On the 8th of July 2020, the Paris Forum and Saudi G20 Presidency co-organized a high-level virtual Ministerial Conference on “Tackling the COVID-19 Crisis: Restoring Sustainable Flows of Capital and Robust Financing for Development”. The conference discussed challenges around international capital flows volatility amid the COVID-19 crisis and possible policy responses to mitigate these challenges, including through restoring sustainable flows of capital, ensuring debt sustainability, and developing domestic capital markets.

Participants highlighted that the crisis exacerbated challenges for low-income countries and emerging market economies which led to an unprecedented reversal of capital flows, tightening of financial conditions, limited market access for dollar funding and exchange rates depreciation. Participants noted that global coordinated policy response alleviated the initial impact of the crisis and contributed to a recent stabilization in financial markets. However, they noted that more needs to be done to enhance financial resilience and ensure a strong, sustainable, balanced and inclusive recovery.

First Plenary Session

Speakers noted that this crisis presents an opportunity to enhance broad-based financial resilience, similar to the banking sector reform that occurred following the Global Financial Crisis. As part of this, speakers highlighted the importance of enhancing debt data transparency, as it can improve debt sustainability and catalyze private investment in developing countries in the medium term.

Several speakers referred to the need to create additional policy space for the poorest countries, potentially through debt restructurings on a country-by-country basis and within a multilateral framework. Some speakers also pointed to the importance of preparing for multiple recovery scenarios, including preparations for a post-COVID-19 era, but also crisis contingency plans in case of a second wave.

The conference fostered in-depth discussions on key issues through three parallel breakout sessions:
• **Breakout Session #1: Sustainable Financing for African Development**

This session discussed the status of implementation of the Debt Service Suspension Initiative (DSSI) in Africa, and possible next steps, and explored also ways to restore market access for African countries, increase international private flows and support the African private sector, especially SMEs. Some African countries have estimated their financing needs at US$ 300 bn over the next three years, half of which is expected to be resourced from the IMF and the other half from other sources including Multilateral Development Banks (MDBs). All speakers welcomed the DSSI and agreed on the need for additional resources. Regarding private sector participation in the initiative, speakers emphasized the importance of maintaining market access for beneficiary countries, which some argued could be jeopardized by countries’ participation. Proposals were also made by African countries to initiate liquidity and sustainability funds, such as Special Purpose Vehicles benefiting from guarantees by AAA-rated countries, as new ways to channel funding from the private sector. Furthermore, the Institute of International Finance (IIF) highlighted that private investors are keen to return to African investments, but emphasized the need to work on key enablers, including stronger financial systems. In addition, speakers highlighted the importance of including SMEs in the African economic recovery packages.

On the way forward, speakers highlighted the importance of continuing discussions on innovative ways to help countries secure the resources they need to tackle the health and economic challenges, including debt distress, and to cover the financing needs associated to the development agenda. Participants emphasized the need to extend the DSSI beyond 2020 and prepare the work for “what comes next”, which is preserving or restoring debt sustainability after the crisis. Finally, there was broad agreement on the role of debt transparency as an enabler to sound public finances as well as promotion of private sector investment.

• **Breakout Session #2: Policy Options to Tackle the Current Situation and Support the Return of Capital Flows to Emerging Economies**

This session discussed policy options to tackle the unprecedented capital outflows earlier this year and ways to ensure sustainable flows of capital in the future. Speakers highlighted that this crisis surpassed previous emerging market economies’ capital outflow episodes both in terms of scale and speed. Speakers praised the swift and sizable fiscal responses to the pandemic, but noted that fiscal space is becoming increasingly limited and debt burdens are accumulating; while immediate liquidity concerns may have been mitigated, solvency risks remain elevated. Speakers reiterated the need to ensure a strong Global Financial Safety Net and an
adequately resourced IMF to avoid future shocks, and advocated for advancing discussions on a general Special Drawing Rights allocation. They also supported the ongoing work of the IFIs and the need to recalibrate their response, along the different phases of the crisis. Speakers commended the positive cooperation that has occurred between G20 countries, reiterating that strengthening financial resilience, including through local currency financing, is important to mitigating capital flow volatility.

- **Breakout Session #3: Building Further Resilience and More Sustainable Sources of Financing for the Future**

This session discussed the importance of well-developed, deep domestic capital markets in enhancing financial resilience and shock absorption capacity. Some emerging country experiences on the recent capital volatility episodes were presented, including measures taken to further develop local currency bond markets and restore sustainable flows of capital. Speakers highlighted the importance of joint efforts and sound policy frameworks as essential prerequisites to improving financial stability in both domestic and global markets. Speakers also noted the need to ensure a sustainable path and level of public debt to enable sustainable growth. This included proposals for joint efforts in the next phase of securing debt sustainability, including on sovereign debt restructurings where and as needed.

On the way forward, several speakers reiterated the importance of addressing longer-term resilience and sustainability topics, even as countries work to tackle their immediate, short-term challenges. This included calls to encourage greater equity investments, particularly in countries where external debt is on an unsustainable path, and to think about innovative tools with shock-proofing characteristics, such as commodity-linked bonds, so as to improve economic resilience.

**Second Plenary Session**

Speakers commended the swift policy actions that have been taken in containing the health, economic and social impacts of the pandemic. However, as the threat of a second wave looms, they noted increasing signs of differentiation in the pace of recovery and overall resilience of economies, with emerging market economies remaining more vulnerable to another economic or financial shock. Speakers agreed on the need to continue exploring ways to ensure robust financing for development, including by safeguarding financial stability against short-term risks, while strengthening long-term financial resilience, and supporting strong, sustainable, balanced, and inclusive growth.

Speakers noted that further progress is needed on debt-related issues – including on the full implementation of the Debt Service Suspension
Initiative by all official bilateral creditors, and debt transparency work - as well as on resilience building through promoting more sustainable sources of financing.