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How can we work towards economic recovery for all?

Financing for Development: the issues, challenges, and opportunities in 2021

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2021, we all hope, will be the year of recovery. If COVID-19 vaccines are rolled out at scale, including in the developing world, global economic recovery will be large. But that in itself ensures neither that all countries will be included in the recovery, nor that all people within each country will see the gains. A rising tide, as we have seen only too well since US president John F. Kennedy first used the phrase in 1963, does not lift all boats.

Elsewhere, CIC has analyzed the high demand for transformative policies in high- and low-income countries alike since the COVID-19 crisis began, including policies for domestic action on inequality and socioeconomic exclusion. This piece takes a more global view and considers how to ensure that all *countries* benefit. It looks first at the key political messages that explain why 2021 should be a year of urgent, ambitious global action for shared economic recovery; secondly at the measures under discussion (which are expanded in an annex); thirdly at the political interests at play; and fourthly at foreseeable scenarios for agreement. Last, we outline the calendar of relevant policy meetings this year and the challenge of orchestrating progress between them.

Why 2021 should be a year of urgent, ambitious global economic action

As Kristalina Georgieva recently stated, "there is a major risk that as advanced economies and a few emerging markets recover faster, most developing countries will languish for years to come. This would not only worsen the human tragedy of the pandemic, but also the economic suffering of the most vulnerable."

Yet it remains an open question whether high-income countries and the largest emerging economies will prioritize economic recovery for all. While there is growing (though still insufficient) understanding that "vaccine nationalism" is counterproductive, since allowing the virus to fester anywhere risks a vaccine-resistant variant breaking out everywhere, the same logic has not yet caught hold when it comes to the economic dimensions of the pandemic. Nevertheless, there are good reasons why all countries–in their own self-interest–should care whether the global recovery is equitable or lopsided. Indeed, there are at least five key reasons why 'no one is safe until everyone is safe' is as true economically as it is epidemiologically. These reasons can be used for political messaging:

1. Advanced economies will suffer if developing economies cannot recover from COVID-19, because of trade and production linkages: a recent study puts the potential losses at $3.8 trillion, with roughly half borne by advanced economies.
2. Developing countries will have insufficient funds post-COVID to invest in climate-friendly growth – and in turn, this will also affect advanced economies.

3. There are consequences in terms of political instability and conflict if grievances over unequal recovery rise. These may affect advanced economies directly, but even if they do not the costs of conflict in other countries will be a significant drag on recovery globally.
4. Even short of outright conflict, a highly unequal recovery may fuel populism and nationalism that will make it difficult to collaborate on global commons, such as future pandemic prevention and, as noted, climate change.
5. Last, and it is perhaps telling that we put it last, achieving the core goals of development will be impossible. On current trends, Latin America and Africa may transfer more in debt repayment and capital flight to advanced economies than they will receive in foreign direct investment, aid, and remittances in the next few years. This makes no sense in the vision of a world – ascribed to by all countries in the Sustainable Development Goals and 2030 Agenda – where we want to reach those left furthest behind first and invest in mutually-beneficial growth.

We therefore believe that a true global successor to the post-WWII Marshall Plan is needed, and that the risks of complacency in this regard far outweigh the costs of action. We know that many people have called for "new Marshall plans" in the past and have been ignored. But the current moment is unique both in terms of the depth of the challenges facing the world and the extent to which many of those challenges must be addressed everywhere to be overcome anywhere. Even as the world begins to solve one global crisis, another is in the making; global prevention is in everyone's interest.

Ingredients of a global recovery plan

The good news is that we already have the tools needed to bring about a truly equitable recovery along the lines of a twenty-first century global Marshall Plan. There are a number of promising proposals currently under discussion – within the UN's Financing for Development (FFD) process, among the international financial institutions (IFIs), and at the G20 and OECD – which would, in combination, generate and redistribute international liquidity and investment at a scale commensurate with the crisis at hand.

