA flows, and should not replace or reduce assistance to developing countries to respond to the current crisis.
- 2. Exchange or reprofile debt to reduce debt service and/or write-down debt.** Official creditors could exchange debts to write-down payments owed by applying IDA-terms to their current and future credits to LDCs and other vulnerable countries, extending grace periods, lengthening average maturities or lowering average interest costs. A joint initiative and/or development of common term sheets could set standards and reduce the time for implementation. A reprofiling could also include mechanisms to better share risks with debtors by including relevant state-contingent elements to help countries better manage future

exogenous shocks. (See State-contingent Debt Instruments below). [Term: short term | Countries covered: LICs, LDCs, MICs]

Impacts:

- Generates additional liquidity and potentially addresses issues of solvency. Debt rescheduling that reduces or postpones official bilateral debt service due in 2020-2022 could free up \$32.7 billion in financing for crisis response spending;
- Applying more concessional terms or reducing the debt stock acts like budget support and frees up additional financial resources to invest in the SDGs.

Challenges and complexities:

- **Official bilateral creditors may need to coordinate the decision to apply concessional terms to current and future credits in order to overcome first-mover problems;**
- **Credit rating agencies may consider such debt conversion programs as a credit event.**

3. **Debt swaps, particularly for countries that are highly indebted but do not have unsustainable debt burdens.** Such debt-to-COVID response/SDG/or climate swaps would channel debt service payments into SDG-related investments. Debt swaps could include official debt, where the creditor agrees to swap payments into necessary investments. Or they could include commercial debt bought at a steep discount (similar to debt buy-backs, see below). Term sheets could be developed to facilitate quicker transactions for both official and commercial debt. Greater efforts could also be geared towards driving debt swaps to scale in order to leverage their impacts and outweigh the transaction and monitoring

costs associated with setting up swaps. To achieve greater scale, debt swaps can be part of a broader program (see Regional Resilience Funds below). [Term: short term | Countries covered: all countries]

Impacts:

- **Generates additional liquidity and investment. Developing countries use financial resources that would otherwise have gone to debt repayments for investments in a COVID-19 response, combatting climate change and/or achieving the SDGs;**
- **Long-term productive investments in the SDGs will likely boost developing countries future growth rates, thereby, also facilitating the repayment of outstanding debt stocks.**

Challenges and complexities:

- Does not address issues of solvency, as countries will continue to make payments (albeit into specified investments rather than repaying creditors);
- Conditionalities on use mean that freed funds might not flow to where the needs are greatest;
- Creditors and debtors have to agree to terms, which can take time if not part of a broader program (although standardized term sheets could also help reduce this risk);
- Debt swaps may be associated with high set-up costs, which could mean they are poor value for money and have poor monitoring frameworks;
- Debt swaps could undermine country ownership and autonomy if they include restrictive conditionalities;

- A voluntary debt swap should raise the credit quality of the borrower going forward; nonetheless, it could send negative signals to the market.
4. **Regional resilience funds:** The IFIs, development finance agencies such as the Green Climate Fund (GCF) and international development partners could support Regional Resilience Funds, which facilitate debt reduction through debt for SDG or climate swaps. Such funds could also be part-financed through the re-allocation of existing un-used SDRs. **[Term: short term to medium term | Countries covered: IDA-eligible, LDCs, SIDS, MICs]**

Impacts:

- The establishment of regional Resilience Funds will create mechanisms to quickly provide low-cost medium-term finance to support sustainable development of small vulnerable economies.

Challenges and complexities:

- Partners, such as the GCF, may have to be convinced to participate in Regional Resilience Funds and to be assured that their resources are not leaked into carte blanche debt reduction initiatives, beyond the specified swap.
5. **Debt buy-back/buy-back funds (see also DG V).** Debt would be bought at a discount, based on market prices, thus providing relief to the debtor. Such a fund could potentially be set up and managed by the IFIs and funded by SDRs (see also DG III). For example, under the HIPC/MDRI initiatives, the IDA Commercial Debt Reduction Facility (DRF) was used to buy back commercial debt. **[Term: short term | Countries covered: countries with bond debt at discounts]**

Impacts:

- **Generate additional liquidity and addresses issues of solvency. Debt buybacks can reduce participating countries' debt stocks and help improve public debt sustainability without the need for full process to effectuate sovereign debt restructuring;**
- **Commercial debt buyback schemes can incentivize the participation of private creditors that have already written loans off their books;**
- **Voluntary debt buy-backs are not prohibited under most bond contracts.**

Challenges and complexities:

- Debt buy-backs are only applicable for certain countries (e.g. when bonds are trading at a heavily discounted price, especially when the price is below market fundamentals due to risk aversion).
- These schemes can push up market prices due both to short-term supply/demand change and to a country's' improving fundamentals due to the buyback;
- Care must be taken not to inflate prices in secondary markets, e.g. by setting a price ceiling;
- Heavily indebted countries with highly discounted bonds are unlikely to have the resources to buy back debt on their own, and thus would need official support.
- Official support for debt buy-backs should aim to maximize developing country resources, and not replace or reduce necessary assistance to developing countries to respond to the current crisis.

6. **Support market access (See also DG III).**¹³ MBDs would offer guarantees and other forms of credit support to LDCs and other LICs borrowing on international capital markets, with the aim of lowering credit spreads and borrowing costs and increasing investment in these countries. [**Time frame:** *Short to medium term*; **Target countries:** *LDCs and other LICs with market access, but high borrowing costs.*]

Impacts:

- Would lower borrowing costs for sovereigns, and could help maintain/create market access for some countries, especially in times of high risk aversion.

Challenges and complexities:

- Adds to the debt burden of countries, so would not be a solution for highly indebted countries;
- Private creditors may benefit inequitably.

Detailed Menu of Longer-term Policy Options

Other measures and architectural issues pertain to long-term debt sustainability analysis, debt crisis prevention and debt crisis resolution, although there is overlap between these groups.

Long-term debt sustainability analysis:

Current debt sustainability frameworks for developing countries evaluate whether public resources are sufficient to meet public debt repayment schedules, based on near term fiscal estimates. A framework for **long-term** debt sustainability assessments would aim to reflect financing needs for the SDGs by incorporating long-term sustainable fiscal,

trade balance and growth trajectories based on SDG investments and social need requirements into the analysis. [**Term:** *medium to long term* | **Countries covered:** *all countries*]

Impacts:

- A long-term debt sustainability framework to complement current debt sustainability assessments could help to prioritize core productive and SDG-related investments, e.g. in the context of an integrated national financing framework;
- An inter-temporal and dynamic approach to sustainable debt burdens to be serviced over the entirety of a developmental cycle (e.g. until 2030) would incorporate feedback cycles of productive investment on growth, allowing for higher investment over time, therefore more stable and sustainable fiscal as well as external balances. This would help preserve both creditors and debtor interests in the long run;
- Despite inevitable uncertainties in providing longer-term projections of fiscal, trade balance and growth trajectories, providing a longer-term outlook on repayment capacities by sovereign debtors may improve and stabilize market behaviour, by outlining underlying risk as well as government action to mitigate those.

Challenges and complexities:

- There are a number of technical and data challenges, including in needs assessments, and disagreements on what constitutes necessary expenditures.
- Analysis of debt dynamics over time can be challenging (i.e. including

13 This option would provide liquidity for market access countries rather than debt relief.

rising repayment capacities as growth and development increases).

independent permanent institution or organisation, could be created. [Term: medium to long term | Countries covered: all countries]

Debt crisis prevention:

1. **Improved public debt management:** Much progress has already been made in this area, with support from the IMF, INTOSAI, the World Bank, UNCTAD's DMFAS programme, COMSEC's CS-DMRS and regional organisations. However, a number of challenges remain, in particular in the context of debt stress due to the COVID-19 crisis. A global coordination mechanism would strengthen coherence in delivery of technical assistance and capacity building efforts, and ensure synergies across the spectrum of measures and policies relating to public debt management. [Term: medium to long term | Countries covered: all countries]

Impacts:

- Improved debt management benefits national governments and is essential to improving the quality and coverage of relevant international databases.

Challenges and complexities:

- Support to enhance public debt data transparency in poorer economies that is conditional on wider policy surveillance programmes could be counterproductive, both for countries and the global community as debt transparency contributes to a global public good.
2. **Strengthened debtor-creditor transparency:** Transparency promotes responsible actions by both debtors and creditors. In addition to debt data transparency (on debtor and creditor positions, as well as data inputs to sustainability assessments that influence negotiations), a global publicly accessible registry of loan and debt data, housed in an

Impacts:

- **Transparency of information and procedure reduces uncertainty for lenders, potentially leading to lower borrowing costs for sovereign debtors;**
- **The systematic availability of information and transparent procedure facilitate sovereign debt restructurings by providing an overview of different contractual loan agreements and conditionalities to inform negotiations and by avoid 'backroom dealings'.**

Challenges and complexities:

- Private creditors raise questions of confidentiality in contracts;
- The systematic disclosure of private sector lender positions/contractual loan obligations could lead to concerns by public authorities over facilitating private sector collusion between a relatively small number of dominant private lenders. This might require the strengthened anti-trust regulations.

3. **Strengthened use of soft-law principles:** International soft law helps prevent sovereign debt crises through responsible lending and borrowing, as well as to address sovereign debt crises when these happen. It prominently includes transparency issues, but extends to other internationally established legal norms. Current soft-law sets of principles, such as the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing (PRSLB), the UN Principles on Sovereign Debt Restructuring Processes, the G20 Principles on Operational Guidelines for Sustainable Financing and the Principles

on Debt Transparency of the International Institute of Finance (IFF), have been advanced in different contexts and therefore differ in scope and focus. Soft-law principles could be incorporated into contracts for sovereign bonds; used to develop national legal frameworks and institutional and regulatory mechanism; and taken as guidelines in decision making by adjudicative bodies (i.e. domestic courts or arbitral tribunals). There is also further scope to explore how to make soft law principles more binding, for example by including adherence criteria in official lending programmes. [Term: *medium to long term* | Countries covered: *all countries*]

Impacts:

- Soft law approaches set standards for the constructive behaviour of actors and provide guidance for improved institutional governance of sovereign debt;
- Since the use of soft law principles and guidelines is voluntary, the bar for their adoption is relatively low compared to statutory approaches.

