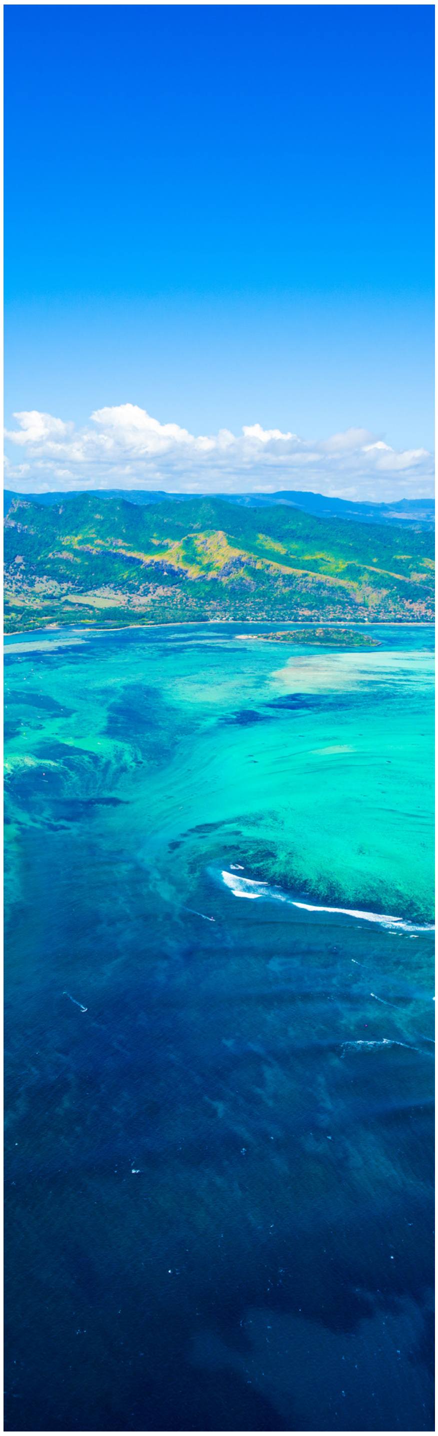
BUILDING
FORWARD
TOGETHER



FINANCING A SUSTAINABLE RECOVERY FOR THE FUTURE OF ALL

United Nations
Economic Commission for Africa

DECADE OF ACTION

Executive Summary

The economic damage to developing economies triggered by COVID-19 can be transformed: from a threat to global growth, into an accelerator of global prosperity. Rapid financial support, developed and deployed in concert between developing countries and the major players of the global economy, public and private, will reinject growth momentum into economies which were among the world's fastest growing prior to the pandemic. Emerging and developing economies, excluding China, already account for nearly 40% of global output; restarting these economies will be important for the recovery in the developed world. A prolonged funding gap will impose lasting scars on the labour markets, social cohesion and businesses of all emerging markets and jeopardise our shared global goals.

Africa's growing economy and society will be a major part of the future of global economic growth. The potential of its growing and young population, as well as the investment and productivity opportunities in its developing free trade area, communications and digitalization drive, its biodiversity, global carbon sinks, and renewable energy potential, are all at the leading edge of a sustainable world economy. Making the continent ***a global powerhouse of the future*** is the vision of Agenda 2063 and the task for the Sustainable Development Goals (SDGs) in Africa for 2030.

