Center for Global Development

Date: June 16, 2020
Subject: Masood Ahmed Remarks
Re: IDGM+ Webinar: Financing the Agenda 2030 in a Vulnerable World

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Before I start, I would like to commend the paper that Jean Michel Severino has produced which covers lucidly many of the issues that I hope we will discuss today.

You asked me, Patrick, whether financing for development would still be on course after this crisis to respond to the needs of the SDGs. Let me pose three points for your consideration.

First, I think it is important to recognize that even before the world was disrupted by the COVID-19 pandemic, the trajectory for development finance, particularly for low income countries, was falling well short of the expectations that we had in 2015 when the world signed up to the SDGs and the Paris agenda. In particular, the assumptions that had been made at the time both with regards to the increased ability of developing countries to raise tax revenues to finance their own development, as well as the capacity of official finance to leverage private money for development projects, were both turning out to be overly optimistic. In some of the reports that had been done in 2015, the assumption was made that one euro of official development finance could mobilize as much as nine euros of private money and thus we would go from "billions to trillions." Unfortunately, the reality is that one euro of official aid has been associated on average with E1.60 of private financing, and in low income countries that ratio is more like 0.5. Similarly, while domestic revenues have indeed increased in a number of countries, in many others this has proven much harder. And there is a concern, most effectively researched by Nora Lustig and her colleagues, that given the heavy reliance on indirect taxes in low income countries, attempts to ramp up revenues run the risk of putting the burden of financing on the poorest members of society.

Now it is true that a number of frontier economies and low-income countries have been able to take advantage of the eagerness of private markets to provide funds in the form of bank loans and Eurobonds. And it is also the case that new official lenders, notably China, have ramped up their support of development finance in Africa. But as we are seeing, not all of this money has been put to productive use and in the face of the current shock a lot of that funding looks very expensive and not fully recoverable.

Let me turn now to the current crisis and the international response to it. I think it is fair to say that there has never been a crisis in which the domestic response of the rich countries has been as fast or as large as we are seeing in the COVID crisis. Policy actions that were considered inconceivable are now commonplace. But it is also the case that there has never been such a gap between the magnitude of the crisis as it is likely to affect developing countries and the scale of the international response that we have seen to date. International financial institutions have all scaled up their support, a debt standstill for the remainder of this year on a portion of the debt of the poorest countries has been agreed by the G20, and there has been some resumption of private financing for emerging markets (after a record large withdrawal of such funding during March and April). But all this amounts to a fraction of what will ultimately be needed if the low income countries are to weather their worst economic crisis in three generations. We are privileged to have Tijani Thiam on this panel, and he will be able to tell us where things stand. But I do not yet see either the willingness of the international institutions to go beyond their comfort zones and traditional internal rules and constraints, or the political will amongst the major rich countries to act upon the kinds of bold proposals that have been put forward. These proposals include: the issuance of $500 billion or $1 trillion of new SDRs, or extending the debt relief initiative to cover private lenders, or to come up with the mechanisms to deal with the debt restructuring and write downs that will inevitably be required in a significant number of countries over the next two years. Perhaps this this will come when the economic and human consequences of delaying action become apparent. It is not there yet. So the most likely outcome is that we will muddle through with patchwork solutions to what is a systemic crisis and leave a scar on the already fragile economies of low income countries that will set back the pace of progress towards the SDGs by many years. This is the most likely outcome, but it is not yet inevitable.

The final point I want to make relates to the financing of development after the crisis. This is a crisis that will leave a long shadow on the economic prospects of developing countries. It will take many years for them to catch up with the loss in output that they will experience as a result of this crisis. There will be structural changes in the global economy relating to supply chains, tourism, labor mobility, and oil markets, all of which will require major adjustments by these countries. Mobilizing private financing will likely become harder both because the risk profile of these countries will be worse and because of increased risk aversion amongst many lenders. So official development finance will need to continue to play a central role in supporting the continued progress of these countries. ODA budgets are not going to grow very much, not least because of fiscal pressures in donor countries. But we do have development finance institutions, both multilateral and regional. Could we scale them up and can we ensure that they do a better job of working together as a system, something which the G20 sponsored review of the IFIs identified as a high priority? I believe that this is the most promising way forward. But we have to recognize that support for multilateralism is waning and building a consensus for scaling them up is going to be much harder given the adversarial relationship between the United States and China, the two largest economies in the world and two major shareholders in the multilateral system. This is where Europe could play a pivotal role. European countries taken together are the largest provider of development assistance, but they are also enormously powerful shareholders in the multilateral institutions. They can help ensure that these institutions remain protected from the spillovers of great power rivalry and are seen instead as a common space in which to pursue the Global Development agenda. Many of my colleagues look at recent disagreements amongst European countries and say that this is an unrealistic ambition. Personally, I am more optimistic. I hope I will be right. The world depends on it.

Thank you.