Challenges and complexities:

- Wide-spread adoption and systematic implementation is difficult to monitor, given the non-binding nature of soft-law;
- There is a lack of clarity of how existing sets of principles relate to one another and to the use of international legal norms and customs. The Addis Ababa Action Agenda called for a global consensus on such guidelines, building on existing initiatives.

4. State-contingent debt instruments (SCDIs).

There are a variety of SCDIs, which allow payment standstills or maturity extensions to help beneficiary governments address volatility of income, liquidity pressures

and debt distress arising from exogenous shocks. **SCDIs** can pertain to terms of trade shocks, disasters (e.g. hurricane clauses), Gross Domestic Product (GDP) and/or export performance (income-linked bonds), or others. These could be incorporated into official lending (for which term sheets could be developed), or into commercial debt instruments (for which term sheets are already available). [Term: *long term* | Countries covered: *all countries, SIDS*]

Impacts:

- SCDIs build moratoriums into bond or loan contracts so that countries do not need to negotiate these during a crisis;
- By linking debt service to a measure of the sovereign’s capacity to pay, income-linked bonds can increase fiscal space. These bonds are by nature counter-cyclical and act to stabilize government spending. During times of economic contraction there is reduced risk of default.

Challenges and complexities:

- State contingent elements are similar to options, and difficult to price for investors, particularly when markets are illiquid. As a result, there has been limited uptake in commercial markets to date;
- For official creditors to include state contingent elements in loan contracts, there are questions of whether to charge a higher interest rate and how this impacts country demand;
- GDP-linked bonds may be politically unpopular during periods of high growth. Economies with high volatility in GDP growth or reduced monetary policy options may not benefit as much from these

instruments. Private creditors may also distrust official data on GDP growth;

- New instruments could have a high novelty premium, making them more expensive, and further highlighting the importance of transparency and accountability.

Debt crisis resolution

The COVID-19 crisis highlights gaps in the current international sovereign debt restructuring architecture. As the debt landscape has grown in complexity, restructurings have become ever more complicated. No comprehensive mechanism exists to restructure sovereign debt in a timely, efficient and fair manner, as called for in international agreements. Any mechanism should be based on principles spelled out in the Addis Ababa Action Agenda of timely, orderly, effective, and fair resolutions; shared responsibilities, and; restoring public debt sustainability to enhance the ability of countries to achieve the SDGs. There are several proposals that have been developed over the years to improve the international debt architecture, ranging from market-based mechanisms to statutory approaches, including national legislative and multilateral approaches. These include:

1. **Other improvements to market-based approaches.** Collective Action Clauses (CACs) allow a restructuring to bind all creditors so long as the negotiated agreement receives a specified threshold level of support. 'Single-limb' contractual provisions allow bonds to be restructured on the basis of a single vote across all affected instruments at the same time. [Term: long term | Countries covered: market access countries]

Impacts:

- Under the contractual form agreed to by the International Capital Market Association

(ICMA) non-participating creditors can be forced into a restructuring, subject to strong protections against the abuse of minority creditors by the majority;

- Improved contractual terms can help ensure comparability of treatment for all creditors.

Challenges and complexities:

- These provisions do not apply retroactively to previously issued bonds. Large portions of existing bond debt owed by developing countries do not have CACs;
 - The 'single-limb' approach remains untested in international financial markets;
 - Contractual solutions cannot spell out every contingency, and thus cannot preclude protracted and costly legal disputes, especially as there are no clear rules on seniority in sovereign debt;
 - Different creditor classes with various positions (including those that hold Credit Default Swaps (CDS) against their long assets) can use their negotiation power to create unfair treatment across creditors and increase the cost of the restructuring.
2. **Coordinated legal and legislative strategies, at national and international levels.** National jurisdictions that govern developing country sovereign bonds issuance could halt lawsuits by non-cooperative creditors when debt payment suspensions have been agreed, and could extend legislation to limit litigation by uncooperative creditors (reinterpretation of existing legislation would also be valid, following national legislative initiatives in the UK (2010) and Belgium (2013). This could include the adoption/reinstatement of a revised Champerty defense (to prohibit the purchase of debt with the purpose of bringing a lawsuit) and the inclusion

of a broad range of other actors (including non-creditors) in the proceedings (as in some national corporate bankruptcy laws). The G20 could pledge to pass domestic legislation preventing private lenders from suing a government for following the G20/PC DSSI and suspending debt payments. National and sub-national relevant legislation could be coordinated by an international body such as UNCITRAL, which has previously assisted in formulating model laws and guidelines (for example, a model insolvency law). **There are also calls for financial sector regulations of globally systemically important banks (GSIBs) to restrict business relationships with parties violating a set of established rules around sovereign debt restructuring (e.g. for uncooperative creditors).** Furthermore, cross-national coordinated efforts could be supported by the use of existing international regulations, such as for example [Article VIII, Section 2 \(b\) of the IMF Articles of Agreement](#) that allows the IMF to render exchange contracts unenforceable in domestic courts of IMF member countries. [**Term:** *long term* | **Countries covered:** *market access countries*]

Impacts:

- The coordinated use of legal and legislative initiatives and norms at relevant national, sub-national and international levels, can be effective to help prevent holdout creditors from extracting exorbitant rents from sovereign developing country debt trading at substantive discounts in secondary and tertiary markets, primarily through litigation to recover face value of these debts.

Challenges and complexities:

- Depends on national and sub-national relevant jurisdictions, to extend or change

legislation or reinterpret existing legislation in view of international regulation and soft-law, to reflect political will;

- In the absence of strong coordination, there is a risk that countries may avoid adopting more comprehensive and effective legislation, out of a concern that they will be viewed as insufficiently creditor-friendly. This dynamic would be enhanced if borrowers are understood to issue debt in jurisdictions perceived to be more creditor-friendly.

3. **Multilateral approaches to sovereign debt restructuring:** These cover a wide range of proposals, from voluntary to statutory to address the multiple challenges arising from debt moratoria, debt cancellation and the use of innovative financing instruments to delay or mitigate solvency crises. There are growing calls for such approaches. Proposals include:

- a. **Establishing a sovereign debt forum:** This could provide a structured platform for discussions between creditors and debtors. It could facilitate further steps such as: agreements on voluntary stays; coordinated rollovers such as in the Vienna Initiative; and other measures. [**Term:** *long term* | **Countries covered:** *all countries*]

Impacts:

- Can function as a venue to facilitate continuous dialogue among creditors, debtors and other stakeholders when sovereigns encounter trouble;
- Can reduce the costs of treating sovereign debt crises by preventing lengthy restructurings;

- Can provide an independent standing body to research and preserve institutional memory on best practice in sovereign debt restructuring.

Challenges and complexities:

- Does not directly limit the ability of hold-outs to contest and undermine restructuring

b. Establishment of a sovereign debt authority or standing body: An independent – of creditor as well as debtor interests – expert-based authority or standing body could coordinate and further develop many of the proposals mentioned above with a view, ultimately, to advance a blueprint for a multi-lateral Sovereign Debt Workout Mechanism. Such an authority or standing body would take account of all stakeholder issues and concerns, but go beyond providing a forum for further debate to focus on drawing together existing reform proposals across different areas pertaining to sovereign debt restructurings and related issues, from a perspective of balancing creditor and debtor interests. It could also provide expert advice and consultation on country-specific technical and legal issues in restructuring negotiations, as these may be ongoing. [Term: long term | Countries covered: all countries]

Impacts:

- Bring together existing proposals to improve sovereign debt restructurings in systematic independent and transparent fashion will help to focus on those proposals that are acceptable at the international level;
- Leverage expert advice from all key stakeholders;
- Provide advice to poor and vulnerable developing countries facing solvency crises.

Challenges and complexities:

- Processes to set up such a sovereign debt authority or standing body might be protracted, requiring further legal and procedural clarification.

Private Sector Creditors Engagement

**PREPARED BY
DISCUSSION GROUP V**

**CO-LEADS:
ANTIGUA AND BARBUDA
AND SENEGAL**

**LEAD SECRETARIAT:
UN DESA**

Discussion Group V: Executive Summary

COVID-19 and its economic fallout are devastating public balance sheets and exacerbating already high debt risks. Over the last decade, many developing countries were able to access capital markets and raise important financing for investment, but at the same time debt vulnerabilities increased. Debt servicing costs for least developed countries (LDCs) and low-income countries more than doubled from 6 to 13 per cent of government revenues between 2000 and 2019, and reached over 40 per cent in a quarter of all Small Island Developing States (SIDS). The growth in capital market borrowing has meant that 69 per cent of developing countries debt is now owed to commercial creditors (compared to 41 per cent in 2010). Nonetheless, developing countries are heterogeneous: some countries continue to have access to markets and are able to take advantage of low global interest rates to fund COVID-19 response efforts; others face steep credit spreads; and some have lost market access altogether. And while some countries are facing liquidity crises, others have solvency challenges.

The G20 debt moratorium and IMF debt relief provide important first steps in addressing debt stress, but will not suffice to address the scale of the challenge. The moratorium does not cover all highly indebted vulnerable countries, including SIDS. It also only covers bilateral official credit,

whereas around 18 per cent of DSSI eligible countries' external public debt (up from 5 per cent in 2010) is owed to commercial creditors.

Without participation of commercial creditors public resources will likely be used to bail out private creditors. The G20 has called on private creditors to participate in the DSSI, but to date there has been no private creditor participation. It is ultimately in commercial creditors' collective interest to provide a debt service suspension during a liquidity crisis, as a moratorium can help prevent a liquidity issues from turning into a solvency crisis. Yet, complex issues of creditor coordination can make private bondholder participation a lengthy process, and individual creditors may 'hold out' for full repayment, diverting resources away from response and recovery efforts.

Policy Options

The Co-Chairs of Discussion Group V have found that some coercive suggestions for private sector engagement may be unworkable. They have highlighted priority options to address near-term challenges with private sector creditor participation in debt moratoria and debt relief, while also supporting developing countries in the medium term.

➤ **Alternative mechanisms to facilitate private sector creditors engagement**

- **A Voluntary Credit Facility** to incentivize private creditor participation in debt standstills when needed. The facility could co-mingle private and official funding, so that participants would be considered senior if a credit event occurs. Such a mechanism could be a stand-alone facility, or a tranche in an MDB debt facility.
- **A global asset purchasing** program to help maintain market access for countries. Such a fund could incorporate partial guarantees and credit support.

