Civil Society Background briefing: The IMF response to Covid-19[1]
April 2020

1. Introduction

The world is confronted with a human crisis of inestimable proportions, which will impose its heaviest tolls on the marginalised and those at the intersections of multiple vulnerabilities. The crisis we face as a global community must be understood not just as a public health crisis triggering economic and financial crises, but also as a crisis of care; a humanitarian crisis, and first and foremost a human crisis.

With projections that half a billion people could be forced into poverty, we understand the unfolding economic and financial crises to all be rooted in patterns of hyper-globalisation that have amplified structural disparities and ossified a global division of labour focused on the extraction of wealth and resources from the Global South, further exposing the fault lines of inequality. Once again, women will be exposed to multiple burdens, being under/un-paid and overrepresented in care, social, domestic, frontline health and food systems roles, as well as in the informal economy and small enterprises.

The pandemic reveals the consequences of decades of fiscal consolidation, corporate concentration and financialisation, resulting in the structural under-investment of public health, care and social protection systems now proving so crucial, all of which has been exacerbated by past and ongoing IMF policies and programmes.

The crises we collectively face will require transparent, accountable and participatory processes at all levels – for both the short and long term – which includes the participation of parliamentarians, civil society organisations, women's rights groups, social movements, farmers, indigenous peoples, amongst many others. We call on the International Monetary Fund as the most powerful global institution able to confront the financial and economic impacts of this crisis, to show leadership in these unprecedented times and support bold measures that require political and social commitment. We want to remind governments they remain bound by their obligations under international human rights law, whether acting under bilateral agreements or as members of international financial institutions, and will be held accountable for the consequences of the crucial policy actions taken at this time.

We believe that implementing our recommendations is necessary to ensure that the IMF response is entirely consistent with international human rights law, Agenda 2030, the Beijing Declaration and for Platform for Action, and the Paris Climate Agreement, and to ensure that the IMF does not further contribute to the dynamics that have, yet again, brought us to another point of crisis.

[1] This background briefing prepared ahead of 2020 Spring Meetings represents a collective effort of over 35 civil society organisations and academics.

2. Fiscal Interventions

In relation to fiscal interventions, we can **never again** see IMF policies and conditionality undermine health and social protection systems that have made this crisis far more difficult to contain and respond to.

While we welcome the IMF's immediate response calling on governments to increase health spending and take note of the IMF's calls to provide cash flow relief to those most affected, we urge the board to consider the contradictions between that advice and the conditions that many countries under IMF loan programmes are still subject to. As of 31 March, the IMF has loan programmes with 36 countries in place, only six of which had been adjusted by the board to respond to the Covid-19 epidemic by 9 April. Given the IMF's recognition that speed in deploying finance is essential to contain the spread of the disease, we call on the IMF to **immediately issue a board-wide statement** to all members under IMF programmes stating that observance of performance criteria will not be required when they interfere with crisis response, in particular in relation to fiscal consolidation, deficit and wage bills targets, as well as deregulatory structural reforms, including decentralisation of collective bargaining and private involvement in the provision of social services.

Provided in the form of loans, the estimated $93.8bn emergency financing needs for 45 low-income economies in 2020 would increase public debt as a share of GDP in these countries by an average 14.2 percentage points. This points to the critical importance of ensuring emergency IMF financing does not further compound debt vulnerabilities and is provided as **grant-financing**. Expanding eligibility for concessional lending and ensuring that decisions on emergency financing are free from geopolitical considerations are also essential. We thus call on the IMF to develop proposals on potential mechanisms to provide large-scale emergency grant financing through the IMF and ensure this is a fundamental part of discussions on increasing IMF resources.

While we welcome calls by the IMF for a coordinated fiscal stimulus and appreciate that the RCF and RFI are not attached to conventional conditionality, we are concerned that the benefits of stimulus packages could once again go to those least in need, as we witnessed during the 2008 global financial crisis, further exacerbating entrenched inequalities. While responses must account for the specific impact the crisis has had and the composition and fabric of the economy in question, we call on the IMF to enhance its fiscal policy advice at this crucial time to recognise the intersecting vulnerabilities of the most marginalised that are bearing the brunt of the crisis.