These include, among others:

- A new allocation of special drawing rights (SDRs)
- Debt repayment moratoria and debt relief
- Scaled-up lending capacity among multilateral development banks (MDBs)
- Accelerated replenishment and disbursement of International Development Association (IDA) concessional financing
- Generation of new resources through international taxation agreements, including taxation of digital services
- International action to curb corruption and illicit financial flows (IFFs)

In addition to these economic proposals, vaccine justice, global public health investment, and action against climate change will also be important parts of the background for financing discussions in 2021. As always, domestic resource mobilization and governance of public expenditure set the context for many of these international initiatives.

Annex 1 unpacks some of the technical terms and instruments and policy discussions involved in these initiatives. The following paragraphs look first at some of the political issues at play which may encourage or inhibit a broad, timely uptake of these proposed measures, and then map out various scenarios for agreement on a path forward.

The political issues at play

By now, it is clear that each of the measures mentioned above needs coalitions of countries and other partners to support change. None will be an easy lift.

It is likewise increasingly clear that the primary barriers to agreement are very likely to be political rather than financial. It is notable, for instance, how many of the proposals under discussion, such as SDRs and scaled up MDB lending capacity, have high economic benefits and low financial costs for both developed and developing countries, yet have still faced considerable opposition over the past year. Here we look at the various interests and constraints at play that explain this state of affairs:

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Core to any agreement is going to be the actions and stances of the US and China. The new US administration has made clear that it will reverse the isolationist course of its predecessor and provide both diplomatic support and financing to multilateral efforts for COVID-19 recovery. The US has also indicated more willingness to engage on specific mutually-beneficial economic governance issues such as special drawing rights, debt and, most recently, corporate taxation – all important FFD issues this year. There are also opportunities to link FFD initiatives to the new administration's priorities on climate change; an Executive Order instructing the US treasury to use its role in the IFIs to further the goals of the Paris Agreement is a notable entry point in this regard.

However, the US also faces internal political pressures that may affect which measures the administration can or will take up. The delicate partisan balance in the US Congress, in particular, all but ensures that initiatives which require congressional approval, such as the issue of special drawing rights above $650 billion, will be more difficult and more politicized than those which the US Treasury can take forward on its own. There is also likely to be more continuity than change over some geopolitical issues that affect FFD: a continued tough stance towards China, and more of a tough stance towards Russia.

China took advantage of the international leadership vacuum during the last US Administration to expand its role in climate change and in multilateral organizations. The last Chinese White Paper on development cooperation has positive shifts in how it defines the scope of development cooperation, on aid effectiveness measures, and on the volume of financing, including grants. The paper however contains little substance on debt sustainability, and China's approach to debt workouts in 2020 was highly variable. This is an area on which China could offer more leadership. Corporate taxation internationally is also an area where it is in China's interests to cooperate, due to the history of profit-shifting from companies operating in China and the relatively low percentage of revenue gained overseas by Chinese companies operating abroad.

Western Europe and Others Group (WEOG)

Aside from the US, other members of the WEOG group – *Part I shareholders in the IFIs* – face fiscal, social and political pressures of their own and will need over the course of 2021 to look at a mixture of more progressive fiscal positions and well-crafted debt strategies to address them. WEOG countries generally are of the view that higher aid in the face of domestic COVID-19 costs and political pressures is impossible at present. Both because of the current 3rd wave crisis in many European countries and longer-term political dynamics, FFD is very low on the domestic political priority agenda for most WEOG countries. Therefore, their preference is to find other ways to align with FFD objectives, such as by supporting measures with perceived low domestic political opposition, such as the issue of SDRs (which also strongly benefit wealthy countries) or the scaling up of funds through the MDBs.

Their potential to follow this logic through to its conclusion, however, has not yet emerged. For example, although new forms of international taxation could be beneficial from a domestic fiscal perspective and an international relations perspective, they will likely continue to face political headwinds, especially among countries with strong business lobbies. A similar issue is action on illicit financial flows, where financial sector interests continue to constrain bold progress on issues such as tax evasion and asset recovery.

