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IMFC Statement by Achim Steiner, Administrator of the United Nations Development Programme

United Nations

U N I T E D N A T I O N S N A T I O N S U N I E S

Statement by

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to the

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United Nations Statement to the International Monetary and Financial Committee (IMFC) of the Board of Governors

"We need to help Governments to invest in a strong recovery that puts us back on track to achieve the 2030 Agenda and fulfil the Paris Agreement. There have been three previous waves of debt accumulation over the past 50 years. Each ended with a debt crisis. The current wave, the fourth, has to be different."[1]

UN Secretary General Antonio Guterres

1. Global Economic Outlook

The UN expects the global economic recovery to be modest with a forecasted growth rate of 4.7% this year, barely offsetting the 4.3% contraction in 2020.[2] Downside risks are high due to uncertainties about the speed of vaccine rollouts, the spread of the virus and new strains, adequacy of policy support measures, debt problems and the stability of financial markets. In many countries, second and third waves of infections have led to renewed lockdowns and a delaying of the economic recovery, and many have not been able to sufficiently respond to the crisis by raising additional resources through existing liquidity and credit channels.

While Eastern Asia and South East Asia have fared relatively well compared to other regions, Southern Asia and Latin America and the Caribbean have witnessed a strong economic reversal. South Asian economies have faced the worst economic declines, with GDP per capita falling nearly 10 percent in 2020. Economies that are highly dependent on tourism or commodity exports have also been particularly hard hit by the sharp fall in global travel and commodity prices. To date, Sub-Saharan African GDP overall has not been the hardest hit, but per capita income losses in Sub-Saharan Africa and Latin America and the Caribbean have been among the highest. These two regions are also highly debt vulnerable, and several countries in these regions are severely constrained in their ability to provide policy support.

Despite the uneven and modest global recovery, a small group of countries powered by strong upturns in China and the United States will surpass their pre-crisis GDP levels by the end of 2021. But as we have learned from IMF's latest WEO, the group of emerging markets and developing economies (excluding China) are still likely to experience a cumulative loss in per capita income (compared to pre-pandemic trends) of as much as 20 percent from 2020-2022

[1] Source: https://www.un.org/press/en/2021/sgsm20660.doc.htm
[2] https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2021/

compared to 11% for advanced economies.[3] As a consequence the developmental impacts in terms of hunger, poverty, loss of schooling and jobs, violence against women, fragility, inequality, and social unrest will be severe.

2. Development Challenges:

Health: A race to avoid vaccine nationalism. A year after the onset of the COVID-19 pandemic, the world takes stock of the devastating impacts of the worst global public health crisis of the last century with 128.5 million confirmed cases and 2.8 million deaths worldwide.[4] National health and care systems have been pushed to their limits, while inequalities in access to health services have compounded the impacts of the pandemic on already vulnerable and marginalized communities.

The UN has from the onset of the crisis called for global solidarity and worked to place multilateral cooperation at the core of the health response to COVID-19, particularly through collaborative vaccine development and equitable scale up, distribution and access. The COVAX Facility, ACT-Accelerator, and the COVID-19 technology access pool (C-TAP) have been at the center of these efforts. As of 1 April, COVAX had confirmed supplies of 3.56 billion doses of vaccines and shipped more than 33 million vaccine doses to 74 countries, while 21.1 million doses had been donated between countries.[5]

However, despite best efforts and results achieved through COVAX, the inequity in vaccine distribution continues to grow spurred by a rise of vaccine nationalism. WHO's Director General Dr Tedros Adhanom Ghebreyesus has warned against the false sense of security from vaccine nationalism.[6] While some countries are racing to vaccinate their entire populations, including low risk groups, many middle- and low-income countries still have not been able to start their vaccine roll-out.

Not only do vaccine nationalism, lack of global solidarity and unequal access to vaccines threaten the efficient containment of transmission and response to the virus, but they also undermine countries' ability to initiate and sustain socio-economic recovery efforts and could cost an already damaged world economy up to $1.2 trillion per year.[7] This is equivalent to the

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[3] https://www.imf.org/en/News/Articles/2021/03/25/sp033021-SMs2021-Curtain-Raiser
[4] As reported by WHO on 31 March: https://covid19.who.int
[5] As reported on the UNICEF Vaccine Market Dashboard on 1 April: COVID-19 Vaccine Market Dashboard | UNICEF Supply Division