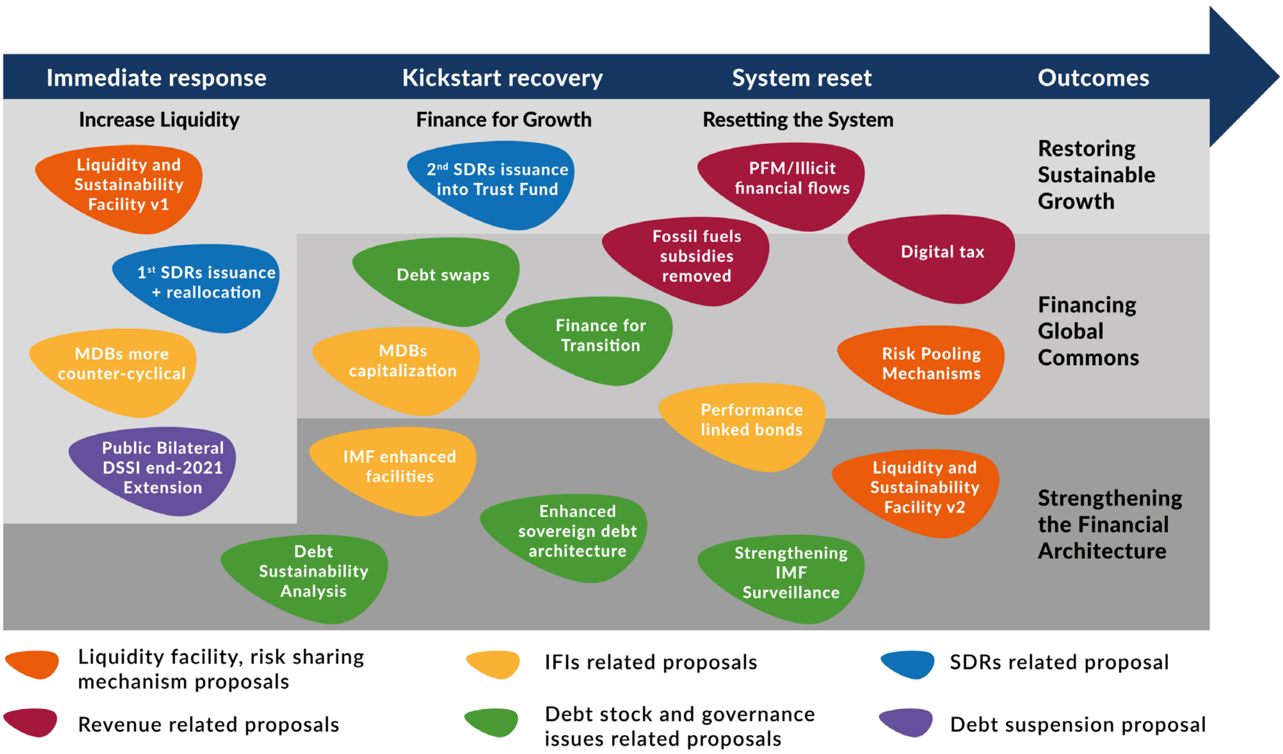
Yet progress towards that vision is threatened by a liquidity crisis, driven by the exogenous factor that is COVID-19. African governments have already taken all the steps they can afford, spending between 1-7% of their GDP on domestic stimulus packages. The relative success of African states in dealing with the pandemic is itself a positive sign. However inflows of capital, remittances and income are falling across the board, and economic activity is inhibited by the pandemic. Countries entered the crisis at different economic starting points, and some were already teetering on the verge of insolvency. Now even the strongest economies will struggle to survive a persistent liquidity crunch, driven by successive waves of the pandemic across the world. Africa's resilience will break if global policy makers remain indifferent or timid in their response. This is a shared responsibility.

Global growth won't be restored and sustained if so many countries are shut out from accessing the same financial tools for response and recovery as the world's wealthiest economies enjoy. The latter have deployed over $13 trillion dollars, whilst less than 1% of this amount has been made available for emerging economies and less than $100 billion for Africa. As a result, the African response has been less aggressive and the economic impact will be deeper - jeopardizing a high quality economic recovery[1]. As well as responding to the immediate threat, measures to deliver longer-term finance to attain development goals will make the recovery more sustainable.

Greater action now is needed to orchestrate a synchronized global recovery. Financial safety nets and countercyclical measures must be shared. Past experience, such as Latin America's lost decade in the 80s/90s, shows that it is far cheaper for the global economy to **act swiftly, restore liquidity and enable growth, than to try to manage a disorderly solvency crisis**. This will stop further economic damage, fight COVID-19 and prevent more people sliding back into poverty, ensuring that the 2020s will still be the decade of delivery, not of dithering or disaster. The good news is we have many of the required tools – they just need to be used.

This paper proposes a three pronged **road-map of precise, feasible actions in the current response phase of the crisis which set up strategic actions in subsequent recovery and reset phases. No one set of solutions will fit all cases**. However these are immediate actions that can and must be taken by developing and developed economies, by the public and private sector together, to restore liquidity, handle insolvency, and build the foundations for recovery, continuing the process of rebooting the system and delivering on Agenda 2063 and the SDGs.

The shapes show the sequencing of the options across the different phases, building on those proposed in the first one.



Within the next 3-6 months, the global community can provide significant liquidity, of up to $500 billion, through four **immediate response** measures:

1. An immediate extension of the Debt Suspension Service Initiative (DSSI) until end 2021, possibly end 2022. Official sector bilateral external debt service to International Development Association (IDA) countries is $15.9 billion in 2021 alone

2. Issuance of a first round of Special Drawing Rights (SDRs), with some reallocation of existing SDRs ($150 billion for all frontier economies to ensure access to Foreign Exchange markets and support National Development Banks and the private sector)

3. Setting up a Liquidity and Sustainability Facility (LSF), to lower borrowing costs by ensuring that short-term debt obligations can be met ($50 billion, which could be leveraged to $250 billion)

4. Increased lending by Multilateral Development Banks (MDBs), using their existing balance sheets, by relaxing risk management policy guidelines ($100 billion additional lending to Africa).

At the same time, the global community can fine-tune a strategy to deliver the options outlined under the later stages of this roadmap to ensure that the full suite of measures delivers for all citizens in a sustainable way. These must be online by mid- to late-2021 through 2023 – an additional $1 trillion of total financing, needed to reset economies:

- **Kickstart recovery:** MDBs capitalization and IDA replenishment; further SDR issuance; development of the LSF to facilitate market development by reducing volatility and increasing market depth; and further evolution of debt instruments – providing up to $500 billion over time.