➤ **Debt for crisis support /development swaps/ resilience funds** to channel debt service payments into financing a crisis response or SDG-related investments. This could be done globally (within an MDB facility), regionally (e.g. through resilience funds), or bilaterally as part of broader programs with official or philanthropic support. Mechanisms can also be used to address domestic debt burdens.

➤ **Legal support** to support Member States in navigating the complexity of legal issues related to sovereign debt contracts and provisions. Such support could be through an existing mechanism, such as the World Bank's Debt Reduction Facility or the

African Development Bank's Legal Support Facility (ALSF), or by a voluntary effort, similar to Tax Inspectors without Borders.

The above solutions must be designed to reflect country differences, including: i) whether countries are facing a liquidity or solvency crisis; ii) extent and type of vulnerabilities; iii) whether countries maintain market access; iv) and creditor profiles, including commercial vs. official debt, type of commercial debt, and number of creditors.

SIDS, in particular, face unique challenges, due to their small size and vulnerabilities to external shocks. Some small countries also have different creditor profiles, with different creditor coordination issues. They require a targeted policy response, including: **debt swaps, state-contingent borrowing (and risk management), and strengthened legal support.**

The co-chairs of Discussion Group V stress that further measures will also be needed beyond the immediate debt crisis response. The group will continue its work on the full menu of policy options in the fall. In this second phase, the Discussion Group will focus on longer-term policy options and more structural solutions, along with DG IV. Options including risk-sharing instruments and the international debt architecture will be further explored during this second phase.

Discussion Group V: Menu of Options

Private Sector Participation in Debt Moratoria and Alternatives (near term/liquidity)		Debt Relief/ Architecture Issues (solvency)	
<p>Voluntary participation in DSSI</p> <p>Dialogue on credit ratings and other impediments</p>	<p>Alternative mechanisms to facilitate private sector creditors engagement</p> <p>Voluntary credit facility</p>	Near term Debt Relief	Other medium/ long-term and architectural issues**
<p>Other mechanisms to support participation in Debt Moratoria</p> <p>Regulatory Approaches</p> <p>Necessity Defense</p>	<p>Asset purchasing programme to help maintain market access*</p> <p>Reprofiling of debt</p>	<p>Near term Debt Relief</p> <p>Capacity support</p> <p>Legal support mechanism, e.g. World Bank DRF</p>	<p>Improving market-based approaches</p> <p>State-contingent debt instruments</p> <p>Legal and legislative strategies</p> <p>Further development of soft-law principles</p> <p>Establishing a sovereign debt forum</p> <p>Proposals for statutory approaches</p>

* To be coordinated with Group III; ** To be coordinated with Group IV

Private Sector Participation in Debt Moratoria and Alternatives

On 15 April 2020, the G20 committed to allow IDA-eligible and least developed countries, to suspend debt service payments owed to G20 country official creditors. The G20 has called on private sector creditors to participate on comparable terms. The suspension period started on

May 1st, 2020 and will end at the end of 2020, although it can be extended. By end-August 43 of the 73 eligible countries had signed up to the initiative, and 11 countries indicated that they would not seek relief. Currently, participation in the DSSI is not conditional on private sector participation, and no country so far has formally approached private sector creditors.

1. **Voluntary participation in DSSI:** The Institute for International Finance has put forward voluntary terms of reference for private sector participation in the DSSI.
[**Time frame:** *Short to medium term*;
Target countries: *IDA eligible countries*]

Impacts:

- DSSI countries owe around \$13 billion to private creditors through the remainder of 2020 that could be repurposed towards health, social and economic expenditures related to the COVID-19 pandemic;
- It is ultimately in commercial creditors' collective interest to provide a debt service suspension. Providing a moratorium today can help prevent liquidity constraints from transforming into solvency problems, allowing countries to repay their outstanding debt obligations in full in the future.

Challenges and complexities:

- The IFF terms of reference affirm that participation by private creditors will be voluntary, which makes the request on sovereigns to seek broad participation among creditors to support fair burden sharing more challenging;
- Currently, there is no established mechanism to guarantee full private sector participation in debt suspension initiatives. Commercial creditors face constraints, incentives and contractual and fiduciary obligations that generally limit voluntary participation in coordinated initiatives;
- Private sector participation on DSSI-comparable terms could lead to losses for creditors and has put several countries in the DSSI on watch for downgrade;

- The terms of reference also call for Net Present Value neutrality, but it is unclear what this would imply precisely for private creditors. NPV neutrality at mark-to-market levels for countries at risk of debt distress would be extremely expensive. High market rates in crisis could turn what would otherwise be a liquidity problem into a solvency problem. However, NPV neutrality based on official rates
- would be considered a haircut or debt write-down by private creditors.
- Some countries have shown reluctance to participate in light of uncertainty regarding the market impact.

2. **Regulatory approaches:** This could include working with the FSB, BIS and other regulators to consider relaxing regulations on private sector creditors to facilitate participation in debt moratoriums or standstills. [**Time frame:** *short to medium term* | **Countries covered:** *LICs, LDCs, MICs*]

Impacts:

- These approaches would facilitate private sector participation, by reducing the costs on the regulatory front.

Challenges and complexities:

- Regulatory changes could take time.
- Would not necessarily cover many bondholders and other private creditors.

3. **Other measures to enhance private sector participation:** (See DG IV): Proposals include invocation of the doctrine of necessity to temporarily suspend debt payments, including to private creditors, even where bond contracts do not include a force majeure clause to trigger suspension

based on unforeseeable developments beyond either parties' control; [Term: short term | Countries covered: LICs, LDCs]

Impacts:

- These approaches would not need negotiations with individual private creditors on a case-by-case basis.

Challenges and complexities:

- Invoking the doctrine of necessity would likely have negative repercussions on access to international financial markets, although wide application could reduce the stigma to any one country;
4. **Voluntary credit facility:** A facility would be set up to facilitate and incentivize private creditor participation. An international financial institution with preferred creditor status (the World Bank or a regional development bank) would open a credit facility for each country requiring emergency financial assistance. Both bilateral creditors and commercial creditors would be encouraged to reinvest all interest payments made to them on existing credits into the facility for the recipient country concerned. The country would repay the fund at a later date. Because the facility would co-mingle funding from private and official creditors, participants in the fund would be considered senior to other creditors if a credit event does occur. This could be a tranche of an existing debt facility, or a new vehicle. [Time Frame: Short to medium term; Target countries: Countries in need of emergency financing]

Impacts:

- Equal treatment for participating creditors and enhanced seniority of claims to incentivize private creditor participation;

- Participating countries would see resources freed for the pandemic response without having to negotiate with each creditor individually.

Challenges and complexities:

- Relies on voluntary private sector interest;
- Rating agencies could judge participation as a potential for losses for private sector participants and place countries' credit ratings on review.

5. **A global asset purchasing programme to maintain market access for countries that are not eligible for participating in the moratorium: (see also DG III):** Private lenders will be able to pledge bonds as collateral against this facility to obtain financing that can be used to purchase bonds from eligible countries. Such a fund could also incorporate partial guarantees and credit support and be funded by a Special Drawing Rights issuance (see DG III). The African Union has suggested creating a Special Purpose Vehicle to subsidize private sector investment in African sovereign dollar debt. [Time frame: Short to medium term; Target countries: Countries with market access, including SIDS]

Impacts:

- Would lower borrowing costs for sovereigns, and could help maintain/ create market access for some countries.

Challenges and complexities:

- Adds to the debt burden of countries, so would not be a solution for highly indebted countries;
- Depending on the structure of the program, could be seen as bailing out private creditors.

6. **Debt reprofiling:** Reprofile changes the terms of existing debt to extend the maturity of short-dated liabilities, typically without changing the coupons or applying a haircut to the principal. Reprofile of the timetable of cashflows would need the majority of bondholders to agree. Reprofile through swaps (including a buy-back of existing debt along with issuance of a new longer-term bond) could also be pursued, though these could be expensive for countries, and prohibitively so for countries with near term liquidity pressures. [**Time frame:** *Short to medium term*; **Target countries:** *Vulnerable countries with market access*]

Impacts:

- Removes refinancing pressures and provides breathing space for debtors to fund necessary expenditures;
- Can be in the interest of both creditors and debtors as it can prevent a liquidity crisis from turning into a solvency crisis;
- Maturity extension transactions can be less disruptive than full-blown debt restructurings.

Challenges and complexities:

- Maturity reprofile focus on the immediate financing needs but do not address problems of unsustainable debt; they do not provide direct debt relief as they do not lower coupons or provide haircuts to the principal;
- There is a need for creditors to agree to the reprofile, which can be challenging as there is no mechanism for creditor coordination, and risk of holdouts;
- Reprofile through a swap could be prohibitively expensive.

Debt relief and issues regarding the international sovereign debt architecture

Debt buy-backs (see also DG IV): Debt would be bought at a discount, based on market prices. As countries in need may find it difficult to finance such transactions, a debt buy-back fund is proposed. Such a fund could potentially be set up and managed by the IFIs and funded by SDRs (see also DG III). For example, under the HIPC/MDRI initiatives, the IDA Commercial Debt Reduction Facility (DRF) was used to buy back commercial debt. Such a mechanism would be appropriate for countries with commercial debt which is trading at a steep discount, particularly when prices fall below levels justified by credit fundamentals. To be successful, it would need to set strict criteria, including price caps. [**Time frame:** *Short to medium term*; **Target countries:** *Countries with market access, including SIDS.*]

Impacts:

- Debt buybacks can reduce participating countries' debt stocks and help to improve public debt sustainability without the need for full process to effectuate sovereign debt restructuring;
- Commercial debt buyback schemes can incentivize the participation of private creditors that have already written loans off their books;
- Voluntary debt buy-backs are not prohibited under most bond contracts;
- As heavily indebted countries with highly discounted bonds are unlikely to have the resources to buy back debt on their own, a fund would help countries take advantage of market volatility;

- A fund would put a floor on market prices during periods of high risk aversion, and help support the emerging market asset class more broadly.

