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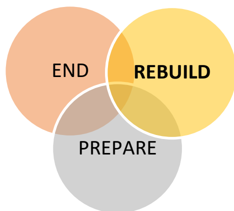
OPPORTUNITY AND AN EQUITABLE ECONOMIC RECOVERY



The Bill and Melinda Gates Foundation is emphasizing three core priorities: containing the global COVID-19 pandemic, rebuilding through an accelerated economic recovery, and better preparing the global system for future pandemics.

This white paper spells out key concerns related to economic recovery in the developing world and suggests priority financing and policy approaches to help free up additional resources, accelerate growth, and ensure that this recovery is broadly equitable even as the effort to contain COVID-19 continues. The importance of accelerating the economic recovery has been repeatedly identified as a key goal by our partners. The policy recommendations presented here are not meant to be exhaustive, but instead focus on those areas most likely to be catalytic in terms of promoting more inclusive growth. These viewpoints are the result of extensive—and continuing—dialogue with a broad spectrum of actors.

The impact of COVID-19 has been devastating in the developing world, and not only from a health perspective. Recent projections by the World Bank suggest that the number of those in extreme poverty increased by more than 88 million people in 2020, the first time in decades that we have seen a meaningful reversal in the effort to end extreme poverty.

Although downturns are a regular part of any economic landscape, the social and economic impacts of COVID-19 have few, if any, precedents. The International Monetary Fund, or IMF, is now estimating that GDP in sub-Saharan Africa, after years of steady growth, decreased by 1.9% in 2020—the worst performance on record. Governments and their populations have been buffeted by sharp contractions in some of their most important sources of revenues including remittances, foreign direct investment, commodity prices, and tourism. These forces, coupled with rising debt (of 73 countries eligible for the G20's Debt Service Suspension Initiative, 43 spent more on servicing their debts than they did on providing health care in 2020), have placed long-term growth and development progress at risk.[1]

A Note on Scarring

The impact of "scarring," the long-term loss of productive capacity due to the pandemic and resultant economic crisis, looms as a major development challenge. As the IMF notes, such scarring often plays out over more than a decade in terms of lower earnings, fewer job opportunities, increased mortality, declining educational opportunities, and higher debt.[1]

Scarring disproportionately affects women and traditionally marginalized groups because of their already precarious position in societies and the coping strategies that they are forced to adopt. The World Bank observes that when traditionally marginalized groups face major economic shocks, they are often forced to reduce food consumption and sell off what little productive assets they may possess, further accelerating a vicious downward cycle of reductions in physical and human capital.[1]

From the impacts of nutritional deprivation to potentially years lost in educational attainment, traditionally marginalized groups were often hit first and hardest, and will likely take the longest to recover from the ongoing crisis.

The impact has been especially difficult for low-income countries, the only group of countries whose output loss as a result of the pandemic is even more severe than during the 2008-2009 global financial crisis. In the case of sub-Saharan African countries—many of them low-income—the gap between the region's GDP per capita and those of advanced economies will expand in 2021 and 2022, inverting what had been a growing path of convergence before the crisis.[2]

We now face the challenge of restoring lost economic growth across the developing world even as we continue to fight the pandemic. Sub-Saharan Africa and emerging markets in Asia have been heavily hit. The imperative to restore growth—to improve living standards, help reduce debt, and maintain infrastructure—is pressing. But there are also real questions as to the shape of this recovery.

Research overwhelmingly indicates that traditionally marginalized groups, particularly women, feel the impact of major economic dislocations in a disproportionate fashion. (See "A Note on Scarring" sidebar.) Traditionally marginalized groups, including women, suffer the most in terms of enduring lost opportunity, because they end up missing out on needed investments in human capital that are most crucial in closing persistent social inequalities, such as education. Given the sheer magnitude of the current crisis, it is with good reason that Oxfam International recently argued that the world is now facing "the greatest rise in inequality since records began"—a concern both within and across countries.

The initial data from the pandemic bears out these concerns across numerous avenues. The World Food Programme estimates that roughly 111 million people slipped into food insecurity in 2020, largely as a result of the pandemic.[3] The UN estimates that as many as 12 million women and girls experienced disruptions to their family planning services across the developing world, and UNICEF suggests that 10 million more girls are at risk of early marriage by the end of the decade.

In country after country, young people, in particular young women and those in the informal sector, are facing high rates of job loss. This fact, coupled with the additional unpaid care burden triggered by the crisis, is significantly reducing women's economic opportunities and capacity to support their families at the household level. With women and other traditionally marginalized groups exiting the workforce in large numbers, there is a risk that many will never return.