Two other aspects of interests and values affect WEOG actions. On the one hand, burden sharing with non-OECD sources of development financing remains a priority for most WEOG countries. On the other, demonstrating results from ODA that are appealing to WEOG taxpayers (such as on gender, human rights, global public health, conflict, and climate) is also important: the two drivers are not always compatible with each other.

Middle- and Low-Income Countries

For most middle-income countries (MICs), the key issues are liquidity and low-cost financing for COVID-19 socioeconomic recovery and for development investments such as infrastructure. Many middle-income countries are caught between a rock and a hard place on external financing in both regards: they have graduated from multilateral concessional facilities, but they have very limited and high-cost access to commercial borrowing, and they also face tight ceilings on the IFI's non-concessional, but relatively low-cost lending. Many also face political pressures at home in relation to external conditions on multilateral financing and have therefore been lukewarm in discussions on raising the low-cost, non-concessional lending capacity of MDBs.

Low-income countries share these concerns but have access to different instruments, notably more significant bilateral ODA grants, the concessional windows of the international development banks, and the Fund's Poverty Reduction and Growth (PRGT) facility. These are, however, far below the total resources needed to provide an adequate stimulus for COVID-19 recovery and the return to anything approximating a development path. It is noteworthy, for instance, that in 2020, low-income countries were not able to increase overall spending at all, as increases in concessional resources were matched by a decline in other domestic taxation and remittances, and development investments had to be postponed to divert resources to protecting households and businesses. Due to the absence of large domestic

corporations, multinational offices and low FDI, international corporate taxation and digital services agreements are also often perceived to benefit low-income countries very little.

Debt relief is of primary concern to a subset of low- and middle-income (G77) countries, with more than thirty reaching levels of acute debt distress. Nevertheless, it has domestic political resonance for a much wider group of countries (in particular (but not only) in Latin America and Africa) and will thus be strongly supported by most regional groupings. Credit ratings downgrades post-COVID, and the effects on domestic fiscal space, are also of concern to a much wider number of countries. Many low- and middle-income countries also share a high priority with issues that are popular with WEOG taxpayers: action on corruption and illicit financial flows.

For G77 countries as a whole, the inequity of access to COVID19 vaccines and other medical technologies – and the consequent delays in restarting of economies – remains an ongoing source of preoccupation and grievance. It should not be underestimated how much this will continue to play out this year and will affect global diplomacy. It means that strong action on future global health commons, although not directly an FFD issue, may be an important part of successful progress on FFD.

Where to go from here? Five scenarios:

Whether a grand bargain on the scale of a global Marshall Plan will materialize in coming months remains very much to be seen. The trends in FFD were entirely insufficient to meet the SDGs even prior to COVID-19. This situation has already resulted in consequences for everyone – pressures leading to conflict or international displacement, demonstrations over rising inequality and exclusion or corruption, or popular movements for climate change action, were already creating changes in government and business practices.

But before COVID-19, these changes were taking place against considerable political headwinds such as increasing isolationism among voters and political parties in some developed countries, and business pressures for shareholder value rather than longer-term stakeholder value. This crisis is an opportunity to change those balances – but there is also the possibility of inertia setting in, a "go back to business as usual" attitude, and a focus on small questions ("will certain types of business sectors go remote permanently?") which misses the opportunity to use this crisis to set the world on a course for more profound change. Whether the world chooses to seize or squander this moment is not predetermined. Indeed, there are at least five scenarios that could plausibly play out in 2021:

1. *Scenario 1***:** do nothing and succeed in making an intolerable crisis worse. Under this scenario, no major initiatives are agreed upon, all but ensuring that global recovery is anemic at best, and much of the world experiences a calamitous "lost decade" of declining living standards, rising inequality, and increased social conflict. Net financing continues to flow in reverse (from South to North), with 'whatever it takes' spending in high-income countries alongside austerity budgets in developing countries. Progress on global goods such as climate change is halted, if not reversed.
2. *Scenario 2***:** do the minimum to keep countries above water: pass an SDR package plus limited debt relief plus accelerating IDA20. These initiatives are incredibly low-cost and would have real benefits. They

should also be easy to agree. They are not, however, sufficient to get most countries – and people - to have more confidence in the social and economic future, and a “lost decade” would remain a real risk for many.