Challenges and complexities:

- Debt buy-backs are only applicable for a set of countries which have commercial debt that is trading at deep discounts;
- These schemes can push up market prices due both to short-term supply/demand and to a countries' improving fundamentals due to the buyback; care must be taken not to inflate prices in secondary markets, e.g. by setting a price ceiling.
- Official support for debt buy-backs should aim to maximize developing country resources, and not replace or reduce necessary assistance to developing countries to respond to the current crisis.

7. Debt swaps (see DG IV for official debt swaps): Debt-to-COVID response/SDG/or climate swaps or Resilience Funds would channel debt service payments into SDG-related investments. Debt swaps could include official debt (see DGIV), or commercial debt. Debt swaps using commercial debt make use of the same mechanism of debt buybacks – i.e. purchasing bonds at a steep discount. They then channel funds into specified investment projects. A 3rd party or the official sector usually provides financing. Debt swaps can be bilateral, regional (e.g. through regional resilience funds), or multi-lateral. To reduce high set-up costs, bilateral debt swaps can be part of a larger program, which sets parameters and designs terms-sheets. Debt swap programs, which swap debt into investment projects, can also be

used to address domestic debt overhangs. [Time frame: Short to medium term; Target countries: Countries with market access.]

Impacts:

- Developing countries can use financial resources that would otherwise have gone to debt repayments for investments in a Covid-19 response and to achieve the SDGs;
- Long-term productive investments in the SDGs will likely boost developing countries future growth rates, thereby, also facilitating the repayment of outstanding debt stocks.
- Debt swap programs can also help address domestic debt overhangs.

Challenges and complexities:

- Freed funds might not flow to where the needs are greatest;
- Creditors and debtors have to agree to terms, which can take time if not part of a broader program;
- Debt swaps may be associated with high set-up costs, which could mean they are poor value for money, have poor monitoring frameworks, and could undermine country ownership if they include restrictive conditionalities;
- While a voluntary debt swap should raise the credit quality of the borrower going forward, it nonetheless could send negative signals to the market.

8. Legal support to developing countries: Legal assistance would support Member States in navigating the complexity of legal issues related to sovereign debt contracts and provisions. Legal support could be provided by reinforcing existing mechanisms such as the World Bank Debt

Reduction Facility (DRF), or the African Legal Support Facility, or through voluntary efforts similar to Tax Inspectors without Borders, or the IFIs. [**Time frame:** short to medium term; **Target countries:** all countries that request support]

Impacts:

- Address the problem of asymmetric technical capacities and level the field of legal expertise among parties to litigation and negotiations, including advice on complex commercial transactions and vulture fund litigation;

Challenges and complexities:

- Legal support granted on a voluntary basis is not a global solution for all countries that are in need.

Detailed Menu of Longer-Term Policy Options

9. State-contingent debt instruments (see DG IV for official sector use of SCDIs):

SCDIs allow payment standstills or maturity extensions to help beneficiary governments address volatility of income, liquidity pressures and debt distress arising from exogenous shocks. SCDIs can pertain to terms of trade shocks, disasters (e.g. hurricane clauses), GDP and/or export performance (income-linked bonds), or others. The Official sector can help address first mover problems and support the development of a market for SCDIs by improving trigger design and providing capacity building. Terms sheets have already been developed to incorporate such state-contingent elements into commercial debt instruments. The Bank of England developed a term sheet for GDP-linked bonds, referred to as London term sheet. Bilateral and

multilateral lenders could lead by example by making a large portion of their financing state contingent. [**Time frame:** medium to long-term; **Target countries:** all countries that emit bonds on international markets]

Impacts:

- SCDIs build moratoriums into bond or loan contracts so that countries do not need to negotiate these during a crisis;
- By linking debt service to a measure of the sovereign's capacity to pay, income-linked bonds can increase fiscal space. These bonds are by nature counter-cyclical and act to stabilize government spending. During times of economic contraction there is reduced risk of default.

Challenges and complexities:

- State contingent elements are similar to options, and difficult to price for investors, particularly when markets are illiquid. As a result, there has been limited uptake in commercial markets to date;
- GDP-linked bonds may be politically unpopular during periods of high growth. Economies with high volatility in GDP growth or reduced monetary policy options may not benefit as much from these instruments. Private creditors may also distrust official data on GDP growth;
- New instruments could have a high novelty premium, making them more expensive, and further highlighting the importance of transparency and accountability.

- 10. Other improvements to market-based approaches (see also Group IV):** Collective Action Clauses (CACs) allow a restructuring to bind all creditors so long as the negotiated agreement receives a specified

threshold level of support. The most recent generation of CACs, 'single-limb' contractual provisions, allow bonds to be restructured on the basis of a single vote across all affected instruments at the same time, and thus further constrain the ability of hold-out creditors to block a restructuring. [**Time frame:** *medium to long term*; **Target countries:** *developing countries that issue bonds on international markets*]

Impacts:

- Under the contractual form agreed to by the International Capital Market Association (ICMA) non-participating creditors can be forced into a restructuring, subject to protections against the abuse of minority creditors by the majority;
- Improved contractual terms can help ensure comparability of treatment for all creditors.

Challenges and complexities:

- These provisions do not apply retroactively to previously issued bonds or to other forms of debt. Large portions of existing bond debt owed by low- and middle-income countries do not have CACs;
- The 'single-limb' approach remains untested in international financial markets;
- Contractual solutions cannot spell out every contingency, and thus cannot preclude protracted and costly legal disputes, especially as there are no clear rules on seniority in sovereign debt;
- Different creditor classes with various positions (including those that hold Credit Default Swaps (CDS) against their long assets) can use their negotiating power to create unfair treatment across creditors and increase the cost of the restructuring.

11. Legal and legislative strategies (see also Group IV): Jurisdictions could also extend national or sub-national legislation to more generally limit litigation by uncooperative and holdout creditors (so-called vulture funds). Such efforts could build on existing national legislative initiatives in the UK (2010) and Belgium (2013). Another option is to adopt or reinstate a revised Champerty defense to prohibit the purchase of debt with the purpose of bringing a lawsuit. Such efforts could be coordinated by an international body such as UNCITRAL, which has previously assisted in formulating model laws and guidelines (for example, a model insolvency law). As an alternative, Article VIII, Section 2 (b) of the IMF Articles of Agreement allows the IMF to render exchange contracts unenforceable in domestic courts of IMF member countries. [**Time frame:** *short to medium term*; **Target countries:** *developing countries that issue bonds on international markets*]

Impacts:

- The coordinated use of legal and legislative initiatives can help prevent holdout creditors from extracting high returns from developing countries when debt is trading at substantive discounts in secondary markets, through litigation aimed at recovering face value of these debts;
- A small number of relevant jurisdictions could implement such proposals and cover the vast majority of sovereign debt issued under foreign law.

Challenges and complexities:

- Depends on political will in relevant national and sub-national jurisdictions;

- In the absence of strong coordination, there is a risk that countries may avoid adopting more comprehensive and effective legislation, out of a concern that they will be viewed as insufficiently creditor-friendly. This dynamic would be enhanced if borrowers are understood to issue debt in jurisdictions perceived to be more creditor-friendly.

12. Strengthened use of soft-law principles (see also DG IV): International soft law can help prevent sovereign debt crises through responsible lending and borrowing, as well as to address sovereign debt crises when these happen. Soft-law principles (such as the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing (PRSLB), the UN Principles on Sovereign Debt Restructuring Processes, the G20 Principles on Operational Guidelines for Sustainable Financing and the Principles on Debt Transparency of the International Institute of Finance) can guide engagement and contractual relations with private creditors. To strengthen their uptake, soft-law principles could be: combined with near term measures for debt relief and incorporated into contracts for sovereign bonds; used to develop national legal frameworks and institutional and regulatory mechanism; and taken as guidelines in decision making by adjudicative bodies (i.e. domestic courts or arbitral tribunals). To increase transparency on vulnerabilities to financial stability, Supervisory Authorities in developed countries could request financial market participants in their jurisdictions to

disclose to regulators any existing developing country portfolio positions. [**Time frame:** *short to medium term*; **Target countries:** *developing countries that bonds*]

Impacts:

- Soft law approaches set standards for the constructive behaviour of actors and provide guidance for improved institutional governance of sovereign debt;
- Since the use of soft law principles and guidelines is voluntary, the bar for their adoption is relatively low compared to statutory approaches.

Challenges and complexities:

- Wide-spread adoption and systematic implementation is difficult to monitor, given the non-binding nature of soft-law.
- There is a lack of clarity of how existing sets of principles relate to one another and to the use of international legal norms and customs. The Addis Ababa Action Agenda called for a global consensus on such guidelines, building on existing initiatives.

Multilateral approaches to sovereign debt restructuring (see DG IV): These cover a wide range of proposals, from voluntary to statutory to address the multiple challenges arising from debt moratoria, debt cancellation and the use of innovative financing instruments to delay or mitigate solvency crises. Details are discussed in Group IV.

Illicit Financial Flows

**PREPARED BY
DISCUSSION GROUP VI**

**CO-LEADS:
BARBADOS AND NIGERIA**

**LEAD SECRETARIAT:
UN DESA**

Discussion Group VI: Executive Summary

Background

The discussion group sought to identify measures to expand fiscal space and foster domestic resource mobilization by preventing illicit financial flows (IFFs), base erosion and profit shifting, and facilitating contributions of the digital economy in the emergency and beyond.

Conclusions

Participants acknowledged that IFFs exacerbate the sustainable development financing gap, and, in the context of COVID-19, may increase risks across the range of economic crimes related to supply chains, procurement, corruption, trade, the financial sector, and terrorist financing. The group discussed the need to address both national implementation issues and international architectural questions, albeit on different time scales.

The following list of voluntary actions seeks to capture the essence of the over 40 proposals submitted by group participants. All actions require capacity building and resources. Investments in these areas are likely to pay off in terms of resources saved. Donors can consider helping those countries which need support, focused on those with the most need. Innovation in capacity building should be encouraged, and successful initiatives should be expanded.

Concrete national actions in the short-term

1. Develop a rapid transparency response to the COVID-19 crisis, which prioritises fiscal transparency and policy oriented national anti-corruption and anti-money laundering solutions to immediate problems related to COVID-19 and aid disbursement/stimulus measures. This can help generate more efficient resource usage to help States overcome the socio-economic hardship imposed by the pandemic.
2. Improve tax administration through more effective use of computerisation and related digital technologies, which can both increase efficiency in revenue collection for national government and strengthen the efforts to combat illicit financial flows. This can include a package of digital filing mechanisms, online refund procedures, and greater use of withholding taxes, alongside greater use of digital technology to accurately target tax evasion. It can result in improved tax collection and compliance in the short-term and facilitate a greater perception of trust in tax authorities in the medium term.
3. Strengthen implementation of UNCAC and other international frameworks to reduce corruption and financial crime, including by fully integrating financial integrity, prevention

of corruption and money-laundering into all sustainable development policies and plans including in economic policy making.