One important bright spot during the pandemic has been the wide and rapid deployment of social protection measures, particularly cash transfers to the poor. Often relying on digital technologies, cash transfers have reached over 1 billion people during the pandemic, and the recovery presents a moment of opportunity for countries to cement gains in using technology to reduce inequalities and make sure that the most vulnerable are receiving targeted assistance.

If economic recovery in the developing world is going to be dynamic and durable, it will require concerted efforts to get the marginalized populations that have been hit hardest by the pandemic back to work and into the economic mainstream. This will help avoid the likelihood of stalled growth or a potential double-dip recession, and interventions specifically targeted at those most at risk of being left behind will prevent further backsliding on development goals and generate a solid return on investment.

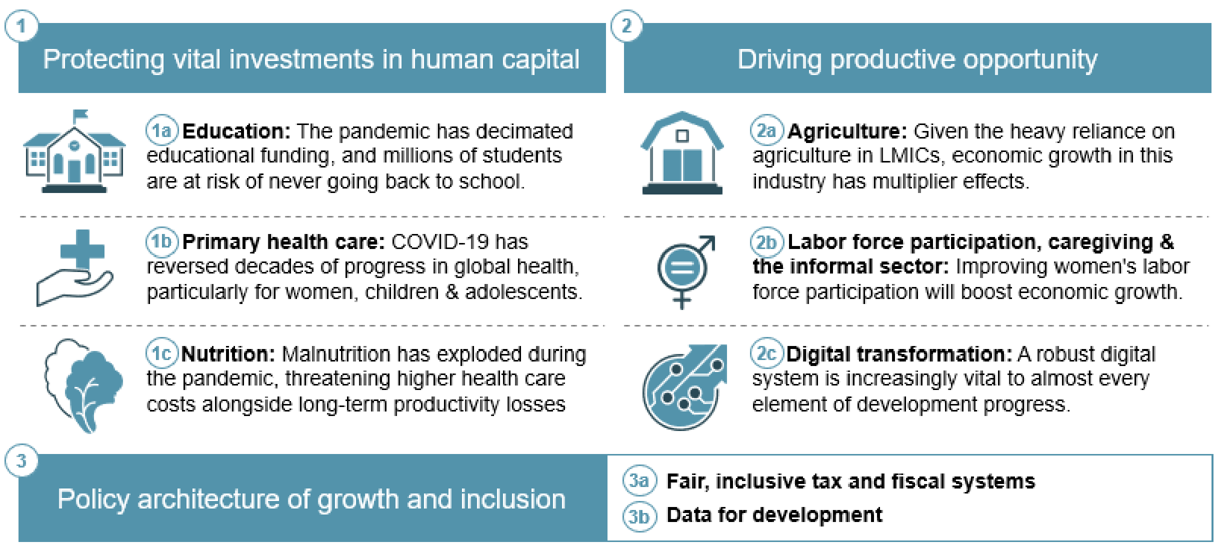
Shaping the overall landscape to drive an inclusive, accelerated recovery will require meaningful change at the systems level, and ordinary approaches will not rise to meet the demands of an extraordinary moment. And as the pandemic has made clear, multilateral cooperation and investments in research and innovation offer consistent rewards.

Where Do We Go from Here?

We argue that achieving an accelerated and equitable recovery hinges on actions across three broad and interlocking fronts: protecting vital investments in human capital; driving productive opportunity; and better shaping the policy architecture of growth and inclusion. We recognize that conditions for an equitable economic recovery vary significantly by context, and that these broad recommendations would need to be implemented in ways that make sense within the local setting.

Also, though the narrative articulates both sources and uses of financing, this should not be viewed as a strict one-to-one line between sources and uses. Some countries will rely heavily on the sources spelled out in the paper, others less so. Some of these sources have greater and lesser degrees of flexibility as well.

Figure 1: Priority investment areas in human capital, driving productive opportunity, and the policy architecture of growth and inclusion



1. Protecting Vital Investments in Human Capital

(1a) Education

COVID-19 has affected the education sector in multiple ways, but two key shocks are of particular note: first, school closures have exacerbated the learning crisis, and second, the economic fallout from the pandemic has deeply affected household, government, and donor funding for education. The UN estimates that, globally, more than 10 million children are at risk of never returning to school.