3. *Scenario 3*: more multilateralism and more relief, but no change to the underlying stresses. This scenario would include Scenario 2, plus rapidly scaled up MDB lending to MICs and a change in conditionality approaches. This scenario depends on an alliance between borrowing countries, particularly MICs, with Part I developed countries to relax the rules for MDB capital headroom. There is a sense amongst analysts that borrowing countries have been unwilling to strongly support this scaled up lending due to domestic political pressures about conditionality: developed countries have equally been lukewarm without direct pressure from borrowing countries. Bringing together the interests at play here could result in a further easy win. Even then, the outcome of this scenario would likely be similar to what happened after the 2008 financial crisis: important but uneven, slow, and reversible progress.
4. *Scenario 4*: work together towards a new normal that ensures that all those with resources contribute, in order to secure global economic stability and investment in the longer-term. This would include Scenarios 2-3, plus a fast and comprehensive operationalization of the G20 Common Framework for Debt Treatments, agreement on digital services and corporate frameworks for corporate minimum taxes and digital services that offer something to low-income countries; a more robust framework on asset recovery from IFF agreed at the UN General Assembly Special Session (UNGASS). All this would be balanced by domestic action on corruption and progressive national domestic resource mobilization (DRM).
5. *Scenario 5*: the highest ambition. This could include Scenarios 2-4, but with the addition of credit rating agencies and private sector lenders and investors; usership recognized in the new digital services taxation framework (which is crucial to benefit low-income countries); international guidelines on solidarity taxes for COVID-19 recovery; a new framework for future health emergencies; a voluntary expansion of contributions to multilateral organizations from a broad base of large economies.

Looking ahead

The calendar for 2021 offers many opportunities to take the global social and economic shock of COVID-19 and turn it into a serious effort to scale up financing for development to the level it needs to attain to ensure economic recovery for all. We say “needs to attain” not (only) from a moral perspective, although there are overriding moral arguments for making sure every child, no matter where they live, gets a chance at a decent, safe, and prosperous future. But, while we fully support the moral arguments, the level we strike at in this article is a functional one: *what is required to ensure equitable global recovery to keep the global goal of progress and stability alive, while preserving our planet for the future?*

There are many opportunities this year for advancing some or all of the ideas highlighted. These include the high-level summit on financing for development on Monday 29th March that just took place, the IFI spring meetings and the G20 finance minister and central bank governor meetings in early April; the ECOSOC meetings, also in April; the G20 Global Health Summit in May, the upcoming G7 Summit in June; the High-Level Political Forum at the UN in July; the UN General Assembly in September; the G20 meetings and the annual meetings of the IFIs in October and even COP26 (with links between COVID-19 recovery and climate action) in November. All of these are of course accompanied by frequent Sherpa meetings to frame issues and smooth pathways to agreement.

These meetings take place over the next eight months – a period that is likely to be crucial in demonstrating whether we can actually rise to the demands of the current global crisis and make the adjustments required to avert a repetition, or worse.

One risk is that the meetings are served by different secretariats and presided over or influenced by different countries. A key challenge is therefore whether a coalition of governments willing to invest in global economic stability, growth and inclusion, together with the leadership of the UN and the IFIs, can orchestrate discussions at these meetings so that they target practical outcomes, build on each other, and increase the level of ambition over time.

Annex 1: Explanation of some of the economic measures under discussion

Special drawing rights. High-income governments have responded to the COVID-19 induced economic crisis by dramatically increasing stimulus spending, with record-breaking outlays being financed largely by their central banks. Low- and middle-income governments are severely constrained in their ability to self-finance such a surge in countercyclical spending, not least because a substantial portion of their expenses must be paid in foreign currencies that their central banks cannot issue.