4. Take national actions to intensify cooperation on recovery and return of assets, including but not limited to improving the capacity & training of staff, forming special units for asset recovery and return, increasing spontaneous disclosure, and enhancing legal frameworks for non-conviction-based forfeiture.
5. Strengthen beneficial ownership information collection and transparency at national level in line with FATF standards. States can ensure greater beneficial ownership transparency of legal entities and vehicles through private or publicly accessible central beneficial ownership registers, underpinned by accurate and up-to-date information. All countries should consider using incentives in the form of beneficial ownership transparency requirements for eligibility for public procurement and contracts.

Medium- and long-term actions

1. At the national level, develop a whole-of-government approach to tackling IFFs, enabling a more co-ordinated approach across government agencies and departments to tackle tax abuses and other financial crimes. Different government bodies need to work together and harness their expertise and share information/intelligence as well as improved cooperation between different law enforcement bodies.
2. Strive to eliminate safe havens that create incentives for the transfer abroad of stolen assets and illicit financial flows; work together to eliminate base erosion and profit shifting and to ensure that all companies, including multinationals, pay

taxes to the Governments of countries where economic activity occurs and value is created; and cooperate, in accordance with applicable bilateral or multilateral agreements, in the areas of mutual legal assistance, administrative assistance, and information exchange in tax matters.

3. At the national level, and with regional measures as needed, support correspondent banking relationships. We will strengthen AML/CFT frameworks while better understanding the de-risking phenomenon to support all affected countries to re-establish correspondent banking relationships. Countries should consider a comprehensive approach that aims for improved financial inclusion, lower cost of remittance transfers and easier conduct of legitimate transactions.
4. At the international level, encourage the next membership of the United Nations Committee of Experts on International Cooperation in Tax Matters, taking into account the work of other bodies and forums, to provide advice, by the end of its first year of work, on tax policies that can best contribute to post-COVID-19 recovery for countries in various situations and on further options for using digital technologies to improve tax administration in developing countries in various situations.
5. Recognize the need to continue to develop the political consensus to address systemic shortcomings related to IFFs. Engagement with the FACTI Panel and an open approach to recommendations for systemic reforms made by FACTI Panel and by other parties can assist in this process. Inclusive discussion and negotiation on proposals can happen in the General Assembly (including the UNGASS on corruption), ECOSOC and other relevant UN and non-UN forums.

Discussion Group VI: Menu of Options

A. Asset recovery

1. INTENSIFY ASSET RECOVERY

Option description: Efforts to identify and recover stolen assets should be intensified. There should be no delay in returning the assets to their owners in order to make funds available for development.

Implementation level: Global

Target countries: All

Implementing entities: Justice ministries

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: A timely repatriation of stolen funds will discourage corruption, increase investors confidence and ultimately make funds available for development.

Challenges: The absence of reciprocity might make recovery of funds and assets difficult.

Feasibility: High

2. MOVING TOWARDS LEGAL FRAMEWORK FOR THE ASSET RECOVERY

Option description: Launch the work on developing a conventional instrument aimed at establishing a multilateral legally-binding mechanism under the auspices of the UN to recover criminal assets

Implementation level: Global

Target countries: All

Implementing entities: UNODC/UNCAC COSP

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

B. Capacity Building

1. INCREASED CAPACITY BUILDING

Option description: A large scale and coordinated push for capacity building relevant to national contexts and across tax administration, tax policy, financial intelligence units and asset recovery specialists, financial regulators, judges, prosecutors, customs, and other relevant agencies. This could come through multiple channels, such as a re-doubling of ODA for tax capacity under a second round commitment by

the Addis Tax Initiative, greater resources in the UN regular budget dedicated to capacity building on UN instruments, and/or an expansion of the Tax Inspectors Without Borders programme.

Implementation level: Global

Target countries: Low capacity countries

Implementing entities: Donors and South-South cooperation providers

Possible champions: UN, OECD, World Bank and IMF, through the Platform for Collaboration on Tax (PCT).

Timeframe: Medium-term (2021-2022)

- **Benefits:** Demand-driven capacity building can strengthen ownership of policies and practices. Capacity can focus on greater national coordination in prevention and enforcement, closing loopholes, improving asset recovery and strengthening revenue mobilization. Effective prevention measures, increased enforcement and perceptions of a cleaner system can increase trust and have positive feedback loops for both voluntary tax domestic compliance and international cooperation.
- **Challenges:** Donors are already stretched and may not have greater resources to dedicate, meaning that allocations to IFFs-related capacity building may undermine funding for other SDGs.
- Demand for capacity does not match type of capacity building and funding on offer.
- Coordination challenges lead to duplication.
- Supply driven TA does not result in lasting capacity increases.
- **Feasibility:** Commitments may be feasible, implementation is more difficult.

2. RESOURCES TO IMPROVE FATF PROCESSES AND PROVISION OF SUPPORT TO DEVELOPING COUNTRIES TO MEET FATF-STANDARDS

Option description: Clear commitments from countries to provide significant resources to improve (a) FATF processes of assessment, especially in the relevant FATF-Style Regional Bodies and (b) the provision of support to developing countries to meet the FATF standards

Implementation level: National

Target countries: Developing countries

Implementing entities: FSRBs, FIUs, donor agencies

Beneficiaries: Developing countries

Timeframe: Short-term (2020)

3. TAX INSPECTORS WITHOUT BORDERS PROGRAMME

Option description: Scale up the Tax Inspectors Without Borders programme to address illicit financial flows, particularly tax and crime investigation and the use of data exchanged between countries on an automatic basis. Capacity building

Implementation level: Global

Target countries: Developing countries

Implementing entities: Possible champions: UNDP, OECD, regional tax organisations.

Beneficiaries: Developing countries

Timeframe: Medium-term (2021-2022)

Benefits: Tax Inspectors Without Borders has already helped raise over USD500 million in increased revenues through its learning by doing approach to capacity building in MNE

auditing. Expanding the initiative, including to new areas, will bring substantial revenue benefits as well as increasing the practical capacity in countries.

Feasibility: The TIWB approach has already proved its feasibility in the area of MNE audits, there is no reason why the approach should not be successful in other areas.

4. STRENGTHEN TAX AND CUSTOMS ADMINISTRATIONS

Option description: Tax and customs administrations require a new generation of tools –including investments in technology and staff specialization– to improve compliance and oversight. Create a best practices framework (can adapted regionally) that allows for the standardization of information and the provision of technical assistance to support countries in adopting international best practices on tax and customs administration. In addition to advocacy for the international community to provide needed financing and technical assistance (including investments) in line with SDG 17.1

Implementation level: National

Target countries: Developing countries

Implementing entities: Ministries of finance, donors, customs agencies, tax administrations

Beneficiaries: Developing countries

Timeframe: Medium-term (2021-2022)

Benefits: Strengthened administrative procedures contribute to increase fiscal revenues. UN Regional Economic Commissions could play a key role in this process, bridging regional and country demand with the UN System-wide work on tax and financial affairs.

Challenges: Requires important investment and long-term funding to remain effective.

5. TRAINING TO TRACK CRYPTO-ASSETS

Option description: In this era of cashless transactions, it is necessary for tax officials to possess the necessary skill to track, and audit digital transactions. The challenge of crypto-assets, such as bitcoin, as veritable instruments for illicit money transfer remains formidable, hence countries need to improve the capacity of tax officers.

Implementation level: National

Target countries: All

Implementing entities: FIUs, Tax administrations

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Training will enable tax officers, FIU and other institutions keep abreast of global developments, thus putting them in a position to track IFF.

Challenges: Donors may be overstretched; where international assistance is not possible, the option of using local resources could be considered.

Feasibility: High

Further Details

6. VIRTUAL PLATFORM FOR IFFS CAPACITY BUILDING

Option description: Development of a virtual platform by the UN for capacity building in the field of taxation, combating money laundering and financing of terrorism etc.

Implementation level: Global

Target countries: All

Implementing entities: UN System

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

7. DIGITAL TAX SYSTEMS

Option description: The Member States prioritize the digitalization of tax systems and are supported by other member states which have experience and expertise with the digitalization of the tax systems. UNDP while supplementing the work of member states can coordinate the activities and support these initiatives at the country level using its already existing projects.

Implementation level: National

Target countries: Developing countries

Implementing entities: Tax administrations, Ministry of Finance, UNDP

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Tax administrations operating with a higher level of digitalization are able to collect taxes as well as disbursing benefit remotely. The pandemic has also forced tax administrations to move away from intrusive on-site tax inspections, towards desk-based audits supported by big data analytics.

Challenges: Requires long term investments

Feasibility: In many countries, UNDP Offices have ongoing projects on e-tax filings and other projects related to digitalization as well as have a connection with tax administrations. These can be scaled up to start work immediately.

C. Correspondent banking

1. RE-ESTABLISH CORRESPONDENT BANKING RELATIONSHIPS IN THE CARIBBEAN

Option description: Promote measures to support Caribbean countries re-establish correspondent banking relationships and integrate the financial needs of small island developing states in the global regulation.

Implementation level: Regional

Target countries: Caribbean

Implementing entities: Not yet defined

Beneficiaries: Caribbean

Timeframe: Combination

Benefits: Possibly contribute to improved financial inclusion, lower cost of remittance transfers and easier conduct of legitimate transactions.

Challenges: Find a balance between global regulation on financial and tax matters and the perspective of middle- and low-income countries, including the Caribbean

Feasibility: Medium

2. AML/CFT STRENGTHEN TO SUPPORT CORRESPONDENT BANKING RELATIONSHIPS

Option description: Strengthen AML/CFT frameworks while better understanding the de-risking phenomenon to support all affected countries to re-establish correspondent banking relationships.