The economic imperative for focusing on education at this moment is powerful. For example, recent research by Citigroup and Plan International found that achieving quality education for 100% of girls by 2030 could lift GDP in emerging economies by 10% on average, compared to a business-as-usual scenario.[4]

To prevent a lost generation of learning, we call on donors, developing country governments, development partners, international financial institutions, and the private sector to:

- In the short term, develop clear national action plans to promote the full return of children, and especially of girls, to school, by identifying the key legal, financial, regulatory, health, and social obstacles to such returns.

- Help school systems develop and implement practical plans to remediate and adapt instruction to meet children where they are and help them catch up on lost learning.

- Increase investment in tools and systems to facilitate the monitoring of learning outcomes.

(1b) Primary Health Care

COVID-19 has reversed decades of progress in global health, affecting women, children, and adolescents most severely. The Global Financing Facility reports that its partner countries saw a 25% drop in coverage of lifesaving health services as a result of COVID.

Strong primary health care systems are the first line of defense against existing and emerging global health threats, but they are also a cornerstone of a thriving economy. And during a crisis like COVID-19, a strong primary health care system can give people the confidence they need to reenter society, contributing to a more rapid economic recovery. Indeed, the business case for investments in primary health care has never been stronger, and the economies of those countries that made smart investments in primary health care have been able to bounce back more quickly from the crisis.

Research from the Lancet Commission on Investing in Health, the UN High-Level Commission on Health Employment and Economic Growth, and the WHO Commission on Macroeconomics and Health all reported the significant macroeconomic benefits of improved health outcomes.[5] The reasons are not hard to understand:

- A broad study across countries with high maternal and child mortality rates found that even a $5 per capita increase in spending on reproductive, maternal, newborn, and child health could yield up to nine times that amount in social and economic benefits, including a boost in GDP and productivity.[6]

- Strong primary health care can detect, prevent, and manage people's illnesses (including disease outbreaks) before they spiral out of control, helping to avoid needless suffering and excessive costs.

- When primary health care is accessible to everyone, rich and poor alike, it helps reduce inequalities and allows traditionally marginalized populations to be more productive without the crushing burden of preventable persistent illnesses.

- The World Health Organization also notes that the return on investment from childhood immunizations in low- and middle-income countries has been estimated at $44 for each $1 spent.

Within primary health care, family planning and maternal, newborn, and child health remain key priorities and should be treated as essential health services within the context of the pandemic and throughout the recovery.

We urge that:

- Policymakers use data to reorganize and prioritize access to quality essential health services that will reduce high numbers of additional deaths due to service disruptions and accelerate an economic recovery.

- Donors and other parties maintain or expand commitments to primary health care and its constituent components, including family planning and, where possible, offer integrated support for primary health care systems rather than vertical programs, to reduce duplication.

- Although budget targets are an imperfect tool, developing country governments should aspire to dedicate at least 65% of health budgets to primary care and not more than 35% of such budgets to tertiary care and explore means to achieve efficiencies, including through strategic purchasing.

- Donors and national governments work together to provide means for traditionally marginalized communities to cover out-of-pocket primary health care expenses. Economic stimulus packages and World Bank/International Development Association (IDA) loans should integrate coverage for essential primary health services and commodities in emergency response funds.

(1c) Nutrition

As noted, the pandemic has made affordable, healthy diets significantly harder to obtain for millions of people and has disrupted critical nutrition services delivered through health systems. But like investments in education and primary health care, spending on nutrition programs should not be viewed as welfare. In many cases, investments in nutrition programs, particularly for mothers and young children, spur such large gains in long-term productivity and overall growth that they are more than justified from an economic perspective.

Improving nutrition has a vital part to play in an equitable economic recovery on both the supply and demand sides. We recommend that all parties:

- Invest in a priority package of high-impact, cost-effective health and nutrition interventions, including maternal nutrition counseling and micronutrient supplementation through antenatal care platforms, breastfeeding promotion and support, infant and young child nutrition counseling, intermittent presumptive treatment of malaria in pregnancy in malaria-endemic regions, vitamin A supplementation for children, large-scale food fortification, and iron and folic acid supplements for adolescent girls in school.

- Make smart investments in food systems to ensure that they deliver diverse and nutritious foods for women and children, including reducing food loss and waste from farms to the consumer, promoting nutritious value chains (particularly for fruits and vegetables), improving food safety, and expanding women's collectives.