Among the swiftest and least expensive ways of getting real "hard currency" relief to developing countries would come in the form of IMF special drawing rights (SDRs). An allocation of SDRs is similar to the printing of money by a central bank, allowing countries to purchase foreign exchange reserves needed to pay for imports. Crucially, SDRs are allocated according to quotas of IMF holdings, so the basic rule would benefit all countries, but high-income countries would benefit far more than low-income countries – the latter receiving roughly 3 percent of a new allocation compared to 68 percent for G20 countries. (The IMF can also undertake a "special" allocation of SDRs, distributed on the basis of need rather than quotas, as it did in 2009, though this option would require amendment to the Fund's Articles of Agreement and, at a minimum, would take time.) However, it is possible for high-income countries to grant or loan their SDRs at cost to developing countries, either bilaterally or through the IMF's Poverty Reduction and Growth Trust facility.

Since early in the pandemic, proposals have been made for a new allocation of SDRs, varying in ambition from $500 billion to several trillion. The prior US Administration opposed the issuance of SDRs for COVID-19 recovery, although the US had itself been a big user of SDRs after the 2008 financial crisis. Current discussions in the US appear more hopeful, but not yet a done deal, at a level of around $650 billion. Similarly, conversations within the IMF and among its governing body seem to be zeroing in on a new allocation of the same amount. Although reallocations would then be critical as a matter of equity and efficiency, even before (or in the absence of) any subsequent reallocation, a general allocation of $650 billion in SDRs would still provide a lifeline to low-income countries, estimated at $21 billion, which is roughly double the amount of IMF spending on low-income countries in 2020.

Debt relief. At least 25-35 low- and middle-income countries worldwide have reached levels of acute debt distress, and several have already defaulted on some of their loans. Still more countries have reached a level of indebtedness where their fiscal space to invest in COVID-19 recovery and long-term development is severely constrained. The problem predates the pandemic: sixty-four developing countries spent more on external debt service than on healthcare in 2019, and as of early 2020, fully half of low-income countries were at high risk of debt distress. But COVID-19 has greatly exacerbated the situation: average debt ratios are expected to rise by up to 10 percent of GDP in developing countries compared to pre-pandemic levels.

In light of these worrying trends, the G20 established a Debt Service Sustainability initiative (DSSI) to help alleviate debt burdens during the pandemic. The DSSI has so far postponed around $5-6 billion worth of debt payments, an important sum but a fraction of what developing countries owe; in 2020 and 2021 alone, low- and middle-income countries are projected to pay between $666 billion and $1.06 trillion in external debt service

payments. The program is further restricted by time limits, and to lower-income countries; the participation of private-sector creditors is voluntary (and all but absent). Meanwhile, discussions at the G20 on a larger and more comprehensive common framework remain mired in geopolitical divides and uncertainty about whether a multilateral approach can go beyond the partial, case-by-case basis adopted in previous Paris club terms. Nevertheless, the level of attention being paid to debt relief, compared to pre-pandemic, is encouraging and efforts toward a larger and more comprehensive multilateral solution remain ongoing. A Common Framework for Debt Treatments has been agreed by the G20, although it is not yet operationalized. The World Bank and IMF are exploring ways of linking debt relief and action on climate change. Key issues still under discussion include whether and for how long to extend the DSSI program, how to ensure that debt held by private creditors and non-Paris club members is included in the relevant frameworks, how to address the debt burdens of middle-income countries, and to what extent debt reduction, in addition to postponement of repayments, will be necessary for countries facing acute debt distress.

Additional MDB financing. Current multilateral development bank (MDB) lending is constrained by "headroom" – lending limits set by the MDB governments to preserve AAA ratings. Indeed, the main MDBs maintain equity-to-loan ratios of between 20-60 percent, many times higher than commercial banks' ratio of 10-15 percent, which significantly reduces the amount of MDB funds available for lending. In effect, this forces the governments of, let us say, Ghana or Kenya to borrow on the commercial markets at 9 to 10 percent interest instead of increasing borrowing at around 1 percent interest from the MDBs – further constricting their fiscal space and aggravating their debt situation.