- **System reset:** SDG linked bonds; fiscal measures, including building on the Base Erosion and Profit Shifting (BEPS) initiative; strengthening public financial management and civic scrutiny; developing a more orderly approach to debt – raising another $500 billion over the medium-term.

These urgent items can be actioned over key moments in the 2020 and 2021 global economy diary:

- The 2020 G20 Finance Ministers extraordinary summit and Heads of State Summit

- Setting the G7 and G20 agendas for 2021, working with the UK and Italian Presidencies

- Bilateral engagement with the USA to unblock SDRs and other multilateral actions

- The African Union Summit in February 2021

- The G7 Sherpa, ministerial, and Heads of State Summits over the first half of 2021

- The G20 Sherpa, Finance Minsiters, and Heads of State Summits throughout 2021

- IMF and World Bank (WB) Spring meeting in April 2021

- The summit in May 2021 on financing of African countries' economies, organized by France

- Central Bank summits throughout 2021.

A commitment to this approach will allow the international community to finance the recovery, support the reboot of the financial and economic system in emerging and frontier markets, and ensure that Africa, specifically, is back on the path to 2030, giving a brighter future to those who would otherwise have been left behind.

Introduction

This paper explores the options for increasing fiscal space for emerging and frontier economies as a response to the crisis. It has a particular focus on Africa. Swift action not only supports developing countries but sets the global economy on a more sustainable, long-term growth footing.

The COVID-19 economic crisis undermines prospects for global growth by damaging fast-growing developing economies. This will be a multi-year crisis. Countries will not reach their 2019 output levels for many years[2]. Over 100 million people could fall back into extreme poverty[3].

These countries face a liquidity crisis. They have been hit hard by the economic crisis, despite varying levels of success in containing the pandemic. The risk is exacerbated by their more limited financial resources. African countries have seen incomes and capital inflows collapse. Some face reduced or onerous and prohibitive access to international capital markets, or have limited or shallow domestic markets. Sub-Saharan Africa's COVID-19-related fiscal support has amounted to 3% of GDP, about 25% of the proportion disbursed by developed countries[4]. In addition a small number of countries do face deeper solvency issues, which will need to be resolved.

An urgent, effective response to this liquidity crisis in African and developing economies worldwide, matters for the world economy. This multi-year crisis requires sustained actions to set countries onto a pathway to build forward better – not just a short-term fix[5]. By 2040 Africa will have the largest workforce in the world and will be a major place for investment. 40% of the world's youth workforce will be African. Taking effective action now will avoid the long-term loss of economic capacity that would follow a protracted crisis. The world would be supporting the ongoing development of new markets and the new workshop of the world, an engine of creativity and youthful energy.

This paper shows how to deliver the financial support that is needed to enable countries to build back better, using the recovery plans of their choosing, but leveraged together in order to accelerate our collective recovery.

The World Needs Immediate, Bold Action

All developing economies have been affected by the pandemic and the economic shock[6]. Many have weathered the first round of economic shocks well. However, they have used much of their available fiscal space[7]. COVID-19 will leave Sub-Saharan Africa's GDP in 2021 at 14% below the levels implied by its pre-crisis trend[8].

Governments are exhausting their resources as scarce public funds are needed for the health response to combat the pandemic [9]. Lower domestic investment (public and private) is stunting current growth and reducing spending on necessary infrastructure. Foreign Direct Investments (FDI), vital to diversification, are expected to contract between 25%-40% in 2020[10,11]. Remittances are projected to fall by 7% year-on-year[12]. Bilateral assistance from leading donors[13] such as Australia and the UK[14] is under threat. Many countries have significant debt: of the 73 countries eligible for the G20's Debt Service Suspension Initiative, 43 will spend more on debt service than healthcare in 2020[15]. This leaves them dangerously exposed to a prolonged crisis and in some cases to natural disasters – domestic disaster reserve funds in the Caribbean especially have been depleted.

At this time, traditional mechanisms for increasing fiscal space, such as cutting spending or increasing taxes, are entirely inadequate.

Advanced economies can issue debt at record low interest rates. Italy, with a debt to GDP ratio for example of over 155%, still can access markets at 0.2% for a 5 year bond. In contrast emerging and developing economies continue to face volatile, expensive and pro-cyclical funding markets. This is a systemic issue which goes beyond pre-existing conditions and speaks to the structure of the markets. And although some countries entered the crisis with high existing debt/GDP levels, COVID-19 is independent of, and does not respect, previous good macroeconomic management. Instead, African governments' access to markets is diminishing, and in some cases closed off. All five of the Sub-Saharan African countries scheduled to issue Eurobonds between March and June 2020 pulled their offerings[16], and only two African countries have gone to the markets so far this year, Morocco and Egypt, compared to nine this time last year. All of this is increasing costs of capital and debt, and access to debt markets is not correlated with needs.

