DEVELOPMENT COMMITTEE
(Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries)

ONE HUNDRED AND ONE MEETING
WASHINGTON, DC – APRIL 17, 2020 (VIRTUAL)

DC/S/2020-0037
April 17, 2020

Statement by
Angel Gurría
Secretary-General
OECD
Statement by

Angel Gurria,
Secretary-General
OECD

101st Meeting of the Development Committee

April 17, 2020
Washington, DC
(VIRTUAL)

What’s At Stake: The Impact of COVID-19 on Developing Countries

1. We are facing an unprecedented global development crisis with profound implications for current and future generations. The COVID-19 (coronavirus) pandemic is affecting every aspect of our lives, from the way we produce and consume to how we work and live. The crisis calls for an ambitious, inclusive and timely global response to safeguard people’s well-being, support a rapid economic recovery, and ensure the world remains on track to achieve the 2030 Agenda for Sustainable Development and address the climate crisis.

2. The COVID-19 crisis has caused a significant loss of life, disrupted livelihoods, and undermined well-being throughout the world. While COVID-19 does not discriminate among rich or poor, its impacts will exacerbate existing inequalities. This means developing countries will be among those hit hardest, with the health, economic, and social shocks of the crisis adding to existing development challenges, including extreme poverty, violent conflicts, food shortages, and climate-related emergencies. Furthermore, early evidence suggests that the adverse impacts of COVID-19 will not only affect developing and least developed countries more harshly; they will also endure longer.

Economic Shocks

3. COVID-19 has developed into a global supply and demand shock, with crippling effects on developing countries. According to the IMF, outflows of capital from emerging markets since the onset of the coronavirus are twice as large as during the Global Financial Crisis (GFC): equity and debt outflows were USD 52.4 billion and USD 31.0 billion, respectively. Moreover, the OECD projects that even under the most optimistic scenario, global foreign direct investment flows will be further reduced by at least 30 percent in 2020.

4. A sharp divide will define the severity of the effects of COVID-19 on private businesses in developing countries. While multinational companies in many sectors are equipped to sustain its impacts, small and medium enterprises will struggle to survive. In Latin America, micro, small and medium enterprises represent 99% of firms and 60% of formal employment, many of which are facing bankruptcy. Many informal workers in this region will be vulnerable in the absence of social safety nets, unemployment insurance and direct payments. COVID-19 also threatens to exacerbate already challenging social and political conditions, and widespread poverty. In Asia, growth prospects are expected to deteriorate as both demand and supply contract. In Viet Nam, for example, the value of exported goods in January 2020 was 19% less than in December 2019. Early analysis of COVID-19’s impact on Africa’s already stagnant growth is alarming, highlighting its dependence on the performance of its economic partners, particularly China, where preliminary Q1 GDP figures show a -6.8% decline year-on-year. African oil exporting nations could lose as much as USD 65 billion in revenues as oil prices continue to fall. Africa’s GDP growth rate is expected to fall from 3.2% to about -2% in 2020, driven by disruptions in global supply chains.
5. Official development assistance (ODA) levels in 2019 rose by 1.4 percent in real terms compared to 2018, reaching 152.8 billion USD. The OECD Secretary-General has called on the Development Assistance Committee (DAC) to increase and sustain its ODA commitments, particularly in response to the COVID-19 crisis. Encouragingly, ODA budgets have proven resilient in the face of recession, increasing in 2009 and 2010 despite the GFC in 2008.

6. Remittances, which in 2019 represented at least 10% of GDP in 28 developing countries, will also be impacted by the COVID-19 crisis. Following the GFC, remittances to ODA-eligible countries dropped by 7% in 2009; current projections suggest the decline resulting from COVID-19 will be even sharper. This decline will have profound consequences for households that depend on remittance inflows to finance their basic needs.

7. Domestic resources – the main source of financing for developing countries – will also be under pressure, increasing debt risk for the 44% of low-income countries already under distress. A sharp decline in global and domestic trade will affect developing countries with a high share of revenues from taxes on goods and services. Many developing countries, notably Small Island Developing States, that draw revenues from commodities, natural resources, and tourism, will be deeply affected by steep declines in global demand. Developing countries that are typically more reliant than developed countries on corporate and consumption taxes are likely to face the greatest fall.

8. In low and middle-income countries, the COVID-19 crisis comes at a time of rising concern for the sustainability of public debt, and especially external public debt. Debt burdens are constraining the ability of governments to contain COVID-19 and manage spillover effects in other sectors. The IMF and the World Bank have jointly called for a “debt standstill” from official bilateral donors, which would provide some direct liquidity support to vulnerable countries. This call has been echoed and expanded by African finance ministers, who have called for a moratorium on all public external debt service in 2020, estimated at USD 44 billion. The Institute of International Finance (IIF), a consortium of private financial institutions, announced that it would encourage private lenders to exert forbearance on debt service payments. The OECD estimates that a debt standstill would an important first step to bring the substantial resources necessary to support the immediate COVID-19 response in developing countries: between USD 10 and 20 billion in 2020, depending on eligible countries and creditors, primarily borne by a few official creditors and the private sector.

Health and Social Shocks

9. Healthcare systems in many developing countries have been chronically underfunded, lack capacity, and are continuing to grapple with the legacies of preceding health crises, such as the Ebola virus, malaria, HIV, and malnutrition. They do not have the reserves needed to manage the health care challenges of COVID-19. For example, in Nigeria, the tax-to-GDP ratio of less than 6% – compared with the African average of 17.2% – will impede critical investments in the health care sector.

