INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

**Forty-Second Meeting**
**October 15, 2020**

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**United Nations Statement**
**to the**
**International Monetary and Financial Committee (IMFC) of the Board of Governors**
**October 15, 2020**

> "International Financial Institutions must have the resources they need to increase funding to developing and middle-income countries that are highly vulnerable and in debt distress. I have spoken of the need for a New Global Deal. The global financial architecture is part of that deal […] for our planet and for future generations".[1]
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> UN Secretary General, Antonio Guterres

**Introduction: The COVID-19 Response**

The COVID-19 pandemic continues to wreak havoc around the world. Over one million people have died, and 35 million have been reported infected.[2] The real number is expected to be higher. Ten countries account for 70% of all reported cases and deaths; 3 countries account for half of all cases and deaths.

The economic and social consequences are dire: severe economic contraction is expected in 172 countries in 2020, extreme poverty is set to increase by 88 to 115 million people, equivalent job losses are expected to hover around 435 million people. The growth contraction is compounded by a drop of 40 percent in foreign direct investment and up to 20 percent in trade.

Health and socio-economic impacts are intertwined. There will be no economic recovery nor rebound without addressing and controlling the virus. That is why the United Nations system is addressing multiple fronts, including a big push on vaccinations and treatment around the world through the access to COVID-19 Tools (ACT) Accelerator, including the COVAX vaccine facility.

Today, 168 countries and economies are covered by the COVAX facility; currently supporting 9 vaccine development processes. The facility is speeding up the search for an effective vaccine for all countries. The timeline is uncertain, but the aim is for 2 billion doses to be delivered by end of 2021.[3]

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[1] https://www.un.org/sg/en/content/sg/speeches/2020-09-29/opening-remarks-high-level-meeting-financing-for-development-era-of-covid-19-and-beyond
[2] https://www.who.int/docs/default-source/coronaviruse/situation-reports/20201005-weekly-epi-update-8.pdf
[3] https://www.who.int/initiatives/act-accelerator/covax

The UN development system has responded swiftly on the socio-economic impact of the pandemic. To date, 135 socio-economic response plans contemplate interventions amounting to $34.7 billion (with the 10 largest countries accounting for $20.5 Billion, or close to 60% of the total cost). The response plans have enjoyed wide participation of IFIs (the World Bank participated in 54%; the IMF in 32 %).

The key messages emerging from response plans and socio-economic impact assessments include a sharp focus on: (i) mitigating income, jobs and livelihoods losses through social protection and business continuity support, and (ii) addressing shrinking fiscal space during the response. At the very time that expenditures are expanding, tax revenues in the developing world are shrinking, remittances are slowing, and commodity and oil prices are dropping.

**The Finance for Development (FfD) Initiative**

In this context, the Prime Ministers of Canada and Jamaica and the United Nations Secretary General launched the initiative *"Financing the 2030 Agenda for Sustainable Development in the Era of COVID-19 and Beyond"* in May of this year. Six thematic issue-areas framed the initiative, each with an assigned discussion group: i) External finance and remittances, jobs and inclusive growth; ii) Recovering better for sustainability; iii) Global liquidity and financial stability; iv) Debt vulnerability; v) Private sector creditors engagement, and vi) Illicit financial flows.

The result of the work was tabled at a Heads of States Event on September 29, with the participation of 39 Heads of State and Government, 8 Ministers and 11 Heads of International Organizations and UN Entities. It represents an ambitious menu of policy options, with a call for urgent and bold multilateral action to avoid the looming humanitarian and development crisis. Some of the main proposed action points were:

- Providing *concessional finance* to developing countries in need, especially those in special situations, and adequately resourcing the ACT-accelerator;
- Addressing *liquidity constraints*, e.g. through reallocation of unused SDRs, or a Liquidity and Sustainability Facility;
- Ensuring *debt relief*, e.g. through extending the Debt Service Suspension Initiative (DSSI), engaging private creditors; providing targeted debt relief, using innovative instruments such as debt swaps, and increasing transparency;
- *Building back better* by aligning finance with sustainable development, e.g. through: mandatory reporting and reorienting the financial system toward sustainability; equitable digitalization; investment promotion and resilient infrastructure; and supporting remittances;
- Tackling *illicit financial flows (IFFs)* and other measures to expand fiscal space, e.g. through a fairer and more transparent international tax regime;

The UN will continue to harness the momentum from the discussion groups and the two high-level meetings held in September to ensure that policy options with political momentum at the highest level are implemented.

An overview of the policy menu of options proposed under each of the six discussion groups is provided in Table 1 below.