Sub-Saharan Africa's external financing requirements in 2020-23 are about $900 billion, with the source of $130 to $400 billion of this still unclear[17]. Market analysts now suggests nearly 40% of emerging and frontier-market sovereign external debt is at risk of default over the coming twelve months[18].

In effect emerging and developing economies are trapped in a 'vicious cyle', where they need to choose between meeting their debt repayments or supporting their healthcare systems, whilst spending on areas such as education, poverty reduction, long-term growth, and climate resilience is threatened. This unsolvable dilemma creates a long-term risk of economic collapse for the world.

Acting fast and effectively now the global community can address this liquidity problem, and can support and finance the recovery in developing economies. Doing so will not just address a current crisis but will support the long-term growth of the global economy.

By contrast, failure to take decisive action now, or doing too little too late,[19] risks losing the opportunity of trading with a dynamic and rapidly growing continent, while increasing the risks of conflict[20], human suffering and migrant flows. Latin America's lost decade in the 1980s/90s shows that, where debt has become unsustainable, delaying action carries long-term costs[21]. Acting swiftly to provide additional liquidity to meet near-term spending needs for economies who had good fundamentals prior to the crisis is an economic imperative as well as a moral one, even as we work to restructure insolvent economies.

Without significant infusions of liquidity and long-term finance for development, particularly in the energy sector, the continent may will be unable to deliver its 2063 vision[22], to optimize the benefits of the Africa Continental Free Trade Area and achieve its prospects for a green development pathway.

Thankfully, there are concrete actions that African countries and the international community can take together to address this.

From Response, to Recovery and Re-set

This roadmap sets out the path the world economy must take, if it is to travel from crisis to success. It is a general guide, because there is no there is no 'one size fits all' solution for supporting countries. Rapid action to finance the journey needs to address the heterogeneity of countries' starting situations and of their experiences of the crisis. It must also provide a package of solutions that evolves over time as the crisis itself evolves. The multi-year nature of the crisis means that countries will require a different menu of options, including long-term finance for development, as they move towards recovery.

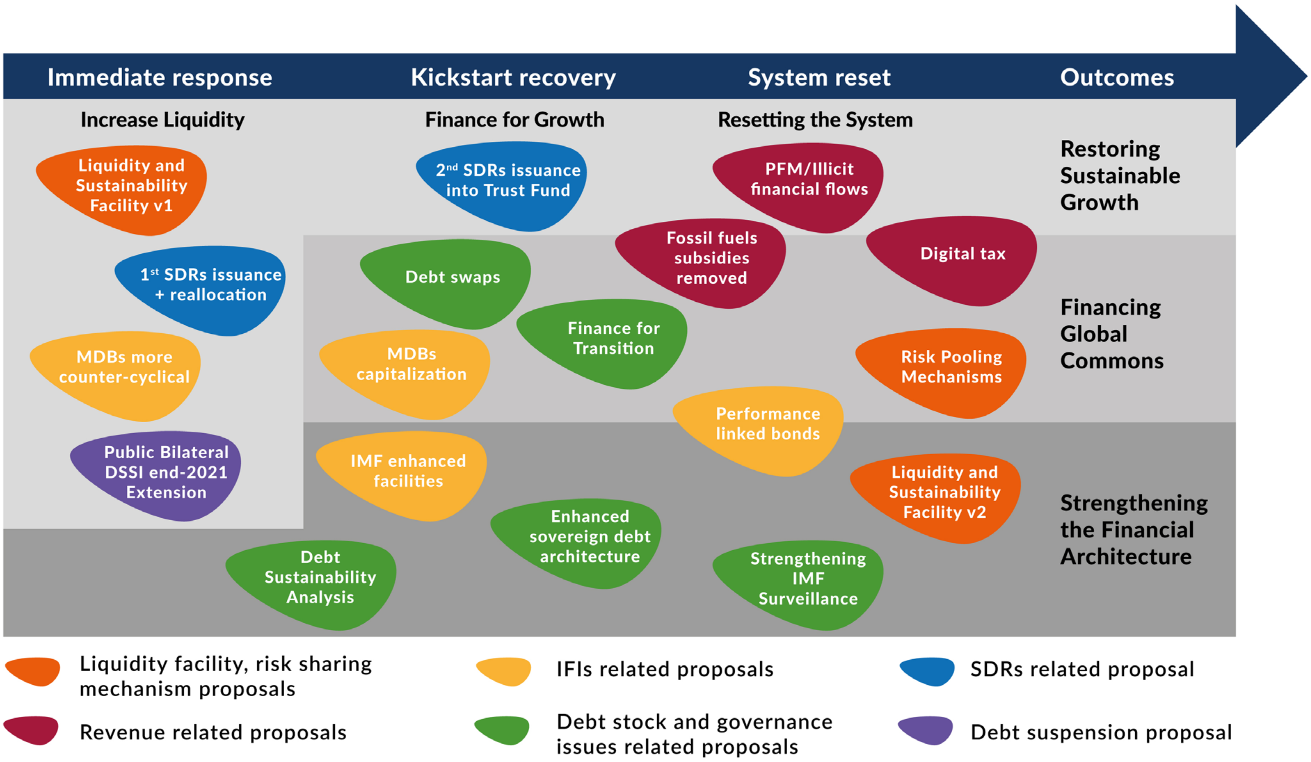
The options in the roadmap synthesise existing proposals[23]. They show the strategic critical path, both to deliver short term liquidity to countries, handle insolvency where necessary, and to lay the foundations for future action.