2. *Driving Productive Opportunity*

(2a) Agriculture

Agriculture, now more than ever, is essential to an accelerated, equitable recovery in the developing world. The World Bank estimates that agriculture employs 65% of the work force in Africa and accounts for 32% of the region's GDP. Because most households rely on agriculture, economic growth originating in agriculture has a multiplier effect across the economy, making interventions targeted at this sector effective at reducing poverty.

> "By supporting Africa's smallholder farmers, we can build an Africa free from hunger. We can build an Africa free from poverty. We can build an Africa proud to be economically strong and able to feed itself. That is the bountiful harvest that together we can and must achieve."
>
> -Former UN Secretary General Kofi Annan

Now is the moment to embrace inclusive agricultural transformation to fuel economic growth; deliver broad and accelerated impacts favoring the poor, particularly women; and move families from subsistence to value-added agriculture. To make this a reality, donors, multilateral institutions, and developing country governments need to both create a conducive policy environment and invest public resources into modernization of the rural sector. Bolstering agro-processing capabilities, the resilience of supply chains, and logistics required to move food from farms to markets will have the triple benefit of increasing profits for farmers, reducing waste, and lowering prices for consumers—all while boosting food security.

It is also vital to bring a climate lens to these considerations. Data suggests that Africa will reach +2 degrees by 2050, with large parts of the continent warming to that level even earlier. Agriculture is the sector that will be hit hardest and soonest by these changes, and climate-induced impacts are already undermining livelihoods.

The opportunity afforded by economic recovery plans offers a unique moment for systemic change toward a resilient, green, digital, and equitable economy, at the pace and scale necessary according to climate science.

To help make this reality we call for:

- Rapidly expanded research and development spending on agriculture, including a doubling of Consultative Group on International Agricultural Research, or CGIAR, funding and increased funding for National Agricultural Research Systems, to help create better practices, develop climate-adaptive plant varieties and breeds, and ensure that agricultural innovations are distributed to smallholders.

- A doubling of donor funds dedicated annually to food security and nutrition, which Ceres2030 argues would double the incomes of 545 million small-scale farmers and limit agricultural emissions in line with the Paris Agreement. Among these, five high-impact areas include:
    - Investing in extension services, particularly for women
    - Ensuring that agricultural interventions to support sustainable practices are economically viable
    - Supporting the rollout and adoption of more climate-resilient crops
    - Expanding research on water-scarce regions to develop effective farm-level interventions that will better support small-scale producers
    - Improving the quantity and quality of livestock feed for small- and medium-scale commercial farms

- Advancing the rights of women farmers to hold and inherit land, secure a legal identity, and better access resources, including credit.

(2b) Labor Force Participation, Caregiving, and the Informal Sector

Developing countries and donors can take practical steps to improve labor force participation, particularly that of women, and directly boost economic growth prospects. Due to social norms, women in the developing world perform 76.2% of the total hours of unpaid care work. The burden on women has increased during the pandemic due to school closures and the demands of caring for sick and elderly relatives; in most countries, women are currently spending more than 30 hours per week exclusively on childcare, nearly equivalent to a full-time job. This reduces time spent on generating an income, operating a business, or other economic activity. Women's COVID-forced exodus from the economy also risks cleaving the post-pandemic economy into two classes of workers: people with caregiving responsibilities and everyone else.

The challenges of balancing paid work and childcare are felt most acutely by low-income women working in the informal sector, which comprises over 80% of non-agricultural employment for women in South Asia and 74% in sub-Saharan Africa.

We call for:

- Support for initiatives that reform unequal laws and policies to enable women to participate in more economic activities and allow women and girls to exercise their ownership rights in practice in the case of death or divorce.

- Gender-responsive public services to help reduce women's unpaid care work. For example, in Africa, the governments of Burkina Faso, Chad, Democratic Republic of Congo, Ghana, Mauritania, Mali, Namibia, Senegal, and Togo have either subsidized or fully covered the cost of electricity and water bills for vulnerable and low-income households. This kind of short-term financial relief reduces the burden of daily domestic work required to care for children.

- Expanding access to childcare as a sound macroeconomic investment, based on IMF evidence that if the cost of childcare is reduced by 50%, the labor supply of young mothers will concurrently rise on the order of 6.5–10%.

- Accelerated efforts to address poor work conditions, including low pay, in women-dominated sectors of employment.