Implementation level: Global
SIDS, other affected countries

Implementing entities: Not yet defined

Beneficiaries: All countries

Timeframe: Combination

Benefits: Increased financial inclusion and decreased AML/CFT risks, as de-risking increases AML/CFT risks globally. There is an enormous body of work currently underway and established mechanisms for coordination of CB assistance already existing (FSB, IMF, WB, FATF, FSRBs, UNODC, Wolfsberg Group)

Challenges: There is a lack of understanding of regulatory expectations and a lack of capacity in affected countries to implement robust AML/CFT frameworks

Feasibility: Medium

D. Implementation

1. ADDRESSING SYSTEMIC SHORTCOMINGS THROUGH EXISTING INSTRUMENTS

Option description: Member States should continue to develop the technical capacity to address shortcomings related to crimes that contribute to IFFs through active participation in the UNCAC and UNTOC conferences of states parties, as well as their respective review mechanisms and subsidiary working groups. Involving existing forums, including FATF / FSRBs as per the Addis Ababa Action Agenda, and supporting ongoing work and integrating these policies and measures into the UN's Financing for Development work – as per the SGs Roadmap on Financing for Development – could clarify the UN's commitment to fully integrating financial integrity, prevention of corruption and money-laundering, and promotion of the rule of law in the financial, fiscal and monetary sectors into sustainable development.

Implementation level: Global

Target countries: All

Implementing entities: Justice ministries, law enforcement bodies, finance ministries, central banks, regulators, FIUs, UN bodies, FATF, OECD, private sector

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: There is a well established, functioning and effective multifaceted framework for policy discussion related to all aspects of financial integrity - this framework is constantly mobilised to begin policy discussions which Member States feel are priorities. Currently - for example - FATF is undertaking its Strategic Review - providing an effective platform for input into AML/CFT policy. Using existing policy framework would avoid the financial, time and coordination resources needed to establish new frameworks.

Challenges: Member States find common ground and are able to effectively use these fora to ensure that short term, effective responses can be evolved into long term structural change. High Combined a USA proposal, with some content from UNODC because they were highly aligned.

Feasibility: High

2. MAINSTREAM IFF PREVENTION IN ALL ECONOMIC POLICIES

Option description: Full integration and mainstreaming of policies designed to prevent corruption, economic crimes, including tax crimes, trade crimes, money laundering and terrorism into every aspect of economic policy making – including in the fiscal, real, external and financial sectors. Long-term reform will require enabling countries to continue on paths which, for many

of them, have been established through UNCAC reviews, FATF and FSRB Mutual Evaluations, as well as reforms suggested in various other accountability frameworks, including IMF Article IV Surveillance, FSAPs and IMF or World Bank lending programmes, amongst others.

Implementation level: National

Target countries: All

Implementing entities: Justice ministries, finance ministries, FIUs

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Monetary stimulus measures, the need for large scale mobilisation of liquidity and aid are inherent risk factors for illicit financial flows and therefore large-scale economic restructuring or recovery efforts which do not have, at their core, the implementation of policy elements which prevent and mitigate these flows, including improved implementation of the FATF Recommendations and the provisions of the UNCAC will likely simply exacerbate existing fragility and vulnerabilities, including inequality, in the long term.

Challenges: The nature of the current downturn could require a revisiting of national strategies and action plans.

Feasibility: High - this option involves the political will to integrate and fully mainstream the implementation of the UNCAC, the UNTOC and FATF recommendations, amongst other instruments and head of state level messaging in policy documents - such as budget documents. Also - this involves mainstreaming in all UN country level strategies and plans.

Further Details: Note - the IMF, for example, through approved guidance, has integrated the addressing of AML/CFT and corruption in its

programme and surveillance work when they are macro critical. This could be viewed as an effective medium term institutional change / development / commitment to mainstreaming.

3. PPPS FOR INTEGRITY

Option description: Establish legal and effective public private partnerships (PPPs) for tracking and tracing transactions. Bank and non-bank financial institutions need to be a part of this dialogue and formation of recommendations. At the present time there is only a limited amount of structured opportunities for the private sector to engage with regulators. It could also open the way toward the extension of models of legal PPPs in financial investigations.

Implementation level: National

Target countries: All

Implementing entities: Public sector, especially regulators and private sector, especially FIs

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Models for this currently exist and are known to have increased effectiveness. Additionally, this is a resource efficient way to improve effectiveness in low income countries and can be applied consistent with relevant human rights laws. Also - the private sector and the public sector would likely both be willing to offer best practice experiences from the examples which exist (including the UK's Joint Money Laundering Intelligence Taskforce (JMLIT) also a good example - and very amenable to replication (as above) and capacity building initiatives.

Challenges: Coordination and prioritization

Feasibility: High - this could be prioritized and coordinated through the capacity building coordination mechanisms mentioned above

4. WHOLE OF GOVERNMENT APPROACH TO TACKLING TAX EVASION AND OTHER FINANCIAL CRIMES

Option description: A commitment to strengthen a 'whole of government' approach to tackling tax evasion and other financial crimes. Enabling a more co-ordinated approach across governments to tackling tax crimes and other financial crimes also offers the potential for significant gains. To prevent and disrupt IFFs effectively, different government bodies need to work together and harness their expertise and share information. This will require strengthening the legal capacity for different governmental bodies to share information with each other.

Implementation level: National

Target countries: All

Implementing entities: Possible champions: Global Forum, Oslo Dialogue on Tax Crimes and Other Crimes, Italy.

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Tax evasion and other financial crimes cannot effectively be tackled by departments working in isolation. Increasing whole of government working will enable more effective policies and processes - for example linking up information sources.

Challenges: Compliance with privacy/human rights norms needs attention.

Feasibility: This policy option is highly feasible, many countries, including some developing countries are already adopting a whole of government approach, this option would build on this existing progress.

5. PUBLIC-PRIVATE PARTNERSHIP IN THE PREVENTION OF AND FIGHT AGAINST CORRUPTION

Option description: Promoting culture of intolerance towards corruption in the societies amid the pandemic, through strengthening PPP as per the St. Petersburg statement on promoting public-private partnership in the prevention of and fight against corruption, adopted in 2015 by the CAC/COSP

Implementation level: National

Target countries: All

Implementing entities: justice ministries, mass media, systemic banks/enterprises and the main beneficiaries of COVID-19 fiscal/monetary support measures

Beneficiaries: All countries

Timeframe: Short-term (2020)

Benefits: Ensuring social coherence, trust to the institutions, economic growth through strengthened financial accountability. Not listed

Feasibility: No need in large fiscal expenditure

6. TACKLE ENABLERS OF CORRUPTION

Option description: Strengthen and/or toughen supervision on gatekeeper professions (lawyers, accountants, company formation agents, and real estate agents) which are key vulnerabilities for ML and corruption. Use existing policy frameworks and agreed

recommendations and instruments to support effective supervision of designated non-financial businesses and professions (DNFBPs).

Target countries: Financial centers, asset destinations, all countries

Implementing entities: Regulators/supervisors, Member States of policy making bodies

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: This addresses an identified vulnerability for most countries - investment in closing this gap could make all ML and anti-corruption efforts more effective

Challenges: political will and consensus, varying national approaches

Feasibility: moderate

E. Information Sharing

1. IMPROVED COOPERATION BETWEEN LAW ENFORCEMENT BODIES

Option description: Commitments to improved intelligence sharing and cooperation between law enforcement bodies, both before and during Mutual Legal Assistance processes

Implementation level: National

Target countries: All

Implementing entities: FIUs, justice ministries, all AML/CFT-relevant competent authorities

Beneficiaries: All countries

Timeframe: Short-term (2020)

Benefits: The UK's International Anti-Corruption Coordination Centre demonstrates the benefits for its members, similar initiatives can enable intelligence sharing. "Such a mechanism is already in place (Egmont Group).

Challenges: Compliance with privacy/human rights norms needs attention.

2. GLOBAL COMMITMENT TO LEVERAGE TAX INFORMATION TO FIGHT CORRUPTION, MONEY LAUNDERING AND ILLICIT FINANCIAL FLOWS

Option description: Global commitment to leverage tax information to fight corruption, money laundering and illicit financial flows.

Implementation level: Global

Target countries: All

Implementing entities: Possible champions: Oslo Dialogue on Tax Crimes and Other Crimes.

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Limitations on use of information means that in many instances information that raises suspicion of financial crimes cannot be acted on. Changing this situation will therefore be of significant benefit for address a range of financial crimes.

Challenges: Compliance with privacy/human rights norms needs attention.

Feasibility: With political commitment this option is very feasible, many of the international tools to share tax information have a provision to allow information to be used for other purposes that can be activated easily once political agreement has been reached.

Further Details

The use of tax information for other purposes should receive the prior consent of the party sharing the information, given the confidential nature of tax information.

3. GLOBAL IMPLEMENTATION OF AUTOMATIC EXCHANGE OF INFORMATION

Option description: Global implementation of Automatic Exchange of Information. The international tax transparency standards have now been endorsed and are being implemented by over 160 countries, putting an end to bank secrecy globally. The international community needs to ensure developing countries can also benefit fully from this enhanced co-operation.

Implementation level: Global

Target countries: All

Implementing entities: Possible champions: Global Forum, World Bank Group, regional tax organisations.

Beneficiaries: All countries

Timeframe: Long-term (2023-2030)

Benefits: Over 100 countries are already implementing the new standard on Automatic Exchange of Financial Account Information. This has resulted in the identification of over EUR 100 billion in additional revenues. As a result of this work, information on 47 million accounts worth EUR 4.9 trillion has been exchanged and offshore bank deposits have fallen by over USD 410 billion over the last decade.

Feasibility: Over 100 jurisdictions, including a number of developing countries have already demonstrated the feasibility of AEOI, with increased resources, focus and political commitment adoption of AEOI can spread much faster among developing countries

F. Systemic

1. ADDRESSING SYSTEMIC SHORTCOMINGS IN THE MEDIUM TERM

Option description: Member States should continue to develop the political consensus to address systemic shortcomings related to IFFs. This can be developed through engagement with the FACTI Panel, an open approach to recommendations for systemic reforms made by FACTI Panel and by other parties, and inclusive discussion/negotiation on the proposals in the General Assembly (including UNGASS on corruption), ECOSOC and relevant UN forums.