[6] WHO Director-General's opening remarks at the media briefing on COVID-19 – 22 March 2021
[7] Rand. COVID-19 and the cost of vaccine nationalism. Available at: https://www.rand.org/randeurope/research/projects/cost-of-covid19-vaccine-nationalism.html

financing gap to provide basic social protection, including health care, to all (estimated in 2020 at US$1,192 billion).[8]

A historic socio-economic reversal is underway: no time to withdraw fiscal support. The economic and social costs of the COVID-19 pandemic have been unprecedented. The global economy contracted 4.3 percent in 2020, significantly more than during the 2008-9 financial crisis. Although a recovery is expected between 2021 and 2022, as fiscal support increases and vaccines become more available worldwide, this is subject to great uncertainties.[9]

Poverty has increased. It is estimated that the pandemic pushed between 119 and 124 million people into poverty around the globe in 2020.[10] With some regional variation, most of these new poor live in South Asia (60 percent) and Sub-Saharan Africa (27 percent). The recent progress in vaccination, however, will not reverse the increase in poverty. The estimates for 2021 indicate that globally there will be between 143 and 163 million more people living in poverty as a direct result of the pandemic. Together with the impacts on poverty, the COVID-19 crisis has deteriorated food security levels worldwide. An estimated 271.8 million people living in low- and middle-income countries are expected to face acute food insecurity due to the aggravating effect that the virus is having in areas also affected by conflict, natural hazards, and climate change.[11]

The pandemic has created an unparalleled crisis for jobs and incomes. Global working-hour losses are projected at 8.8 percent in the fourth quarter of 2020, relative to the same quarter of 2019, which is equivalent to 255 million full-time jobs lost.[12] The decline in working hours in 2020 reflected both reductions in working hours for those who remained employed (50 percent of total working-hours) and employment losses (114 million jobs in total, with 81 million people, especially youth, shifting into inactivity and 33 million into unemployment). COVID-19 also caused important losses in labor income. Before considering income support measures, global labor income declined by 8.3 percent, which amounts to US$3.7 trillion or 4.4 percent of global GDP. The most recent projections of the ILO indicate a continued loss in working hours of between 1.3 (optimistic scenario) and 4.6 (pessimistic scenario) percent in 2021, which corresponds to 36 to 130 million full-time equivalent jobs.

Women have been disproportionately affected by the pandemic owing to pre-existing gender gaps in various labor market outcomes, including labor force participation and wages. At the global level, the employment loss for women is estimated to be larger at 5 percent (versus 3.9 percent for men), with most of these women becoming inactive (4.3 percent) rather than

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[8] ILO (2020). Financing gaps in social protection. Global estimates and strategies for developing countries in light of the COVID-19 crisis and beyond. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_758705.pdf

[9] The most recent IMF projections suggest a global growth rate of 5.5 percent in 2021 and 4.2 percent in 2022. Source: World Economic Outlook Update, January 2021.

[10] These are estimates using the $1.90-a-day poverty line. Source: World Bank GEP, January 2021.

[11] Source: WFP Global Update on COVID-19, November 2020

[12] Source: ILO Monitor 7th Edition, January 2021 Update

unemployed (0.7 percent).[13] This result is likely compounded by the substantial increase in care demands due to the closure of childcare facilities and schools and overburdened elder and healthcare services.[14] The pandemic has also sparked a shadow epidemic of gender-based violence worldwide, both online and offline, from sexual abuse to child marriage. Emerging data shows that since the outbreak of COVID-19, violence against women and girls, and particularly domestic violence has intensified, with some countries reporting increases of 30%. Globally, 243 million women and girls aged 15-49 have been subjected to sexual and/or physical violence perpetrated by an intimate partner over the last 12 months[15].

The learning loss during the COVID-19 crisis has been enormous. At the end of September 2020, about 630 million learners, or 36 percent of the total enrolled globally, were affected by school closures.[16] UNESCO figures show that, on average, two thirds of an academic year were lost worldwide due to school closures. Furthermore, it is estimated that about 24 million children, adolescents and youth are at risk of not returning to education institutions, including day care centers, schools, and higher education institutions, among which 11 million were primary and secondary education students.[17] UNICEF figures show that recipient countries of the DSSI have managed to maintain or increase spending on health and social protection in relation to the GDP (0.6 and 0.4%, respectively), but that spending on education has been cut by 0.1%. Additionally, out of 148 countries currently reporting a decrease in budget expenditures due to COVID-19, education appears to be the most affected, with 16 countries (10.8%) reporting a decrease in education expenditure.[18]

Sustainable recovery: time to get back on track. Plummeting economic growth has reinforced existing inequalities within and between countries. These inequalities continue to be widened by the growing climate, biodiversity, and pollution crises. To ensure we are truly “building back better”, COVID-19 recovery spending must take into account long-term economic and social, as well as environmental objectives.