(2c) Digital Transformation

Improving access to and uptake of digital technologies in the developing world was already a high priority, and the pandemic has only accelerated this imperative, particularly for traditionally marginalized populations. COVID-19 put a spotlight on the importance of digital public infrastructure, or DPI, as governments with robust digital health management information systems, identity, and payments infrastructure were better equipped to quickly establish contact tracing systems to track the movements of infected and high-risk individuals; spot inventory gaps across their health systems and facilitate the deployment of COVID-related commodities; and deliver payments into people's accounts to mitigate the economic hardships caused by the outbreak.

From telemedicine to remote learning to small business development, a robust digital system is increasingly vital to almost every element of development progress. Yet the digital divide remains significant, as does the lost economic opportunity because of this divide. On average, women are 14% less likely to own mobile phones than their male counterparts and 43% less likely to engage online, making it more difficult for women to access financial services, become entrepreneurs, or engage in other activities that drive economic empowerment.

Access and usage issues need to be urgently addressed if digital technologies are going to underpin an equitable recovery. According to Digital Pathways at Oxford, inadequate internet coverage and ownership of mobile handsets together are the most important factors driving low levels of internet usage. Efforts should be increased to support universal broadband access of sufficiently high quality to allow activities that would support income generation, similar to the Broadband Connectivity Fund being established in South Africa. Conversely, governments should resist the temptation to introduce sector-specific digital services taxes without assessing the broader impact on financial inclusion and use by the poorest households.

Despite growing interest in building robust digital identity, payment, and health management information systems, cost and technical complexity may put this infrastructure out of reach for many countries. Donors have sought to lower the cost and technical barriers to building high-quality digital public infrastructure by developing open-source code libraries built on best-in-class privacy, data security, and cybersecurity foundations. These code libraries include DHIS2 (health management information systems), MOSIP (identity), and Mojaloop (payments), among others. Donors have also launched digital public infrastructure technical support facilities—such as Digital Square, the World Bank Identification for Development (ID4D) initiative, and the Africa Payments Accelerator Network (APAN)— to help countries access technical support as they develop digital public infrastructure. However, these technical assistance facilities lack funding to meet the considerable demand among country governments for digital public infrastructure-related technical support. Donors also need to increasingly move away from narrow, more single-use digital projects and embrace approaches that build the sustainable and long-term capacity for developing countries to manage their digital transformation.

Deficits in literacy and digital skills also remain important barriers to mobile internet use in Africa and Asia. On average, female mobile owners in low and middle-income countries, or LMICs, use a smaller range of services than men—a gap that remains even among smartphone owners. Indeed, a lack of digital skills and confidence also prevents many women from owning a mobile phone in the first place. By contrast, technical and vocational education and training (TVET), often seen as a solution to industrial disruption and skills gaps, rarely remains relevant to industrial requirements.

We call for:

- The G20 to profile and/or promote the adoption of robust, open-source DPIs as part of countries' recovery strategies.

- Significant support for investment in digital skills with an emphasis on women—ideally provided in partnership with the private sector, which understands the skill sets most in demand and the best ways to ensure proper accreditation and sound training design.

- Efforts to ensure that there are subsidized data packages for the poorest users as an initial foray into governments providing universal broadband access.

- Where countries have job creation strategies or programs that focus on the role of digital technologies and the platform economy—as is the case in an increasing number of countries—attempts to fund these strategies in a coordinated fashion.

- Accelerated investments in funding for DPI code libraries, such as Mojaloop, MOSIP, and DHIS2, and ramped-up G20 funding for DPI technical assistance facilities, such as ID4D, APAN, and Digital Square.

3. The Policy Architecture of Growth and Inclusion

In the current moment, we feel there are two facets of the policy architecture that are particularly vital to an equitable recovery: securing broad agreements on fairer, more inclusive tax and fiscal systems and continuing the push for data for development.

(3a) Fairer, More Inclusive Tax and Fiscal Systems

At a moment when fiscal deficits are rising, governments are going to find it hard to balance the books by cutting spending alone, especially when need for services is so great, so it is understandable why issues of modernizing tax systems loom large as part of the discussion around an equitable economic recovery. Progress is needed on both national and international fronts.

At the national level, tax reform is politically and technically challenging and needs to garner wide public support to be sustainable. Taxing wealth through income, property, and capital gains, which are all under-utilized in African economies, will ensure that those that have not been severely affected by the pandemic bear a fair burden of its costs. Closing tax loopholes, including repealing wasteful corporate tax incentives, and effectively enforcing the taxes that are already on the books can also lead to significant increases in revenues. Many governments have a natural desire to broaden the tax base, which, if properly handled, can be consistent with an inclusive economy and bringing informal workers and traditionally marginalized populations out of the economic shadows.