A Strategic Response that Evolves with the Crisis

This crisis will continue to come in waves, as countries see cases of COVID-19 increase and decrease. However dealing with the crisis, along with the measures needed to unlock funding, will broadly require three interlocking phases, as set out in figure below.

The focus in the immediate, response stage must be to give confidence to markets, and to each country's businesses, workers and entrepreneurs, that the current liquidity crisis will not trigger a generalized solvency crisis, knocking down those

The disks show the sequencing of the options across the different phases, building on those proposed in the first phase.



countries that otherwise have strong fundamentals and worsening the challenges faced by the more fragile ones. The faster and more effective the short-run liquidity support is, the faster and stronger the subsequent recovery can be.

While the first phase, the urgent response, must to be delivered now, the second and third phases will need to be delivered in short order. That means that planning for them needs to be happening even as the first phase is being delivered. This will make sure that the measures in the later phases are ready to go. But the very fact of planning them now will enhance the credibility that this future action will take place. That will further build the confidence of the international community, and of domestic populations and businesses. Such confidence will itself accelerate the recovery.

Moreover, the three phases need to work together. As economies recover they will need to reassure markets that they will be more resilient in the future: the better countries are at communicating how they will recover and reset their economic systems, the easier it will be to crowd in the financing for this growth, and the faster the growth will be delivered.

However, some countries will need to address deeper debt problems as a matter of urgency. Prior to the crisis, more than 10 African countries were at high risk of debt distress or already debt-distressed. These countries will require a debt resolution framework as the first order of business. The new G20 Common Framework for Debt[24] should serve this purpose. Nevertheless the actions in this roadmap will ultimately assist those countries too to progress.

Immediate Response

This crisis is **squeezing domestic public finance** and choking off access to international finance. This uncertainty, as well as the wider economic and health situations, makes recovery extremely fragile or out of reach.

Therefore, the international community must **act swiftly, visibly and credibly** to increase governments' liquidity, giving the **private sector (globally and domestically) confidence to increase investment**. These actions must create new financing now, to spur future sustainable growth.

So far, international support has been too timid and too limited. A more comprehensive liquidity support package will send a clear signal to all parties that there is the international will to prevent solvent countries from collapsing. The longer such action is postponed the larger the international and national public resources that will be required to achieve the same result. These measures must be implemented at very short notice and without the need for lengthy approval processes or institutional reform.

The first and simplest action is to announce immediately the extension of the Debt Suspension Service Initiative (DSSI) until the end of 2021, and to consider a longer extension to 2022 .[25] The DSSI is a welcome Public Bilateral Initiative, but a partial extension is both too short-term and insufficient for the current circumstances. Uncertainty about its full year extension is already causing uncertainty for both markets and countries, and widening spreads. This limits the ability of countries to plan to implement meaningful programmes to protect their citizens beyond the middle of next year, let alone limit longer-term structural damage to their economies. Extending the DSSI, encompassing all bilateral creditors, including State-Owned Enterprises (SOEs), will allow governments to redeploy funds currently being withheld for future interest payments to where it should be spent. China, like the rest of the DSSI creditors, could enhance and expeditie the support it has offered so far by providing a centralised venue – a one-stop-shop – where all debt to the Chinese government and SOEs could be negotiated. All countries should in turn follow the G20 Principles for Debt Transparency. Credit Rating Agencies have so far supported the initiative and no country has been downgraded on the basis of the DSSI. Some commercial banks and creditors with cross default clauses have offered waivers[26]. This is not the case globally for all commercial entities. Further work is is needed to provide more comprehensive waivers to all countries.

A new issuance of SDR500 billion (about $650 billion) should be authorized by the membership of the IMF. This could deliver over $150 billion in additional reserves to emerging market economies, including $20 billion to low-income countries directly (issued SDRs are distributed to IMF member countries in proportion to their quota share at the IMF)[27]. **This should be tied to a reallocation of SDRs** to vulnerable countries to enlarge the 6.8% that African countries would by right obtain from a new issuance. This could be done either directly or through voluntary programs coordinated by the IMF. This has a precedent from 2008[28]. Some 85 percent of the voting power of the IMF would have to approve the issuance, which means that US support of the measure is vital. SDRs will help support the private sector by providing liquidity lines, better access to foreign exchange and trade finance and can be used to recapitalize national development banks and fund SME programs for job creation amongst others.