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[13] Source: ILO Monitor 7th Edition, January 2021 Update
[14] Report on the UN Women global response to COVID-19, February 2021
[15] UN Women, Issue Brief 2020 https://www.unwomen.org/-/media/headquarters/attachments/sections/library/publications/2020/issue-brief-covid-19-and-ending-violence-against-women-and-girls-en.pdf?la=en&vs=5006
[16] Source: UNESCO Interactive Monitoring Map at https://en.unesco.org/covid19/educationresponse
[17] Source: UNESCO COVID-19 Education Response, July 2020
[18] https://www.unicef-irc.org/publications/1193-covid-19-looming-debt-crisis-protecting-transforming-social-spending-for-inclusive-recoveries.html

The spending undertaken in 2020 – as large as it was – does not paint an encouraging picture for overall efforts thus far to build forward with green priorities. According to the report of the Global Recovery Observatory initiative[19], the world's largest fifty countries announced spending of USD14.6tn[20], of which USD1.9tn (13.0%) was directed to long-term 'recovery-type' measures and of that, USD341bn (18.0%) to green recovery initiatives. Considering total spending, only USD368bn (2.5%) was announced for green initiatives[21]. This is clearly incommensurate with the scale of the planetary crises that threaten the health, wellbeing and human rights of all people, especially those in vulnerable situations.

Announced spending as part of COVID-19 recovery packages in 2020 (in USD):

- Green energy -66.1bn (3,5% of recovery spending)
- Green transport - 86.1bn (4,5% of recovery spending)
- Green buildings - 35.2bn (1,9% of recovery spending)
- Natural capital - 56.3bn (3% of recovery spending)
- Green R&D - 28.9bn (1,5% of recovery spending)

What is more, benefits of spending are often neutralized by harms. For instance, approximately 16.0% of recovery spending may bring positive air pollution impacts, but 16.4% may act to increase net air pollution. Only 3.0% of recovery spending is deemed to have significantly positive characteristics supporting natural capital, and up to 17.1% may have a significant negative impact on natural capital, mainly through expanded road transportation and defense services.

High interest rates and unsustainable debt burdens and constraints have hampered the recovery efforts of many emerging markets and developing economies, leaving the vast majority of green recovery spending to a small group of high-income countries with relatively low borrowing costs. In 2019, for instance, 25 countries spent more on debt service than on spending on education, health, and social protection combined, with South Sudan spending as much as 11 times more on debt service than on these essential social services. [22]

With growing climate instability and environmental degradation, rising inequality, and worsening global poverty[23], it is crucial that governments build back better through a green and inclusive recovery. It will be critical for advanced economies and multilateral agencies to

[19] 'Are We Building Back Better? Evidence from 2020 and Pathways to Inclusive Green Recovery Spending' (2021) Global Recovery Observatory - Oxford University, UNEP, IMF, GIZ. https://www.unep.org/resources/publication/are-we-building-back-better-evidence-2020-and-pathways-inclusive-green. Data available at Data Futures Platform (UNDP) https://data.undp.org/content/global-recovery-observatory/

[20] Most spending, USD11.1tn, was directed to 'rescue' type measures, intended to save lives and protect livelihoods.

[21] These figures exclude European Commission funds that have not yet been announced in member state budgets. When included, the total spending approaches USD17tn.

[22] UNICEF (2021) COVID-19 and the Looming Debt Crisis. https://www.unicef-irc.org/publications/pdf/Social-spending-series_COVID-19-and-the-looming-debt-crisis.pdf

[23] UNDP (2020) COVID-19 and Human Development: Assessing the Crisis, Envisioning the Recovery. http://hdr.undp.org/en/hdp-covid

support emerging market and developing economies in meeting their green recovery aspirations. They will require substantial concessional finance from international partners. Without it, debt constraints will restrict sustainable recovery and economic health, widening the already stark inequality between nations.

Pandemic stimulus packages are an opportunity to accelerate action. And the conversation does not stop at spending policy. Stimulus efforts need to be accompanied by reforms that address key market failures in private financial instruments and pricing externalities[24].

3. Sustainable Finance: A spotlight on debt and liquidity

COVID-19 has dramatically affected all elements of financing for development including a severe exacerbation of already high debt vulnerabilities. In developed countries unprecedented fiscal and monetary stimulus have cushioned the socio-economic impacts of the pandemic. But the capacities of many developing economies to respond continue to be limited and, consequently, the socio-economic impacts devastating.