*Table 1: Highlighted policy options/areas under each discussion group*

| DG 1 - External finance, remittances, jobs and inclusive growth |
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| • Establish a global coordination and cooperation mechanism for joint trade and investment promotion and mobilize all sustainability-themed funds.<br>• protect ODA levels, and optimize ODA allocation increase collaboration between different public finance institutions to scale up finance and guide it more effectively.<br>• ensure easier and expanded access to remittances services and link them to broader financial services.<br>• prioritize public financing to job and income support, including through implementing job-retention/creation programmes and scaling up and extending social protection |
| DG 2 - Recovering better for sustainability |
| • Global standards and norms: Alignment, disclosure and reporting, and carbon pricing to develop comparable frameworks aligning finance with the SDGs and the Paris Agreement; a sustainability-related disclosure framework for all public and private market actors; and establish common methodologies and guidelines for carbon pricing instruments.<br>• Government should align national planning, spending and implementation, particularly Nationally Determined Contributions (NDCs); National Disaster Risk Reduction Strategies; Integrated National Financing Frameworks (INFFs);<br>• Central banks and financial supervisors should integrate SDG -related risks into financial stability monitoring, macro and micro prudential supervision and integrate sustainability/climate factors in portfolio management.<br>• Private sector should align investment portfolios with the SDGs and net zero carbon emissions; Strengthen scenario analysis to assess strategic resilience; Credit-rating agency regulators should devise common guidelines to progressively incorporate longer-term SDG-aligned indicators into agency ratings.<br>• International development and development finance institutions should strengthen the alignment of strategies and activities with the 2030 Agenda, the Addis Ababa Action Agenda, the Paris Agreement and the Sendai Framework. |
| DG 3 - Global liquidity and financial stability |
| Short-term policy options<br>• Special Drawing Rights: i) General Issue ii) Reallocation of existing SDR's<br>• Central Bank Currency Swaps and repos: i) Existing CB swaps ii) RFAs iii) IMF iv) FIMA<br>• Enlarge access to loans and grants: i) FACE ii) IMF gold sales<br>Medium to long term policy options |

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| • Capital account management |
| DG 4 - Debt vulnerability |
| <u>Debt Moratoria: Extension and Expansion of the Debt Service Suspension Initiative (DSSI)</u><br>• Extending the DSSI term to at least end of 2021.<br>• Broadening the scope of beneficiary countries to include vulnerable countries<br>• Providing equivalent measures for multilateral debt<br><u>Debt relief</u><br>• Cancellations write-downs for official debt<br>• Debt for COVID-relief/SDGs/Climate Swaps (for official and/or commercial debt)<br>• Debt Buybacks |
| DG 5 - Private sector creditors engagement |
| <u>Mechanisms to facilitate private sector creditors engagement</u><br>• Voluntary Credit Facility to incentivize participation in standstills when needed.<br><u>Debt for crisis support /development swaps/resilience funds</u><br>• To channel debt service payments into investments.<br><u>Legal support</u><br>• To help navigate complex of legal issues<br><u>Package to support vulnerable countries/SIDS</u><br>• State-contingent instruments/risk management (along with swaps and legal support) |
| DG 6 - Illicit financial flows |
| <u>Improve tax administration</u><br>• Strengthen implementation of UNCAC and other international frameworks<br>• Intensify cooperation on recovery and return of assets<br>• Strengthen beneficial ownership information collection and transparency<br><u>Develop a whole-of-government approach to tackling IFFs</u><br>• Support corresponding banking relationships<br>• Provide advice on tax policy for COVID-19 recovery and on digitalized tax administration<br>• Develop the political consensus to address systemic shortcomings related to IFFs |

*Source: Financing for Development in the Era of COVID-19 and Beyond – Menu of options for the Consideration of Ministers of Finance, Part 1, September 2020*

Many of the topics raised at the Heads of State Meeting fall into one of the 3 following interconnected issues: (i) finance: with a concomitant fall in FDI, ODA and other flows, developing economies could rely increasingly on debt to maintain fiscal space (ii) debt: which will only exacerbate the risk of a debt crisis, just a few months after the world reached unprecedented debt levels (US$258 trillion); and (iii) illicit financial flows: the acute need for fiscal space and liquidity has put illicit financial flows under the spotlight as a chronic cause of leakage.

All of these concerns are underpinned by the need to ensure sustainability for economies over the long run. How we respond to the current crisis will determine whether economies are viable in a rapidly changing environment. Reductions in fossil fuel subsidies, introduction of carbon pricing, new public investment and regulatory incentives must work smartly to accelerate a carbon-neutral transition. A fair and just transition will sit at the intersection of social, economic and environmental change for the foreseeable future.

**Conclusion: Next steps**

The United Nations system welcomes the IMFC's update on how the IMF is assisting liquidity and debt relief concerns of member countries. The IMF is well placed to provide expanded assistance to countries as the crisis evolves. We are also encouraged by the IMF's foresight on how to link fiscal stimulus efforts to green recoveries and promote a strong shift to renewable energy, green infrastructure and job creation.

We take note of the global updates described this week. There are rays of light that point to partial economic recoveries and there are clouds on the horizon –mostly related to debt and restricted fiscal space.

The United Nations will continue to raise issues that pertain to the fiscal and financial space required for the COVID19 response and recovery:

- Developing countries need to sustain an **accommodative fiscal stance** during the response period; given the already limited fiscal space, and the mounting prospect of debt distress, this will require a concerted and collaborative international approach.
- There is a need to **extend debt relief** to all countries that need it –including middle income countries and small island developing states. Any comprehensive solution must include engagement with private creditors and credit rating agencies.
- Preparations should be made **for debt restructuring** with more comprehensive and more forward-looking measures and instruments to avoid a protracted fiscal paralysis. This includes preparing for debt workouts, debt buybacks, debt swaps and other innovative financial instruments linked to future green and inclusive investment portfolios.
- International financial institutions should have the resources they need to increase funding to developing countries that are highly vulnerable and in debt distress. The objective should be to sustain **net positive flows** to countries during the pandemic response and recovery periods.

The United Nations support robust support on all of the streams discussed in the *UN's High-Level Meeting on Financing for Development in the Era of COVID-19 and Beyond*, covering the emergency, the response and an inclusive and green recovery.