But for those populations to see value in paying regular taxes, there needs to be a genuine social contract, and those tax revenues need to be both equitably raised and applied to spending on essential services and investments in human capital. In addition, for many of these people to enter the formal economy, governments will need to dismantle the barriers that have kept them in the shadows: lack of a legal identity, lack of access to credit, and an inability to hold or inherit property.

Increased transparency and scrutiny of government finances is also essential. Building confidence in the fairness and transparency of government spending is an absolute cornerstone of inclusive growth and leads to much-needed trust across communities that have often found themselves estranged by the inequitable allocation of resources. Equally true, mistargeted tax policies in the developing world can harm technological innovation and hurt the prospects for long-term growth.

It is also logical to tackle global tax reform to both reduce inequality and free up additional revenue for much-depleted national treasuries. Ten years of international coordination through the G20 and OECD have led to success in tackling international tax evasion and avoidance, representing a good example of the benefits of a rules-based order, though much more needs to be done to include the developing world in this agenda as well as to ensure that these countries can implement solutions.

The G20/OECD Base Erosion and Profit Shifting project has attempted to address the knotty issue of multinational tax avoidance, with new rules about how best to treat large technology companies looming large within that debate. Major digital platforms such as Amazon, Google, and certain players from China have been able to exploit gaps and mismatches in national rules to shift profits offshore, minimizing the amount of corporate tax they pay. The failure of the international community to reach agreement on how to treat these companies has led to erosion of public trust in the tax system as well as erosion of revenues. According to the OECD, as much as $100 billion in additional resources could be generated by implementing a global minimum corporate tax rate.[20] Despite consensus being reached at the G7 Finance Ministers meeting in June 2021, there is still a long way to go, and developing countries need to be an active part of these discussions, not simply an afterthought.

(3b) Data for Development

The demand for data during the pandemic has pushed data up political agendas in many countries and inspired new innovations and rapid modernization of systems. In some cases, the pandemic has thrust National Statistical Offices into an important role in COVID policymaking—often the first time they have been invited into policymaking at that level. Post-pandemic investments should build on this momentum through the deployment of new survey methods and by building on the use of new data sources, such as data from earth observations, which has proved valuable in the pandemic and can be a part of future systems.

Data is a critical ingredient to creating an inclusive recovery and informed decision-making. Without timely, accurate, and inclusive collection and analysis, policymakers cannot make the best and most efficient use of funds by investing in the sectors, geographies, and populations where interventions are most needed or consistently track the progress of such efforts. Data collection has long been a global challenge best illustrated by the lack of indicators for many SDG targets. With the loss of the ability to use in-person household surveys to collect data due to physical distancing requirements, some countries have been unable to collect data on the COVID response and the well-being of citizens, while others have adapted existing phone or internet survey tools or built new capabilities within national statistical offices to use more cutting-edge tools. Governments, multilateral development banks, NGOs, and donors need to redouble their efforts to build capacity for data collection and use to meet the demands of creating an inclusive recovery.

We urge support for:

- Efforts to build on the new political awareness of the value of data, by increasing both domestic and external investments in data systems, potentially including the new World Bank Global Data Facility, expected to launch soon.

- Efforts to institutionalize gains made in using phone and internet surveys and, where lacking, investment by governments and donors to strengthen statistical systems and the capabilities of national statistical offices to use these tools, in-person surveys, and other data collection tools in the future.

- Initiatives to help policymakers better understand the diverse impacts of the pandemic to help craft policies that are inclusive and reach those who have been hit hardest. Governments and the international community need to invest in, produce, and use gender data to better inform a gender-responsive recovery plan. A multifaceted set of actors, including National Statistical Systems, funders, multilateral agencies, researchers, and policymakers can drive the effort to disaggregate COVID-19 data and collect standardized gender data in areas where women's and girls' lives are disproportionately affected by COVID-19.

- Building capacity to produce and use insights from new sources, investing in digital platforms that can allow data to be produced and gathered at lower cost, adding hardware and infrastructure to allow them to be used, and strengthening institutions so data can be used effectively and safely. These initiatives range from legislation on data privacy to a culture of data sharing across government that is led from the top.