We are witnessing a two-tiered global response. Among the most vulnerable countries, the general availability of vaccines could be many months, if not years, away. The risk of another lost decade of development and a faillure to achieve the Sustainable Development Goals (SDGs) is high and rising. To help mitigate this risk, and as called for in the *2021 Finance for Sustainable Development Report*, donors must meet their ODA commitments and provide fresh concessional financing, especially but not only for LDCs. The increasing focus of international public financing on poorest countries has deprived vulnerable middle-income countries of critical sources of counter-cyclical finance, exposing them to exogenous shocks of all sorts, whether triggered by climate change or debt crises. In addition, fully funding access to COVID-19 Tools (ACT) Accelerator is urgently needed.[25]

To change the future trajectory countries must invest in people and a risk-informed recovery, and our financial systems must be aligned with the 2030 Agenda. The SDGs, including gender and climate targets, should be the focus of recovery efforts. Tax policies should address rising inequalities and be at the center of climate policies. The crisis highlights the importance of functioning social protection systems, and countries should continue to build on the momentum gained. Development banks and SDG reporting standards and ratings-approaches should be strengthened to ensure that we measure the right things and can design policies accordingly.

Ensuring a fair international tax system, combating illicit financial flows, and revamping the multilateral trade system must also be part of our global efforts. Debt relief initiatives will need to be extended and expanded, including the critically important elaboration of a multilateral

[24] UNEP. (2020). Building a greener recovery. https://www.greengrowthknowledge.org/guidance/building-greener-recovery-lessons-greatrecession

[25] https://developmentfinance.un.org/

framework for sovereign debt resolution. The current crisis is an opportunity for the international community to build consensus around reforms needed to avoid a global climate and biodiversity catastrophe, build resilience, and achieve the SDGs. The United Nations can serve as a unique platform to bring all the stakeholders together.

Debt vulnerabilities were already high in many developing economies when the pandemic hit. It is evident that for many countries, debt problems extend beyond what can be handled by short-term liquidity support or debt moratoria, as offered to 73 countries by the Debt Service Suspension Initiative (DSSI). The Common Framework on Debt Treatment Beyond the DSSI (CF), marks a turning point as it offers a systematic way to restructure unsustainable debt.

However, a challenge for both the DSSI and the CF is that eligibility is limited to 73 of the world's poorest countries but they do not extend to a critical number of other vulnerable economies, including some middle-income economies and small island development states (SIDS). And while the DSSI and CF both encourage private creditors to join on comparable terms, to date this has not occurred. This poses severe limitations as an increasingly significant component of external sovereign debt—amounting to 35 percent of total debt globally--comes in the form of private credit. This means that while low-income countries are largely covered by a debt standstill, middle income countries will continue to service at least a third of their external debt over the course of the pandemic. Many developing countries who are not eligible for debt suspension through the DSSI and CF have also recently taken on increasing levels of debt from private lenders and non-Paris Club Members at high borrowing costs, compounding their challenges for a recovery[26]

UN estimates suggest that little less than one third of the group of highly indebted vulnerable developing economies are not eligible for debt relief under the DSSI or CF, and that these countries account for more than two-thirds of the total estimated external public 'debt service payments at risk' from 2021 to 2025.[27] More specifically, 72 countries(60% of all developing economies evaluated) are highly debt-vulnerable, and 19 severely so. Uncertainties remain high and even in a benign recovery scenario, debt vulnerabilities are likely to stay elevated for years and not expected to return to pre-pandemic levels until 2024/2025.

In addition, none of the debt or liquidity measures adopted since the onset of the pandemic addresses the causes underlying the gradual buildup of debt that underpins the repeated global waves of debt, all of which have so far resulted in global debt crises. Without efforts and initiatives to strengthen the international debt architecture, there is a great risk that developing countries will enter a long period of debt-overhangs, but also that cycles of debt accumulation followed by global crises and lost decades will tragically keep repeating, preventing the world

[26] UNICEF (2021) COVID-19 and the Looming Debt Crisis. https://www.unicef-irc.org/publications/pdf/Social-spending-series_COVID-19-and-the-looming-debt-crisis.pdf

[27] https://www.undp.org/content/undp/en/home/librarypage/transitions-series/sovereign-debt-vulnerabilities-in-developing-economies.html

from achieving sustainable development in the long term, let alone the SDGs in the next decade.