Without any need for any country to increase investment, a relaxation of the MDB rules could provide a major injection of development funds over the next ten years into developing countries. Nor would even a substantial relaxation of the rules need to risk the MDBs' AAA ratings. This is because the MDBs exclude their "callable capital" – i.e., funds that shareholders commit to making available to MDBs if required to prevent them from defaulting on their own loans – when determining capital adequacy, whereas the credit ratings agencies, by contrast, include callable capital when determining MDB ratings. This is no minor discrepancy: callable capital represents 94 percent of the World Bank's total subscribed funds. As a result, MDBs could significantly increase lending *without* jeopardizing their AAA ratings: by $600 billion, according to one estimate, or by $750 billion, according to another. If the MDBs were willing to risk a downgrade to AA+, they could boost lending by as much as $1.3 trillion. (Even before the pandemic, there were sound arguments being made that the benefits of a AA+ rating outweigh the costs, at least for several of the MDBs.)

Some developing countries have concerns about IFI conditionality – both the reality and the perception of external influence on policies. A parallel agreement that considered the conditionality most appropriate for a crisis situation of the magnitude we are now in – anti-corruption measures is perhaps one generally acceptable priority for both governments and financiers – would likely help agreement in this area.

Accelerating IDA20. The International Development Association (IDA), which is part of the World Bank and is one of the major sources of concessional financing for development for low- and some lower middle-income countries, is distinct from other MDBs when it comes to options for securing additional financing. Rather than

draw funds from private markets (backstopped by callable capital), IDA is funded by donor governments through regular "replenishments". A relaxation of the rules around MDB lending would therefore not lead to increased IDA spending, but there are other avenues that would, at least in the near-term. Notably, IDA replenishments have always run for 3 years. The current round, IDA19, should normally last through 2022. However, the devastating impacts of COVID-19 among IDA-eligible countries have led the World Bank to accelerate its IDA19 spending, with commitments increasing by 65 percent in 2020 compared to 2019. As a result of these extraordinary circumstances, the World Bank has started discussions with its shareholders to agree an earlier replenishment for IDA20 by the end of 2021, with disbursements starting six months early in mid 2022.

International taxation and corporate contributions. There is a groundswell of public opinion across developed and developing worlds in favor of more corporate taxation, demonstrated by relatively low trust in business leaders in the immediate aftermath of COVID19 and fueled by more recent stories of corporate misbehavior and profiteering. Many countries have started processes to tax wealthy individuals and corporations, or to ask them to contribute voluntarily to COVID-19 recovery funds. The most immediate target for international agreement, however, is on digital services taxation. The OECD released a framework in 2020 that was blocked by the US. The OECD draft in itself does not give sufficient benefits to low- and lower-middle income developing countries, but the concept of "usership" – where revenues are based not only on the location of digital company offices, but on where their users are located – does open up the potential of greater gains in this area.

Action on illicit financial flows. An equitable, sustainable global recovery is difficult to envision without concerted action to combat illicit financial flows. Developing and developed countries alike lose trillions of dollars every year due to IFFs, but the impact is disproportionately felt by low- and middle-income countries, where financial malfeasance not only deprives societies of desperately needed resources but also undermines trust, stokes grievances, and exacerbates inequality. Although stemming the tide of IFFs has long been a priority of the multilateral system, progress has been slow. In fact, in 2015 African countries lost an estimated $50 billion per year to IFFs, and by 2020 the UN has put that figure at $88.6 billion.