Implementation level: Global

Target countries: All

Implementing entities: Justice ministries, law enforcement bodies, finance ministries, central banks, regulators, FIUs, UN bodies, FATF, OECD, private sector

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: There is a well-established, functioning and effective multifaceted framework for policy discussion related to all aspects of financial integrity - this framework is constantly mobilised to begin policy discussions which Member States feel are priorities. Currently - for example - FATF is undertaking its Strategic Review - providing an effective platform for input into AML/CFT policy. Using existing policy framework would avoid the financial, time and coordination resources needed to establish new frameworks.

Challenges: Member States find common ground and are able to effectively use these fora to ensure that short term, effective responses can be evolved into long term structural change.

Feasibility: High

2. POLICY COMMITMENT TO CROSS-BORDER FINANCIAL TRANSPARENCY AND OFFICIAL MEASUREMENT OF IFFS

Option description: Full integration and mainstreaming of policies designed to prevent corruption, economic crimes, including tax crimes, trade crimes, money laundering and terrorism into every aspect of economic policy making – including in the fiscal, real, external and financial sectors. Long-term reform will require enabling countries to continue on paths which, for many of them, have been established through UNCAC reviews, FATF and FSRB Mutual Evaluations, as well as reforms suggested in various other accountability frameworks, including IMF Article IV Surveillance, FSAPs and IMF or World Bank lending programmes, amongst others.

Implementation level: National

Target countries: All

Implementing entities: Justice ministries, finance ministries, FIUs

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Monetary stimulus measures, the need for large scale mobilisation of liquidity and aid are inherent risk factors for illicit financial flows and therefore large-scale economic restructuring or recovery efforts which do not have, at their core, the implementation of policy elements which prevent and mitigate these flows, including improved implementation of the FATF Recommendations and the provisions of the UNCAC will likely simply exacerbate existing fragility and vulnerabilities, including inequality, in the long term.

Challenges: The nature of the current downturn could require a revisiting of national strategies and action plans.

Feasibility: High - this option involves the political will to integrate and fully mainstream the implementation of the UNCAC, the UNTOC and FATF recommendations, amongst other instruments and head of state level messaging in policy documents - such as budget documents. Also - this involves mainstreaming in all UN country level strategies and plans.

Further Details: Note - the IMF, for example, through approved guidance, has integrated the addressing of AML/CFT and corruption in its programme and surveillance work when they are macro critical. This could be viewed as an effective medium term institutional change / development / commitment to mainstreaming.

G. Tax

1. PROMOTING WITHHOLDING TAXES TO ENSURE FAIR TAXATION

Option description: Develop proposals for easily administered withholding tax approaches and mechanism(s) that assist in combatting tax abuses. The proposal should include efficiency improvements and risk mitigations for taxpayers, such as increased use of electronic filing, payments and refunds (as physical movement may be restricted) and sped up disbursements of payments.

Implementation level: National

Target countries: All

Implementing entities: Tax administrations

Beneficiaries: All countries

Timeframe: Short-term (2020)

Benefits: Ability to tailor withholding tax regimes to country characteristics and build on existing country knowledge. Leverage the expertise of the different institutions. Ability to promote systems better adapted to taxpayer needs, while ensuring they are as effective as possible for developing countries. Recognition of validity of withholding tax systems and of taxation based on revenue rather than profits where the latter is not feasible.

Challenges: - Developing countries tend to favour withholding taxes, and broader use of them, more than developed countries, which can be addressed in the coordination process, perhaps by a general preference for profit-based tax where feasible but a recognition that this is not always the case.

- Increased risk of double taxation

Feasibility: Withholding taxes already play an important part in the UN Model Double Tax Convention and in developing (and developed) country practice. Added Japan comment into the Challenges, Option description amended based on Mauritius input

2. TAX FRAMEWORKS TO COVER THE DIGITAL ECONOMY

Option description: The rapid growth of the digital economy has eroded national tax bases. Provide support to countries through policy research and technical assistance to move towards digital taxation measures.

Implementation level: National

Target countries: All

Implementing entities: Finance ministries, UN System, International Organizations

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Countries seem interested in effectively taxing the digital economy.

Challenges: Attention is required on how the tax will be collected and will require future reforms as international best practices are established.

Compliance with privacy/human rights norms needs attention.

Feasibility: High

3. THE UNITED NATIONS AT THE CENTRE OF INTERNATIONAL TAX AND FINANCIAL AFFAIRS

Option description: Expand the role of the UN Tax Committee to incorporate intergovernmental mechanisms for the discussion and agreement of international tax and financial affairs.

Middle- and low-income countries tend to have a limited influence in the global tax and financial debates. This asymmetry could be considerably reduced by bringing the UN System to the centre of tax and financial affairs through the creation of an intergovernmental mechanism for such matters and a UN System wide coordination on these subjects.

The UN System wide coordination on financial and fiscal affairs could consider the identification of key work streams and the establishment of working parties to generate proposals and forge international consensus. In addition to the creation of a shared pool of experts by UN agencies, including Regional Economic Commissions, to expand technical assistance capacity. UN Regional Economic Commissions could play a key role in this process, mediating between System-wide work and regional and country specific issues.

Implementation level: Global

Target countries: All

Implementing entities: UN System, Ministries of Finance, International Organizations

Beneficiaries: All countries

Timeframe: Combination

Financial Targets: Not yet defined

Benefits: Considerable reduction of country asymmetries in the global tax and financial debates, plus a system wide coordination on these subjects. The UN system counts with various important assets in the area of tax affairs and IFFs. UN Regional Economic Commissions are also active in this domain, providing applied policy analysis, technical assistance and spaces for South-South dialogue and cooperation. System wide coordination is necessary to potentiate current efforts.

Policy message coherence. Increased ability to influence international tax debates. Strengthening of identified work streams across the system.

Challenges: Requires an important institutional coordination effort. Could limit available resources to dedicate to the specific concerns of individual entities.

Feasibility: High

4. BEPS ACTION PLAN FOR DEVELOPING COUNTRIES

Option description: Agree a bold new BEPS action plan for developing countries. While the implementation of the existing BEPS measures have had an impact, a new BEPS action plan specifically tailored for developing countries is needed if we are to build the foundations for a robust and inclusive recovery from the

Covid crisis. Such an effort could address other tax practices of particular concern identified by developing countries, such as inefficient and wasteful tax incentives, particularly in the extractives sector. The taxation of natural resources could also be revisited, to ensure that environmental sustainability is at the centre of a robust economic recovery.

Implementation level: Global

Target countries: Developing countries

Implementing entities: OECD, Inclusive Framework

Beneficiaries: Developing countries

Timeframe: Medium-term (2021-2022)

Benefits: In a post-crisis environment, tackling aggressive tax avoidance will also be more important than ever before. Base Erosion and Profit Shifting (BEPS) practices cost countries USD 100-240 billion in lost revenue annually, and the reliance of developing countries on corporate income tax means that they are particularly hard hit.

Feasibility: Technical feasibility will ultimately depend on specific proposals adopted, but in many areas (e.g. tax incentives and natural resources) technical solutions already exist, but political commitment is required. The Inclusive Framework provides a forum where both many developing countries, and the main capital exporting countries participate and can negotiate technical solutions, including multilateral approaches if required.

5. BUILD REGIONAL POSITIONS WITH RESPECT TO THE INTERNATIONAL TAX DEBATE

Option description: Provide technical assistance and forums to build regional positions with respect to the international tax debate.

Analyse the impact of different international tax reform proposals in the region. This is to help ensure that multinational enterprises pay taxes where value-added is created.

Implementation level: Regional

Target countries: Developing countries

Implementing entities: UN regional commissions, regional tax organisations (RTOs, e.g. CIAT, ATAF)

Beneficiaries: Developing countries

Timeframe: Medium-term (2021-2022)

Benefits: Strengthen the voice of LAC and other middle- and low-income countries in the international debates on tax affairs.

Challenges: Progress towards this objective is complicated since developed countries tend to influence international processes. Reform of some instruments, such as withholding taxes, could require legal changes to existing double taxation treaties.

Feasibility: High

6. PROGRESSIVE TAXATION

Option description: International community agreements to strengthen domestic tax frameworks in favour of progressive and environmental taxation. LAC has a low tax take that is skewed towards regressive indirect taxes. Provide support to countries through applied policy research and technical assistance to move towards progressive taxation.

Implementation level: National

Target countries: Developing countries

Implementing entities: Regional commissions, donors

Beneficiaries: People on lower parts of income distribution, protection of the environment

Timeframe: Medium-term (2021-2022)

Benefits: Progressive taxation would increase revenues and contribute to reduce income inequality. Environmental taxation would provide incentives to achieve environmental targets and revenues to finance required structural changes to move towards a more sustainable economy.

Challenges: Tax reforms are complex processes in which political economy factors can undermine intended results.

May not be feasible as tax policy decisions are a sovereign matter.

Feasibility: High

7. A UN TAX CONVENTION

Option description: The focus of the UN should be on urgently building political momentum towards intergovernmental action to address these gaps in the IFFs architecture at the global level. It is time to back a truly universal, intergovernmental process at the UN to comprehensively address tax havens, tax abuse by multinational corporations and other illicit financial flows that obstruct redistribution and drain resources that are crucial to challenging inequalities, particularly gender inequality. An open-ended intergovernmental working group on a UN Tax Convention could be established through a UN General Assembly resolution and would allow like-minded countries to begin the work towards such a legal instrument.

Implementation level: Global

Target countries: All

Implementing entities: UN
General Assembly

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Taxing income, wealth and trade should be seen to support the internationally agreed human rights frameworks, as without taxation the maximum available revenues cannot be mobilised.

Tax abuse and tax avoidance also needs to be considered under the extraterritorial obligations of states towards other states not to hamper the enjoyment of human rights via blocking financing through abusive tax laws, rules and allowing companies and wealthy individuals to abuse tax systems.

Agreeing on such a legal instrument at the UN would also allow discussions and decisions to be aligned with the goals of other UN instruments such as the Paris agreement and sustainable development.

Addressing tax abuse by multinational corporations and other illicit financial flows is critical to ensuring the necessary fiscal and policy space needed to ensure a decolonial, feminist and just transition for people and planet.

8. REVISITING INEFFICIENT AND WASTEFUL TAX INCENTIVES

Option description: Revisiting inefficient and wasteful tax incentives and the taxation of natural resources to ensure environmental sustainability.

