September 2021

Business at OECD (BIAC) calls for adequate support of developing countries to address the Covid-19 crisis

1. Developing countries are especially vulnerable throughout the pandemic

The crisis caused by Covid-19 has accelerated economic and social challenges around the world, especially in developing countries. Similar to advanced economies, most developing countries entered recession as lockdowns hit, which strongly affected their economies that are often highly reliant on tourism, agriculture and manufacturing. In developing countries, job losses, resulting from the economic slowdown, have increased deprivation for millions of people pushing more than 100 million people into extreme poverty.[1] Moreover, while advanced economies are expected to recover already by the end of 2021 on average,[2] recovery in some developing economies might take more than 5 years.[3]

On the health front, large deficiencies in the access to basic preventive measures, overcrowding and lifestyles that are more communal have complicated and continue to complicate social-distancing policies. Additional complications related to weaker health care systems and fewer opportunities for remote working are reflected in a comparably high death toll in developing economies. While developing countries host 68% of the world's population, they make up for 87% of Covid-19 deaths.[4]

In the economic dimension, developing countries struggle to cope with the economic fallout of the pandemic as they generally have less scope for fiscal interventions (e.g. support programs) as well as less room for strong monetary policy support. Concretely, recovery spending in developing countries was USD 1 trillion less than the magnitude of spending carried out in OECD economies.[5]

2. There are a number of potential future risks looming on the horizon

In addition to the immediate fallout of the pandemic, different factors risk further undermining economic and social progress in developing economies and the achievement of the 2030 Agenda's call to 'leaving no one behind', with the potential for negative spillovers to the global economy, including advanced economies.

A first risk is that rising interest rates in advanced economies, for example, as a result of monetary policy tightening in those countries, could lead to debt sustainability concerns in developing economies given capital outflows from the latter. While to date developing countries have benefitted from the lowest borrowing costs on record leading to increased borrowings, they could in the future suffer a double whammy by paying higher interest charges on a larger stock of debt. Already pre-pandemic, 1 in 8 developing countries spent more on debt than on health, education and social protection.[6] So far, the G20 debt suspension initiative has helped to maintain health and social protection in the participating countries, yet it is set to expire. The International Monetary Fund (IMF) has recently approved an allocation of Special Drawing Rights (SDRs), which will help developing economies to boost liquidity. However, while the injection amounting to $650bn is the largest in the fund's history, shares remain skewed

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[1] *Covid-19 to Add as Many as 150 Million Extreme Poor by 2021*, 7th October 2021. Available from: https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021
[2] *OECD Economic Outlook*, May 2021
[3] UNCTAD. *How long will it take least developed countries to recover from the COVID-19 shock?* Available from: https://unctad.org/topic/least-developed-countries/chart-may-2021
[4] The Economist. (31.07.2021.) *Unrest and Economic Underperformance Haunt the Emerging World*. Available from: https://www.economist.com/leaders/2021/07/31/unrest-and-economic-underperformance-stalk-the-emerging-world
[5] OECD, *The Global Outlook on Financing for Sustainable Development 2021*
[6] UNICEF. (April 2021). *Covid-19 and the Looming Debt Crisis.* Available from: https://www.unicef-irc.org/publications/1193-covid-19-looming-debt-crisis-protecting-transforming-social-spending-for-inclusive-recoveries.html

towards advanced nations and the economic effects of the SDRs will eventually depend on how the additional liquidity is being deployed by receiving countries. It is thus likely that debt vulnerabilities will most likely remain elevated for the coming years.

A second challenge is vaccination. Even though global vaccination rollouts started at the end of 2020, developing countries do not have the same access to vaccines compared to their larger peers. For instance, by June 2021 around 68 vaccine shots were administrated for 100 people in Europe and Northern America, compared to less than two shots in Sub Saharan Africa.[7] Global vaccine coverage is pivotal to prevent death and disease, to stop the spread of new variants and ultimately avoid new (costly) lockdowns across the world. In a nutshell, the virus can only be tackled if it is addressed on a global scale.

Third, the Covid-19 crisis has created additional imbalances in developing countries and has delayed their progress towards the 2030 Agenda for Sustainable Development Goals (SDGs). According to the OECD, the SDG financing gap in developing countries could increase by 70% from 2.5 trillion pre Covid-19 to 4.2 trillion.[8] A particular challenge in this context is increasing digitalization, which could boost social cohesion and promote reallocation towards new jobs and more productive firms, but which at the same time requires dedicated skills and infrastructure.

Businesses can play a key role in the recovery process of developing countries, for instance by providing FDI in quality infrastructure. Relatedly, integration of local businesses into Global Value Chains (GVCs) can become an important driver for local economic development. Businesses can also participate in the acceleration of vaccination worldwide, for instance, by increasing medical and financial resources to help developing countries fight against the pandemic and spreading awareness and fighting vaccine hesitancy.

3. Key recommendations to the OECD

Supporting developing countries is an important aspect not only from humanitarian perspective, but it is also necessary to defeat the virus and overcome economic crisis globally as developing countries are playing a key role as producers and service providers in various supply chains. This is why we call on the OECD to take into consideration the following key recommendations:

- Call on governments not to reduce their development budgets and encourage DAC member countries to stick to the target of 0.7% official development assistance (ODA) in national income.
- Continue to identify, collect and disseminate advice on how developing countries can best address and buffer the economic effects of the crisis and facilitate dialogue among policy makers to identify the best practices to foster the recovery.
- Encourage governments to act collectively to accelerate vaccination efforts in developing countries by ensuring sufficient supply of vaccines, as well as other medical supplies to address Covid-19 and other health threats.
- Strengthen collaboration between the OECD development and investment communities with a view to identify ways to leverage FDI in developing countries. To that end, engage closely with the private sector to learn about barriers to capital movements and investments in developing countries.
- Continue to promote, in the context of the OECD's regional programs, key tools and standards, including the OECD Declaration on International Investment and Multinational Enterprises, the Policy Framework for Investment and the Anti-Bribery Convention as well as other formal instruments, which can help to improve the broader investment environment and ease of doing business.
- Take further action to safeguard open markets and defend the benefits of rules-based trade and investment, which have come increasingly under security over the last decade, recognizing that international trade and investment and GVC integration can only take place in open economies.
- Assess the merits for a possible prolongation of the debt suspension to enable a more effective recovery process in developing countries.

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[7] World Economic Forum. *Covid-19 is threatening the SDGs – here's what needs to happen.* Available from: https://www.weforum.org/agenda/2021/07/sdgs-covid19-poverty-goals/

[8] OECD Global Outlook on Financing for Sustainable Development 2021

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