A $50 billion Liquidity and Sustainability Facility (LSF) should be set up, which could be leveraged to $250 billion. That would lower the hard currency borrowing costs of countries with strong macroeconomic fundamentals, and help them to meet their debt service obligations[29].

Capitalised through loans and guarantees from development banks, and eventually backed by developed countries' central banks, this facility would deliver lower credit spreads and increased liquidity by providing private borrowers with attractive financing, collateralised by eligible bonds issued by developing nations. Establishing a deep, low-cost and liquid repo market for all emerging market bonds could generate interest cost savings amounting to an estimated $39-56 billion over a five-year period.

The facility is a unique opportunity for the development finance system of institutions to mobilise private capital, at scale, to deliver lower borrowing costs for public and private entities alike, across developing countries. It will help deal with all private commercial debt of eligible countries in 2021.

Make Multilateral Development Banks (MDBs) more counter-cyclical. MDBs have pledged to disburse $200 billion over the coming eighteen months, whilst the IMF has stated that $1 trillion will be made available, which will not just be concessional finance. However these funds will be insufficient for the multi-year crisis, and a proportion of this finance comes from the MDBs frontloading their spending programs, building up a potential shortfall in 2021/2.

MDBs, as both providers of countercyclical financing and standards setters[30], should increase funding support by leveraging their callable capital (financial guarantees from shareholders). In this way MDBs could deliver a 160% increase, or $750 billion, to their balance sheets[31].

There is considerable space for MDBs to expand substantially within their triple-A limits. Additionally, MDBs should bring their equity to loan ratios closer to commercial bank levels of 10% (rather than the 20-60% they commonly operate with). More than ever, all Public Development Banks[32] – international, national and regional - need to play a proactive role in delivering countercyclical finance aligned with both the SDGs and the Paris Agreement[33]. Even development funds, like International Development Association (IDA), have significant potential do more countercyclical lending, through increasing their market borrowing and lending activities, and by unlocking their already committed, but undisbursed, funds – this amounts to tens of billions of dollars.

More transparency is needed in MDB operations so that the global community can track disbursement, and not just commitments, from each MDB to each recipient country on an ongoing basis[34]. All MDBs subscribe to the International Aid Transparency Initiative for reporting, but several only update information on a semi-annual basis—too infrequently given the current crisis.

Access to IMF facilities that support countries during balance of payments crises are often subject to conditions, both ex ante and over the course of a Fund-supported program. These will be difficult to frame during the current crisis, given the uncertainty surrounding the economic and health outlook. The capacity of these emergency facilities (the Rapid Financing Instruments and Rapid Credit Facility) should be enlarged and access limits expanded.

The set of tools available to the IMF to support vulnerable countries should be expanded to react to the particular nature of the current crisis. A time-bound facility, specifically designed to address the problems that pandemic-hit countries are confronting, would help minimise the stigma of approaching the IMF for support, whilst also reducing the likelihood of disorderly and costly defaults on sovereign debt[35]. At the same time, there is a need for all creditors, both private and public, and borrowing countries to increase debt transparency. The lack of transparency is exacerbating the potential of mispricing the risks[36]. The "*Common Framework for Debt Treatments beyond the DSSI*"[37], to be agreed by the G20 should reflect the G20/IIF principles and aim towards the UNCTAD principles on transparency[38]. All creditors, in particular Eurobond holders, private banks, other private creditor enterprise, and Chinese commercial lenders must participate on equal terms to ensure an optimal reset of liabilities in country-specific cases.

Kick-Starting the Recovery

An inflow of near-term liquidity will allow countries to prepare for renewed growth. Financial support during the **second phase**, as countries seek to stimulate their economies later in 2021 and into 2022, will enable African economies to lay the foundations for long term sustainable growth including through the green stimulus investment strategy being developed by the Africa Union with the support of the AUDA-NEPAD (the African Union Development Agency) and the Economic Commission for Africa (ECA)[39]. Below are the options that the international community can take to support Africa and developing economies globally to realise their plans.

A second new issuance of at least SDR500 billion (about $650 billion) is a vital underpinning to support a resilient and sustainable recovery. In particular, with the agreement of IMF member countries, developed countries' allocation in a second issuance could be placed in a Public Good Trust Fund to finance investments in public goods such as healthcare[40] or other public good aspects of the SDGs. This funding could be directly allocated to projects by Trust Fund administrators, or given to governments, with spending restricted to the specified public goods[41]. Such an arrangement is legally possible, but would be a novel use of SDRs, requiring careful design to ensure that the financial viability of the fund is secure and is consonant with private financing efforts.