Box 2: UN priorities on debt and liquidity

To avoid a development crisis, the world must avoid a debt crisis. The UN Secretary-General has therefore made a call to action on debt and liquidity[28], including by convening the Financing for Development in the Era of COVID-19 and Beyond Initiative (FfDI). As part of this Initiative, a Meeting with Heads of State and Government on the International Debt Architecture and Liquidity was held on 29 March, which was preceded by a policy brief that outlined concrete recommendations to survive this crisis and build back better.
With regard to liquidity, the UN commended the IMF Board on the possible new allocation of SDRs, amounting to US$650 billion and called for a reallocation of SDRs from countries with sufficient international reserves to countries facing persistent external deficits or emergency situations, including vulnerable middle-income countries, small island developing states, and conflict-affected countries. IMF member countries are also urged to consider (i) replenishing the Poverty Reduction Growth Trust (PRGT) of the IMF and (ii) establishing a new trust fund hosted by the IMF to support middle-income countries in their response and recovery efforts.

Furthermore, the G20 is strongly encouraged to: extend the DSSI at least until the end of June 2022; and include middle-income countries, in particular SIDS, conflict-affected and other vulnerable countries that have been seriously affected by the crisis; and ensure that debt relief is additional to existing concessional aid. Multilateral creditors should consider offering DSSI terms to these countries on a case-by-case basis. Bilateral G20 creditors, including hybrid lenders, should consider mechanisms to include private sector participation in the DSSI and in future debt standstills.

On debt relief the UN calls for: stakeholders to build on the Common Framework to offer legal and technical advice on options for debt and debt service relief to help countries in need depending on countries' specific circumstances and challenges; the extension of debt relief eligibility under the Common Framework to include other vulnerable countries on a case-by-case basis; and a consideration of other mechanisms that would allow countries to access the CF without creating a stigma or compromising the credit rating of the beneficiaries, including funds and other instruments within existing institutions.

Finally, the UN also calls on stakeholders to strengthen the international debt architecture, notably by (i) agreeing on a core set of principles including sustainability, transparency, and fair burden sharing among creditors and between creditors and debtors, and (ii) building on the CF to work out a more permanent and universal framework for dealing with sovereign debt resolution to address the recurring problem of "too little too late".

[28] https://unsdg.un.org/resources/liquidity-and-debt-solutions-invest-sdgs-time-act-now

4. Conclusion: A Call to Action

A year into the global COVID-19 response, the United Nations is focused on the bridge between response and recovery. To avoid continued divergence across economic, social and environmental dimensions, the UN puts forth an urgent call to action:

This is no time for austerity: The world's largest economies have mobilized a historic US$18 trillion in fiscal support (including both fiscal stimulus spending and loans and guarantees). This support has kept economies, jobs and households afloat during the pandemic. But many developing countries cannot invest in recovery and resilience, because of financing constraints. The least developed countries have spent 580 times less in per capita terms on their COVID-19 response than advanced economies. This division is starkly reflected in global access to vaccines. The work is not done until vaccines are in arms around the world and until the divergent paths of recovery correct course.

Liquidity and debt relief should be extended to all developing countries that request it: The current crisis will require the global community to provide sufficient liquidity and debt relief, so that all countries can secure a bridge to recovery and achieve the commitments made in the 2030 Agenda for Sustainable Development and the Paris Climate Agreement. Liquidity is vital to support vulnerable countries. This will mean taking the decision to issue new SDRs; extending the Debt Service Suspension Initiative to at least June 2022; and expanding it to include all vulnerable middle-income countries that request it.

The Common Framework for Debt Treatments should not exert a negative impact on the credit rating of those it is intended to help. We need joint efforts to address this. Additional, targeted debt relief and liquidity to vulnerable countries, including middle-income ones, is urgently needed and will require new funds, facilities, instruments and mechanisms. As part of strengthening the international debt architecture and addressing the underlying causes of debt buildup, the UN calls on all stakeholders to participate in a global forum for sovereign debt resolution to build consensus for new norms and standards on debt transparency and management.

A sustainable recovery requires us to get serious about a century-long commitment to sustainability: The shift to a new pathway moves far beyond climate mitigation, to a whole-of-government and whole-of-society engagement on the economic, social and environmental building blocks of the future. While each country will find the right speed and appropriate policy mix for its own circumstances, the time has come to put a price on carbon; to stop building new coal plants; to end fossil fuel subsidies; to shift the fiscal burden from taxpayers to polluters; to put gender equality at the center of our efforts; and to align public and private financial flows with the Paris Agreement commitments and the Sustainable Development Goals. Everyone must do much more. We cannot afford to miss another opportunity.