Financing the Recovery

The COVID-19 pandemic has caused millions of premature deaths and has the potential to cause significantly more. The severity of the COVID outbreak is not the only factor in the economic impact of the pandemic. Economic shocks varied across countries depending on multiple factors: the extent of the COVID outbreak, lockdowns, and other public health measures; the international recession; and the overall policy space and response by individual country governments.

The most recent World Economic Outlook report from the IMF suggests that global economic output shrank 3.3% in 2020 and will have an uncertain recovery in 2021. The recovery will be uneven across the world, with the United States and China likely surpassing pre-COVID GDP in 2021 while others will only do so in 2022 or 2023. Although there is substantial variation between countries, most regions of the world will permanently lose 6 to 7% of GDP.[7]

For many low- and lower-middle income countries, the fall in economic activity will be compounded with elevated debt levels, because debt positions are rapidly deteriorating. According to the IMF, 55% of low-income countries were either in debt distress or at high risk of debt distress at the end of 2020.[8]

Domestic revenues in developing countries are projected to have dropped substantially—by nearly US$1 trillion in 2020 from pre-COVID-19 levels. Recent estimates by the IMF situate the total external financing requirements for sub-Saharan Africa in 2020–23 at about $900 billion, with the source of $130 to $400 billion of this still unclear.[9] Recent estimates by the IMF estimated that LICs would need to deploy around $200 billion through 2025 to step up their response to the pandemic and raise an additional $250 billion to accelerate their income convergence with advanced economies. A downside scenario of a slower global recovery could add a further $100 billion to these financing needs.

In this context, most low- and lower-middle-income countries will require low-interest debt and grants to navigate the crisis. Even resilient lower-middle-income countries that are less affected by the current economic shock will require cheaper alternatives to market debt to avoid compromising medium-term financial sustainability.[10] Low- and lower-middle-income countries with highly constrained fiscal space and ability to respond to the crisis will have to rely heavily on low-interest debt and grants. Preliminary 2020 figures show a growing share of official development assistance (ODA) being provided as loans rather than grants, which is a troubling trend, alongside a push by some donors to expand what types of assistance qualify as ODA rather than boosting overall levels of aid.

Without considerable new sources of finance, lower-income countries that have faced acute, short-term economic impacts from the crisis will face reduced consumption and increased poverty and/or reduced investment and sluggish growth in the medium term. These needs overlap with short-term responses to stop the immediate health impacts—direct and indirect—of COVID-19 and investments in strengthening health systems and preparing for the next pandemic.

Without concerted and intensified efforts to mobilize at-scale external finance to create additional fiscal space for low- and middle-income countries that are currently under mounting economic duress, we will not achieve an equitable economic recovery and could potentially lose a generation of progress.

We think the following global financial actions should receive urgent attention across four interlinking areas: protecting and increasing ODA, supporting and enhancing multilateral development banks (MDBs) via capital increases and replenishments of their concessional windows, assertively deploying Special Drawing Rights, and developing sound policy approaches to ease the mounting pressures associated with external debt. It is also important to note that these are not the sole sources of finance in the current environment, which also includes capital market instruments and the fairer and more inclusive domestic and international tax systems discussed earlier in this paper. It is also important to note that these resources should be viewed as additional sources of funds rather than as a zero-sum game.

Figure 2: Four-pronged approach to financing the recovery focused on official development assistance, multilateral development banks, Special Drawing Rights, and debt relief

Official Development Assistance

Official Development Assistance, or ODA, is government assistance designed to promote the economic development and welfare of developing countries. Though a small part of the overall financing picture, ODA is the only resource flow focused specifically on poverty; it is a critical source of funding for the poorest people and countries. Funding for critical public services in health, education, and social protection will not be met by private finance. Gaps in countries' ability to make these critical investments must be met by international, public, concessional resources. Especially now, when countries are facing a narrowed set of financing options because of lower tax revenues and limited capacity to sustainably borrow from global capital markets, ODA is one of the few sources available to boost countries' ability to make needed investments to respond to the COVID-19 crisis and reignite inclusive economic growth.[11] Ending the pandemic and supporting an equitable recovery will require increasing ODA budgets.

We call for:

- All DAC donors to significantly ramp up their ODA, making progress on their commitments to reach or return to 0.7% Gross National Income in ODA. The full power of ODA as a counter-cyclical resource in a time of crisis is not being realized. This would be a relatively small contribution from national budgets, particularly compared to the enormous volume of resources being deployed as stimulus in high-income countries. When well spent, ODA has a strong-self-interest case for donors in strengthening the global economic and political system, on top of the clear moral case.