There is growing evidence that COVID-19 has made the situation worse. At the same time, the pandemic has galvanized public and political will to address IFFs. Momentum is building in areas such as open contracting, beneficial ownership transparency, and asset recovery, with important implications for COVID-19 recovery. In Kenya, for instance, nearly $20 million of recovered funds have been earmarked for the pandemic response. Processes at global level are also helping to bring much-needed attention to anti-IFF action. In early June 2021, the first-ever UNGASS on corruption will take place, presenting a critical opportunity to agree on the actions needed at the international level to combat corruption and IFFs.

Spending initiatives. A block to many of the ideas laid out above is the sense that development funds are not well spent and that they are at risk of wastage, inefficiency, and corruption. To maximize the potential to mobilize more development funds, good mechanisms to ensure effective expenditures are needed. Ideally, these would balance the speed of expenditure (which is critical at present: many of the MDB mechanisms, for example, are still too slow) with the quality of expenditure – innovative ways to combat corruption and ensure that funds go to the people who need them most. One aspect of that could be maintenance of health and social safety net

arrangements established during COVID-19, learning lessons of what worked well and what less so; and another being the development of better mechanisms to underpin green and digital social compacts, adjusting to the future.

Replenishing IMF concessional resources through gold sales. Like IDA, the IMF has expanded its concessional support to developing countries in response to COVID-19. Crucially, though, this expansion by and large does not represent "new" financing but rather a frontloading of existing resources. As a result, without a replenishment, the IMF's concessional finance facility, the PRGT, will be constrained in its ability to sustain support levels for hard-hit developing countries for the duration of the crisis, and may have to reduce funding prematurely, with potentially dire consequences.

One additional mechanism that has come under discussion to increase liquidity globally is through the sale of IMF gold. Gold sales have played a similar role – of supplementing concessional lending facilities in response to a crisis – in the past, including after the 2008 financial crisis. This could enable a replenishment of the IMF's concessional finance facility, the PRGT, which will be constrained in its ability to sustain support levels for hard-hit developing countries for the duration of the crisis, and may have to reduce funding prematurely, with potentially dire consequences. There are however strict restrictions on when and how the IMF can sell portions of its gold, however, and any potential sale would take several years at least to come to fruition. Moreover, it is advisable that any sale be part of a broader package aimed at boosting the Fund's liquidity. But such difficulties may add to the rationale for starting the discussion now, so that an agreement might just come to pass in time to provide further relief to pressure on the IMF's balance sheet.

Agreement with credit rating agencies. Debt agreements and credit rating responses are related. There is evidence to suggest that several countries have either seen their credit rating downgraded or else have been put under review for downgrade due to their participation in the program. Meanwhile, according to one account, of the more than thirty eligible countries which have declined to participate, the threat of a downgrade has been an important factor in their decision. Other sources indicate a similar dynamic.

The ripple effects of adverse credit actions extend well beyond the DSSI program. At least thirty-six developing countries saw their credit downgraded in 2020, with effects on investment and interest rates. As a result, a number of countries (such as Nigeria and South Africa) had to abandon plans to raise resources for countercyclical COVID-19 responses from foreign markets. Indeed, just one country in sub-Saharan Africa – Cote D'Ivoire – has had access to the sovereign debt market since the beginning of last year. Meanwhile, at least one ratings agency has indicated that further adverse ratings may be in store unless governments signal their intention to begin withdrawing the fiscal stimuluses they have managed to put in place during the first nine months of 2021.

One way to quickly change incentives in this regard would be to secure agreement from credit ratings agencies that countries will not be downgraded for participating in programs like the DSSI, or the Common Framework if and when it is operationalized. Yet a broader agreement may also be necessary. A major lesson from the 2008 financial crisis was that governments around the world turned away from countercyclical spending too early, and did not invest sufficiently in spending that reached the poor and the middle class. The risk of (further)

downgrades in 2021 may ensure that this dynamic repeats itself. As a review by the African Peer Review Mechanism of credit actions in Africa during the first half of 2020 found, "In the majority of COVID-19-induced rating downgrades, rating agencies cautioned countries against adopting coronavirus stimulus packages, citing that the policy would widen fiscal debt burden to unsustainable levels and weaken the economy."