In the immediate term, fiscal interventions should thus squarely prioritise frontline health and care providers, formal as well as informal paid and unpaid workers, the poor, families, women, the elderly, children, people with disabilities, indigenous peoples, ethnic minorities and other vulnerable groups, including through scaled up public investments in the real and care economies, universal public health and social protection systems that include paid sick leave and adequate pensions, food and housing security, decent work and minimum wage hikes, as well as consumption tax relief on foodstuffs, hygiene products and essential medicines and supplies. For advanced economies, this must include financial support for developing countries to respond to the pandemic that is additional to existing commitments on Official Development Assistance.

Crucially however, over the medium and especially long-term, based on language in the first RCF and RFI programmes relating to Covid-19, we are highly concerned this crisis will not bring about the systemic change needed in IMF fiscal advice and conditions we have been long been calling for, yet continues to go unheard. As we witnessed neither the 2008 global financial crisis, nor the Ebola epidemic bring about the structural reforms required to prevent such devastating human catastrophes, **we implore the board to let this be the crisis that delivers the systemic change that is so urgently needed at the IMF.**

Short and long-term responses must not be disconnected or at odds with one another. Rather, the short- term fiscal interventions described above must form the foundation of a different economic model that, **permanently**, puts people and planet first. IMF programmes developed in the wake of Covid-19 should be provided free of economic policy conditions. Countercyclical, expansionary policies that sustainably protect and fulfil fundamental human rights to health, especially preventative care, education, food security, decent work and social protection without retrogression and without discrimination that recognise, reduce and redistribute unpaid care work should be considered crucial investments that are essential for long-term economic stability. Such policies must go hand-in-hand with much more progressive tax systems that tackle tax evasion and avoidance, starting with those directly benefitting from the current crisis, such as high-frequency traders, investment funds and large digital corporations. Financial transactions taxes and taxes on high wealth individuals should also be considered as part of the response. The use of *ex-ante* and *ex-post* participatory human rights impact assessments, with data disaggregated by gender and social groups, is essential to ensuring economic reforms and IMF policy advice do no harm and, moreover, have positive impacts equally across society in ways relevant to the local context, as would transparent, participatory and gender-responsive budgeting processes at all levels.

3. Debt relief

Prior to the outbreak of the pandemic, rising debt levels and costs across low- and middle-income countries had already seen steep rises in the proportion of government revenues being absorbed and diverted to service external debt. In the midst of the Covid-19 crisis, it is essential that all available and fresh, additional resources are prioritised to tackle public health and social protection needs. Without attention to outstanding debt payment obligations for countries in 2020, and potentially into 2021, the cost of dealing with the crisis will only increase. Eurodad estimates point to 45 low-income economies requiring emergency financing of $93.8bn in 2020 alone, to face the pandemic. Without a suspension of external debt payments, almost one-fourth of this financing could be used to repay creditors rather than support Covid-19 public policy responses. With full cancellation of all external public and private debt service in 2020, Eurodad estimates the number of low-income countries requiring support would fall to 29, and amount to $73.2bn.

The call from the Bretton Woods Institutions for a moratorium on 2020 official, bilateral debt payments for IDA countries is welcome. However, to maximise the effectiveness of a Covid-19 debt moratorium, it should apply also to multilateral and private creditors, and involve permanent cancellation of all 2020 payments. Using the benchmark of German debt relief administered after World War II, UNCTAD has called for around $1 trillion in debt cancellation this year. This would safeguard freed up resources are used for crisis response rather than to facilitate debt service, and avoid countries facing large repayment obligations following the end of the standstill and when fiscal pressures will remain acute.

The IMF should therefore offer an immediate cancellation of all principal, interest and charges for the remainder of 2020 for all member countries in need, and most urgently for all PRGT and IDA countries, and call for corresponding action by the World Bank and other multilateral creditor institutions. As the crisis evolves, consideration should be given to the need to extend cancellation also to payments due in 2021.

In the immediate term, efforts should be made to further boost the resources available for IMF debt relief under the Catastrophe Containment Relief Trust (CCRT), as well as the RCF, including through the use of existing IMF reserves, and for further widening of eligibility criteria. Despite the positive reforms agreed in March, CCRT debt relief is still unavailable to some larger 'blend' countries, such as Pakistan.