This injection of sustainable capital should be complemented by recapitalising and leveraging MDBs and other development banks, including replenishing MDB concessional funds such as IDA, Asian Development Fund and the Climate Investment Funds[42]. This could be conditional on MDBs supporting countries with greater concessional lending, ensuring that their lending is compatible with the SDGs and also informed by their ongoing work to align their activities with the

Paris Agreement[43]. Given the current conditions, MDBs should also jointly invest with countries to ensure the development of the logistical cold chain to support vaccine distribution to ensure access for all[44]. Advancing the scheduled IDA 20 replenishment round would be a way of delivering this additional funding. More broadly, a bold agenda is required for all public development banks, to scale their resources and mandates to include scalable blended finance, leverage their technical capacity and take risk in financing innovation[45]. The new global coalition of public development banks initiated at the Finance in Common summit will play a central role, as they have the capacity to deploy over $2.3 trillion per year[46].

Where the pandemic has exposed underlying long-term weaknesses in economies, programs supported by the IMF's extended credit facilities – the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) – should address these issues whilst focused on advancing the SDGs[47].

Debt restructuring will be needed by some emerging and frontier economies either because of the potential for prolonged liquidity difficulties or insolvency from weak macro-economic management prior to or during the crisis. As noted above, it will be paramount that creditors are treated equally and that debtor countries receive the analytical and legal support needed to engage in constructive debt restructuring discussions. Given the unique nature of the current crisis, and the need to promote a sustainable recovery, debt deals will have to be based on **improved debt sustainability assessments.** These would recognise that investments in sustainability and inclusive growth will ultimately support a country's ability to repay its debts. This would crowd in private lending for sustainable investments and signal potential stranded asset risk – including contingent liabilities – to avoid future losses, particularly in areas such as fossil fuel power generation.

The crisis has also highlighted the need for a more **orderly process for restructuring unsustainable debt, as sovereign debt is a shared responsibility**[48]. In an environment where there are increasing correlated shocks (such as pandemics or climate change) that can push a significant number of countries into a debt restructuring simultaneously, the current situation is suboptimal.

Debt-climate and debt-nature swaps could support those economies that are rich in natural capital and potentially facilitate increased climate ambition. In some cases swaps could be used to purchase existing government debt[49]. A third party[50] would buy back the debt at a discounted rate, with the proceeds directed to a fund which invests in projects to promote nature, climate mitigation and/or adaptation. This is particularly effective where the composition of creditors is relatively homogenous and weighted towards bilateral lenders[51]. Previous experiences, as in the Seychelles[52], demonstrate this should not be treated as a default, as it is a buyback. Although the proposal is in its early days in Africa, it is attracting interest[53]. Such swaps should be seen in the context of broader development of nature/climate financing instruments and SDG-linked bonds as outlined below. These successful experiences could also pave the way for more gender linked bonds like that recently issued by Mexico[54]. A green stimulus proposal for Africa will essentially focus on three key areas: a) Resilient infrastructure (energy focus), b) Food Security linked to circular economy, and also building resilient trade through African Continental Free Trade Area and c) Nature Based Solutions through investing in environmental rehabilitation and resilience that creates jobs immediately.

Medium-term support for developing countries, whether financing or debt relief, should be complemented with enhanced Public Finance Management. The speed of the actions needed to support countries need to be accompanied by a strong governance oversight, where the public and private sector and citizens work together, leveraging new new technologies[55] and building on best practices [56]. Expansion of Public Expenditure and Financial Accountability (PEFA) assessments focused on SDG attainment would complement such mechanisms[57]. Citizens have a key role in "following the money"[58] – tracking flows through open budgets and open contracts[59].

For countries still unable to access the capital markets, transition finance or a just transition fund would help deliver investment and restore access to capital markets[60]. Consisting of a blend of concessional and commercial finance, this would enable the investments required to build modern economies. Such fund facilities are a key goal of both COP26 and the UN Convention on Biological Diversity (CBD) in 2021, as they would support a just energy and nature transition. This requires that development partners boost ODA quality – and not cut ODA quantity – including focusing on support for credit enhancements for private sector investments in clean energy and infrastructure. This is especially important in Africa where default rates in project finance have been historically low and the return on investment high[61].

Re-set: Fast-Forwarding to an Inclusive, Climate Resilient, Sustainable Future

As countries recover through 2021, they will need systems to allow them to fulfil their economic potential in a resilient and sustainable way. In this third phase, finance aims to give them the tools to direct their economic recovery to drive sustainable growth that will be aligned with the SDGs and the Paris Agreement – resulting in a decade of delivery to 2030.

The development of SDG-linked bond markets and a more active role for the private sector, along with instruments combining ringfenced proceeds and outcome reporting, could help mobilise private creditors to support investment in public goods whilst increasing the potential investment universe for ESG funds that have an emerging market focus. There is over $10 trillion in ESG linked capital looking for a return, and the Global Investors for Sustainable Development (GISD) Alliance could be an important part of the recovery architecture if deals are identified and structured to meet their corporate needs.