10. According to the WHO (2019), 90% of low-income countries are also constrained by severe health worker shortages. For example, sub-Saharan African countries have, on average, 0.2 doctors for every 1,000 people, compared with 2.2 in Latin America and 3.4 in OECD countries. Developing countries also suffer from inadequate access to drugs and medical devices and some 125 million people still lack access to basic health services. Africa – which will account for 90% of the world’s poorest people by 2030 – is particularly vulnerable, with high numbers of people with immune systems weakened by chronic illnesses associated with nutritional insufficiencies. Structural weaknesses in health services and infrastructure will compound the effects of the COVID-19 pandemic, including national statistical systems. In many developing countries, policymakers rely on outdated census data to identify at-risk populations.
11. While many countries have adopted exceptional measures to protect their borders from the spread of COVID-19, people continue to be forced to flee from war, conflict and persecution. Eighty-four percent of refugees live in developing countries, and seven out of the top ten developing countries hosting refugees are considered fragile under the OECD’s fragility framework (OECD, 2019[1]). In this context, the COVID-19 pandemic will have drastic consequences on forcibly displaced people. The increasing number of measures adopted by states to prevent access of non-nationals to their territory and a focus on controlling the spread of the virus within countries raise concerns about how asylum seekers and refugees can exercise their rights. Humanitarian needs will increase as a result of COVID-19, and the impact of the crisis is greatest on those furthest behind.

12. Women are on the frontlines of the COVID-19 response, comprising almost 70% of the global health care workforce. At the same time, they are also shouldering much of the burden of unpaid work. Women also face increased risks of violence, exploitation, abuse or harassment during times of crisis and quarantine, particularly in developing countries.

Call to Action: Mobilising Resources to Help Developing Countries Respond to COVID-19 and Build Back Better, With People and Planet at the Center

13. Official finance should be used to develop and apply ambitious and innovative solutions to mitigate the impact of coronavirus on developing countries and to increase global resilience against future crises. In the short-term, development finance will be a critical weapon in the war against COVID-19. Development co-operation actors have made quick and important investments, including calls to mobilise significant lending resources, provide debt relief, and use ODA to fight the COVID-19 pandemic. Concessional finance for the health sector from all donors (bilateral, multilateral and private foundations) averaged USD 26 billion per year between 2016 and 2018. About 40% of this was for basic health programmes. Total ODA for infectious diseases (including malaria and tuberculosis) amounted to USD 6 billion in 2018, but fell by 16% in real terms compared to 2017 levels due to reduced funding from some donors for Ebola.

14. More than ever, any dilution or diversion of concessional finance should be avoided, and cooperation across development actors will be needed. Bilateral DAC donors should increase and sustain their ODA commitments. Development co-operation providers should support the mobilisation of financial resources for health systems and the expansion of health and social protection coverage, as well as investments in health data systems to track the development of the pandemic, its impacts and the effectiveness of policy responses.

15. Strategic optimisation of all development finance flows, including ODA, tax, and remittances, could contribute to reinforcing global resilience to major shocks. The OECD Secretary-General has called for businesses to cut or eliminate entirely the cost of remittances as an immediate action.

16. The international community can provide invaluable support to developing countries as they respond to the shocks of the COVID-19 pandemic and address its immediate, short-term, and medium- to long-term effects. This includes supporting the health care sector and its workers in developing countries by: assisting countries facing difficulties in meeting their external financing needs through International Financial Institutions; and providing humanitarian and emergency assistance to enhance access to medical supplies, protective clothing, water, support to displaced persons and refugee settlements through existing institutional arrangements and in line with regional strategies. As governments put in place public health protections to control the spread of COVID-19, it will be important to monitor governance and human rights to prevent democratic backsliding. Striking a balance between short-term necessary measures to control the spread of the virus, while at the same time reasserting government commitments to democratic rights and freedoms, will be critical, as will protecting civic space.
17. The international development community can help developing countries overcome the macroeconomic shock and possible external debt overhang through a coherent strategy for development and humanitarian finance – from official flows, to remittances, taxes and investment – and sovereign debt restructuring and relief, as appropriate. Total Official Support for Sustainable Development (TOSSD) will, for the first time, track global public goods that support the COVID-19 response in developing countries not captured in ODA, including south-south and triangular co-operation, WHO expenses on public health surveillance at the global level, research and development expenditures for health, and private finance mobilised for the crisis response.

18. Development co-operation providers can also help developing countries preserve critical productive capacities, deepen regional integration and develop local and regional value chains. Maintaining cross-border trade is important, especially in regions susceptible to food insecurity. In the longer-term, fiscal stimulus and public investment measures should be conceived as global public investments in the 2030 and climate agendas, ensuring developing countries are part and parcel of designing and benefitting from a global sustainable recovery.

**Uphold a supportive multilateral system**

19. The international community must exchange, learn and act as a global community. Our success will depend on our willingness to learn – from all countries – what measures are effective.

20. The COVID-19 crisis has revealed the interconnectedness of economies and societies and our collective vulnerability to global public bads. The fight against COVID-19 should not occur at the expense of future crises; acting together is an opportunity for the OECD and the broader international community to reinvigorate multilateral co-operation.

21. All societies are fragile in the face of COVID-19; this is a time of shared humanity not experienced since World War II. However, its impacts will be felt unequally in developing countries. International co-operation remains our greatest tool to fight the coronavirus pandemic, foster stronger, fairer, cleaner, and more inclusive growth, and enhance our resilience to future crises.