Implementation level: National

Target countries: All

Implementing entities: Finance ministries

Beneficiaries: All countries

Timeframe: Short-term (2020)

9. UNITARY TAXATION FOR MNES

Option description: Taxing an MNE and its subsidiaries as a single firm based on worldwide operations and acceptance of the principle that the resulting tax should be shared based on negotiation between countries to help end tax competition and the use of tax havens

Implementation level: Global

Target countries: All

Implementing entities: UN
General Assembly

Beneficiaries: All countries

Timeframe: Medium to long term (2020-2025)

Financial Targets: Estimates of public revenue losses vary from USD 180 billion to USD 500 billion per annum

Benefits: Boost to public revenue would disproportionately benefit developing countries whose public revenue losses account for between 30 to 40% of these leakages through tax-related IFFs

Challenges: Institutional inertia and continued propagation of the misplaced belief in the exceptionalism of MNEs, as somehow exempt from fair tax burdens

Feasibility: This policy option is feasible, in the context facing developing countries: the twin challenges of increasing domestic resource mobilisation to meet Agenda 2030 and acute liquidity needs in response to the Covid-19 crisis

10. INCLUSION OF THE NOTION OF 'ROUTINE' PROFITS AS A GENERAL PRINCIPLE TO REFINE CURRENTLY PROPOSED FRACTIONAL APPORTIONMENT SCHEMES FOR THE TAXATION OF MNE PROFITS

Option description: This is an important step toward unitary taxation of MNEs and inclusion of the significant economic presence approach suggested by the Group of 24.

Implementation level: Global

Target countries: All

Implementing entities: UN General Assembly

Beneficiaries: All countries

Timeframe: Medium term (2020-2021)

Financial Targets: Estimates of public revenue losses from BEPS vary from USD 180 billion to USD 500 billion per annum

Benefits: Boost to public revenue would disproportionately benefit developing countries whose public revenue losses account for between 30 to 40% of these leakages through tax-related IFFs

Challenges: Institutional inertia and continued propagation of the misplaced belief in the exceptionalism of MNEs, as somehow exempt from fair tax burdens

Feasibility: This policy option is feasible, in the context facing developing countries: the twin challenges of increasing domestic resource mobilisation to meet Agenda 2030 and acute liquidity needs in response to the Covid-19 crisis

11. COVID-19 DIGITAL SERVICES TAX

Option description: Foregone fiscal revenues from digitalization are particularly high for developing countries because they are less likely to host digital businesses but tend to be net importers of digital goods and services. This would effectively be a tax on use of digital platforms as a revenue boost to countries struggling with the outcomes of COVID-19, while importing digital services.

Implementation level: Global

Target countries: All

Implementing entities: UN General Assembly

Beneficiaries: All countries

Timeframe: Short to medium term

Financial Targets: Estimates of global losses on the WTO moratorium on customs duties on electronic transmissions, which was adopted as a temporary measure in 1998 and has since been extended, alone, suggests more than USD 10 billion revenues lost per annum, of which 95% are borne by developing countries. "

Benefits: Will highlight the urgency of reaching a global tax agreement in an inclusive manner that takes due account of developing countries' interests

Challenges: "Increasingly pervasive digitalization of the economy erodes the assumptions underlying norms to determine where taxable value is created and how to measure and allocate this between countries. This remains a contested

area, but with some specific country success. In some cases, this has emerged as a sales tax eg New Zealand's tax on all online purchases of digital services (October 2016). New Zealand's law appears to comply with national treatment under both GATS and TPPA."

Feasibility: This policy option is feasible, given developing countries' need to mobilise domestic resources given acute liquidity needs of the Covid-19 crisis

12. STRENGTHENED UN ROLE IN INTERNATIONAL TAX PROCESSES IN ORDER TO ENABLE INCLUSION OF DEVELOPING COUNTRIES IN MULTILATERAL TAX DECISION-MAKING PROCESSES

Option description: In view of the disproportionately strong impact of IFFs on developing countries, the need to strengthen the role of all developing countries in relevant multilateral decision-making processes and to provide further international support to strengthen national regulatory and administrative capacities to address IFFs.

Implementation level: Global

Target countries: All

Implementing entities: UN General Assembly, the High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel), UN Tax Committee

Beneficiaries: All countries

Timeframe: Medium term (2020-2021)

Benefits: Despite the wide membership of BEPS (with 137 members as of December 2019, of which 76 developing countries and territories)

the Inclusive Framework suffers from legitimacy concerns given a limited role of developing countries in decision-making

Challenges: While recent proposals have started to address the concerns of developing countries, this is insufficient, not fully inclusive, and lacks real voice.

Feasibility: This policy option is feasible, in the context facing developing countries: the twin challenges of increasing domestic resource mobilisation to meet Agenda 2030 and acute liquidity needs in response to the Covid-19 crisis

H. Transparency

1. TRANSPARENCY AND INTEGRITY IN COVID-19 FINANCIAL RESPONSES

Option description: Develop a rapid response mechanism which can prioritise policy oriented anti-corruption and anti-money laundering solutions to immediate problems related to aid disbursement, protection of stimulus measures, financial inclusion, public procurement and fraud. Cross-institutional mission teams, involving field staff and experts, would stand ready to dedicate time to countries that request assistance with promoting accountability of response funds.

Implementation level: Global

Target countries: All, priority could be given to LDCs or conflict-affected States

Implementing entities: UN

- **Beneficiaries:** Countries at high risk for criminal opportunism related to COVID-19 measures and having weak economic crime detection, disruption and prevention.
- Countries with technical assistance needs.

Timeframe: Short-term (2020)

- **Benefits:** Ability to tailor assistance to country characteristics and build on existing country knowledge.
- Leverage the expertise of the different institutions.
- Possible to match responses to liquidity support provision, ensuring that international liquidity is transparently and effectively managed and spent.
- Possible to provide immediate advice on due diligence and AML frameworks necessary to detect and deter financial crime associated with criminal opportunism.
- Create a culture of 'one UN' on corruption, and reduce competition among agencies for resources

Challenges: Finding resources for the technical assistance may not be possible.

- Coordination across UN institutions can be challenging and produce duplication or gaps.
- May result in unclear lines of accountability within rapid response teams when staff are from different institutions.
- Inability to travel due to COVID-19 related restrictions.
- Siloed approach to COVID-19 funding may not spill over into broader public financial management (PFM) reforms.
- May risk creating extra-budgetary processes, rather than reinforce country ownership by making use of and improving existing country systems.

- Prioritizing UN responses within and amongst countries will be difficult.”

Feasibility: This policy option is highly feasible due to existing skill sets within the UN that can be adapted to quickly implement it.

- Risk assessment can be based on rapid risk assessments or existing evaluations. Subject to resource requirements - coordination hub can be relatively light and nimble.

Further Details: This option lends itself to public private partnerships, collaboration and coordination with other bilateral donor providers and with teams within the IFIs. Coordination of AML/CFT and corruption TA has established coordination mechanisms which can be mobilised as for interagency coordination. In the long term - this can strengthen public private partnerships and TA coordination efforts currently underway by providing common cause in crisis response. This is not unprecedented in financial integrity and has been seen in responding to macro critical crimes in the banking sector for example.

2. IMPLEMENT GREATER BENEFICIAL OWNERSHIP TRANSPARENCY

Option description: Welcome commitments to implement greater beneficial ownership transparency of domestically registered companies and legal entities through private or publicly accessible central beneficial ownership registers, underpinned by accurate and up-to-date information; and publishing the beneficial ownership details of all companies (domestic and foreign) winning central government contracts.

Implementation level: National

Target countries: All

Implementing entities: Legislatures, finance ministries, company registers

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Challenges: Public BO information is not supported by some countries

3. BENEFICIAL OWNERSHIP

Option description: Crack down on fiduciary and corporate opacity by strengthening the definition of beneficial ownership. Improving the transparency of legal entity ownership remains a high priority and, despite recent progress, there are weaknesses in both the rules on the transparency of beneficial ownership and their implementation. The revision of the beneficial ownership standard, which takes into account the experience of developing countries, should be prioritised.

Implementation level: Global

Target countries: All

Implementing entities: Possible champions: FATF, Global Forum.

Beneficiaries: All countries

Timeframe: Medium-term (2021-2022)

Benefits: Improving the accessibility of beneficial ownership information is vital to be able track, trace and stop illicit financial flows.

Challenges: Some jurisdictions/sectors may be reluctant

Feasibility: There has been some significant progress on beneficial ownership in recent years, demonstrating that progress can be made, and the fact that many countries have voluntarily adopted higher

standards show there is no technical barrier. Reluctance can be overcome with sufficient international political commitment

4. INCREASE FISCAL TRANSPARENCY

Option description: Increase fiscal transparency, including the publication of public contracts and information on tax and employment incentive measures and their use by businesses, and the strengthening, empowerment of supreme audit institutions to audit spending and tracing and feedback on utilization, particularly for the extra-budgetary resources for emergencies (such for COVID-19).

Implementation level: National

Target countries: All

Implementing entities: Finance ministries

Beneficiaries: All countries

Timeframe: Short-term (2020)

5. INTRODUCTION OF NEW TECHNOLOGY INTO THE ANTI-CORRUPTION WORK

Option description: Securing control over intended use of the government anti-Covid resources through leveraging blockchain technologies

Implementation level: National

Target countries: All

Implementing entities: central banks, ministries of finance, ministries of finance

Beneficiaries: Developing countries

Timeframe: Medium-term (2021-2022)

Benefits: Preventing unintended use of resources. Workshops for stakeholders like judges, financial intelligence unit, prosecutors etc. will be beneficial. Development of partnerships and international collaboration if a country does not dispose of such technology or needs technical assistance.

Challenges: Lack of local resources may be a limitation and donors may be overstretched

Further Details: In some countries the relevant implementing entities should include Ministries of Justice

6. ADMINISTRATIVE RULES FOR ACCOUNTABILITY OF COVID RESPONSE FUNDS

Option description: Design transparent administrative rules and procedures with inbuilt checks and balances at the different stages of disbursement, implementation and post implementation which promote accountability of response funds.

Implementation level: National

Target countries: All

Implementing entities: Finance ministries

Beneficiaries: All countries

Timeframe: Short-term (2020)

Benefits: Can achieve accountability by having in place transparent administrative procedures with proper checks and balances at the different stages of disbursement, implementation and post implementation.