Various mechanisms for providing IFI backing can reduce risks for the private sector, and provide additional protection to the borrower[62], lowering the level and cyclicality of funding costs. This could consist of a new sovereign bond, issued by a country with a direct guarantee[63], or a fund structure underwritten by an equity or junior debt tranche of IFI capital, which would crowd in private investment[64]. Such innovations have already been proven to attract new classes of investors. SDG-linked bonds would be tied to reporting on the outcomes of the spending on SDGs in line with the public finance management reforms outlined above[65]. Nature and climate performance will be a particularly critical category, where the structuring of such outcome-linked instruments should be focused on real long-term productivity, growth and equity gains. Private sector engagement will be key to accelerate the development of such markets. To support this, the development of a robust taxonomy of SDGs investment should begin in early 2021.

A successful first phase of the LSF should evolve into LSF phase 2. The growth impact investments, as demonstrated by the growing and strong membership of the Global Investors for Sustainable Development, provides an opportunity for transformational investments in critical sectors that result in multiple wins for society, economy and the environment. The energy and infrastructure demand gaps in Africa provide unique opportunities for impact investors, and indeed the private sector as whole with the right support, including credit enhancement and philanthropy taking early risks in new markets.

For the bonds to be eligible to be used as collateral, they would need to meet certain criteria with respect to the use of their proceeds, for example contributing to public goods such as the UNECA's SDG 7 initiative for Africa on clean energy – where there are a multitude of shovel ready projects[66]. Beyond providing short-term liquidity support in periods of market stress or exogenous shocks, the expanded LSF would play a key role in the broader development of financing options for emerging and frontier economies. A credible, G20-backed, stabilization mechanism, that would lower the volatility of both underlying bonds and emerging market currencies, could raise risk-adjusted returns for investors and crowd in additional forms of private capital. This would also allow for the **further development of local currency markets**, whose deepening creates a virtuous circle of reducing balance sheet vulnerability over time.

The IMF's surveillance tools should be strengthened by incorporating sustainability and drivers of shocks. By ensuring that tools, such as the annual Article IV consultations held with each country and the Financial Sector Assessment Program[67], incorporate sustainability and the key drivers of shocks (to include for instance cross-border digital asset movements, the macroeconomic effects of climate change[68], short-term capital flow volatility and health pandemics[69]), surveillance would help to address transition risks[70], a key component of achieving UNECA's SDG 7 Africa Initiative.

These assessment will complement the construction of **anticipatory safety nets** which will be valuable as some future risks will be inevitable at a systemic level, even if not fully predictable at a specific level. There is increased evidence that more frequent and extreme weather events will affect Africa and all developing economies in the coming years. These may lead to a situation where a new economic shock would be unmanageable on top of existing vulnerabilities. Financing the prevention of, and compensation for, the economic impacts of climate change has mainly been debated within the UNFCCC forum, but has been contentious and difficult to resolve. Governments need to move this discussion to a new footing and discuss **multilateral mechanisms for pooling risk** to help avoid or quickly address acute national economic crises in the future[71]. This discussion can build on existing platforms like the Africa Risk Capacity Mechanism.

At this third stage of the recovery it will be time to look again at **boosting revenues, fiscal reform, and fighting illicit capital flight**, which were not relevant during the earlier phases. This could include further addressing the management of public finance and avoiding leakage, rectifying unsustainable expenditures such as fossil fuel subsidies, and introducing innovative taxes. A case of the latter is the digital services tax that the African Tax Administration Forum has been developing – indeed the digital economy in Africa is one sector that has been less impacted by the crisis. This would also build on the OECD's project on Base Erosion and Profit Shifting work to help countries capture more domestic revenue. With country by country reporting, tax secrecy jurisdiction elimination will help countries fight illicit financial flows[72], which are estimated to be double the amount of ODA received by African countries. This would be a valuable contribution to African budgets and improve tax-confidence. Transparency Initiatitves such as Extractive Industry Transparency Initiative (EITI) should be encouraged.

Conclusion

COVID-19 is bringing correlated shocks across developing economies. The existing system for response to debt distress is simply not able to handle it. The global community has the opportunity to address these shocks, and set developing countries, and the global economy, on a more resilient path.

In this crisis, countries are being impacted economically, whether they entered the crisis with sound macroeconomic fundamentals or not. Over the last two decades, Africa has achieved significant improvements in its macroeconomic fundamentals, made progress towards delivering the SDGs, and is working towards the vision of Africa 2063. Now that progress is being threatened by an exogenous shock, and the consequences of an economic system not of its making. The prolonged nature of this crisis carries the risk of economic scarring, with this risk being amplified by the relative youth of Africa's workforce. The continent's potential to be a significant driver of economic growth cannot be met if the present crisis isn't addressed.

A swift, strong response will allow developing economies to stabilise and rebuild to deliver on their promise. By acting immediately to increase liquidity and address insolvency, the international community can restore countries to sustainable growth. Providing finance for the recovery will also channel funding into the global common goods, such as climate change and the SDGs. Finally, strengthening the international financial architecture will deliver a financial safety net for countries whilst also shaping the global economy of the future.

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