- Ensure that ODA is allocated where other finance—such as private-sector investment—is unlikely to target poor people and poor countries. The magnitude of the current crisis exacerbated the need for greater prioritization of resources to countries in greater need, and regardless of the measure of "need" employed, the current allocation leaves a number of countries consistently resource strapped.[12]

- Increase flexibility in development assistance to allow for local decision-making on spending priorities. The pandemic has underscored the importance of many familiar effectiveness issues such as donor coordination and alignment with country priorities. We all, as donors, must engage closely with developing countries to join forces around initiatives that reflect and respond to countries' realities and evolving needs.

Multilateral Development Banks

Expansion of MDB financing is critically needed for broadening countries' fiscal space. MDBs have increased commitments by 31%, driven by more than doubled (139% growth) concessional commitments (qualifying as ODA). As a result, ODA made up over half (52%) of International Financial Institution IFI commitments in the first seven months of 2020, up from 28% in 2019.[13] Following this critical short-term response, which was enabled by significantly front-loading ODA resources, additional resources are needed to protect funding levels for core programs and investments, as well as to adequately resource key areas for inclusive economic recovery.

On top of the need for further concessional financing from MDBs, there is a set of middle-income countries that benefit from financing out of MDBs' non-concessional windows. Expanding these resources, particularly from the World Bank and the African Development Bank, will be critical to core economic recovery in these countries while minimizing impact on debt burdens.

MDBs are proven institutions with a high degree of effectiveness, preferred creditor status, and the respect of donors. They calibrate terms based on the economic and technical capacity of recipients, which helps ensure financial sustainability while providing good leverage for donors' money via capital markets.

We call for:

- IDA management and donors' agreement to secure a successful IDA 20 replenishment, with a goal of sustaining $35 billion or more in annual commitments during 2022–25, including adequate grant financing to better account for COVID-related debt deterioration in low- and lower-middle-income countries.

- Explore options for capital expansion of the MDBs, in particular the World Bank and the African Development Bank, and for an ambitious replenishment of the African Development Fund (ADF).

Special Drawing Rights

Special Drawing Rights, or SDRs, are supplementary foreign exchange reserve assets defined and maintained by the IMF. In March 2021, the IMF Board agreed in principle on the issuance of the equivalent of $650 billion in SDRs, which should be released to member states proportionally to their quotas at the IMF in summer 2021. The IMF is currently working on a paper for its Executive Board that will lay out potential options for advanced economies to voluntarily reallocate some of their SDR allocations. The addition of SDRs must be protected by ensuring that their reallocation does not crowd out other development assistance flows. Given the acute risks of a great divergence between advanced and developing economies and the global challenges we are collectively facing, SDRs should be assertively deployed:

- We welcome the agreement for an issuance of $650 billion in SDRs by the IMF to its member states to support the global economic recovery from the COVID-19 crisis.

- We regret that only $21 billion worth of SDRs will be allocated to low-income countries and $33.6 billion to Africa, where the needs are the highest and where access to COVID-19 vaccines is the weakest.

- We have been inspired by the diversity of ideas to leverage this historical SDR issuance to solve the macro-critical health and climate challenges we are collectively facing as well as shore up liquidity for those countries most in need. This is a uniquely important moment for the IMF and its board to exercise creative thinking and identify viable mechanisms to ensure a broad and equitable economic recovery.

Debt

In April 2020, the G20 adopted the Debt Service Suspension Initiative, which has recently been extended for the second and final time to last through the end of 2021. In November 2020, the G20 launched the Common Framework for Debt Treatments, a debt renegotiation forum which has started testing debt relief from both bilateral and commercial creditors for countries adopting an IMF program (Chad, Ethiopia, and Zambia have so far requested to participate). Under both initiatives, 73 mostly low-income countries are eligible.

We urge the following debt reduction actions by relevant players:

- The G20 to ensure that there is a comprehensive creditor participation in the prompt implementation of the Common Framework for Debt Treatments, which can be extended to middle-income countries facing acute debt challenges.

- Borrowing countries to better integrate financial and climate risks into debt-funded investments to ensure that they are sustainable.

- The IMF and the World Bank to better integrate the social returns of debt-funded investments within their Debt Sustainability Framework.

- Creditors, particularly commercial creditors, to ensure that their lending practices are financially sustainable, are transparent, and bring benefits to citizens.

- The international community to continue supporting lower-income countries in building their debt management capacity with greater emphasis on context-specific solutions.

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