The IMF should also take steps to require a reprofiling of external public debt held by private creditors, as a prerequisite to providing emergency finance. Should private creditors fail to endorse a timely reprofiling, countries should be able to suspend payments to uncooperative creditors. Automatic reprofiling of this sort would draw on provisions in the IMF's revised exceptional access framework, linked to situations in which assessing debt sustainability with confidence is difficult. The current volatile and uncertain economic outlook means ascertaining the probability of debt sustainability in the context of negotiating IMF support is seriously undermined. Moreover, there is a real risk of widescale defaults on commercial credit in coming months, and lengthy, expensive negotiations with creditors should not undermine institutional efforts nor capacity to deal with the public health emergency. The IMF should therefore also clearly signal the need for a standstill on creditor litigation for countries suspending external debt payments in 2020, and push for emergency legislation in key jurisdictions such as the UK and US (New York).

Critically however, the IMF should also ensure that emergency responses are linked to longer term efforts to address debt vulnerabilities moving forward. The Covid-19 pandemic implies a high degree of uncertainty in determining debt sustainability and therefore the scale of debt relief needed in the medium and long term: Debt sustainability analyses (DSAs) should therefore be undertaken only once the crisis recedes. Moreover, the scale of the social and human cost of the Covid-19 pandemic demonstrates the need for an approach to these assessments that finally moves beyond their narrow focus on repayment capacity to one that considers debt sustainability in the context of a state's capacity to fulfil their fundamental human rights obligations, public service needs (in particular health), gender equality, climate change, and other development considerations at its core. Efforts should be made to further reform the Low-Income Country and Market-Access Country DSF to ensure adequate consideration of Agenda 2030 financing needs and climate risks.

Finally, progress towards fundamental reform of the international debt resolution architecture must also be made, including systematic debt relief options for climate-vulnerable states. Executive Directors should thus ensure the note to the G20 on sovereign debt resolution currently being prepared by the IMF includes specific proposals on how to progress towards establishment of a multilateral sovereign debt resolution framework.

4. Capital accounts & financial stability

We urge the members of the board to endorse the proposal set out by IMF Managing Director Georgieva to proceed with a new allocation of Special Drawing Rights, commensurate with the level of need among developing countries. This should be accompanied by the creation of a mechanism (i.e. a Trust Fund) that allows the temporary transfer of unused SDRs from developed economies to countries in need or by temporary policies that allow lending quota limits to be exceeded by countries most in need.

As the IMF has noted, the Covid-19 pandemic is triggering rapid capital flows and currency depreciation in Emerging Market Economies (EMEs), thereby enhancing financial market volatility and a sharp increase in credit spreads. EMEs are thereby exposed to substantial swings in capital inflows and are facing significant rollover risks and higher cost of refinancing foreign currency debt. These dynamics are already further complicating debt restructuring in the cases of Argentina and Lebanon for instance. Hence, there is an urgent need to regulate volatile capital flows, including both inflows and outflows.

We wish to remind the members of the board that the IMF has no explicit mandate to promote capital account liberalisation and the claim that the IMF Institutional View on the liberalisation and management of capital flows was driven by macroprudential considerations is highly untenable, particularly under these circumstances. **We therefore urge the IMF to further advance its review of the institutional view in response to the crisis and recognise the importance of capital account management to prevent capital flight, limit speculative trading and arrest declines in currency and asset prices.** We also urge the IMF to support central banks of developing countries to avoid subsidiaries of global banks in their country withdrawing reserves and capital, as took place in 2008-2009. Over the longer term, we advise the board to discuss a potential global agreement to apply smart capital controls, with flexibility for each member state, especially targeting capital flight and speculative trading and with the particular aim to protect developing countries.

We also welcome the Managing Director's proposal for an IMF-swap type facility and call on the members of the board to use the IMF's hard-currency resources to establish an IMF-swap line facility to complement existing swap lines among major economies and provide emergency financial support to emerging and developing countries.

5. Financial regulation

In terms of financial regulation, we are concerned that those who have benefitted the most from the inadequate regulatory frameworks that are, in part, at the heart of the underlying instability now triggered by the Covid-19 pandemic will, once again, contribute least to the recovery.

In the immediate term, we thus ask the IMF calls for a global ban on short selling among all financial markets, as a number of European jurisdictions have already done. To ensure financing is available to those most in need, we further call on the board to consider and discuss with IMF staff promoting 'only essential trading' and bans on high frequency trading, day trading, speculative hedge fuds, algorithm trading, speculative financial products, and betting on volatility, as well as a ban on capital flows to tax havens, all of which enhances instability and redirects crucial funds to the profits of the very few.

Financial market and bank regulations that are being relaxed in response to Covid-19 should still have clear, strict conditions to be held accountable to, even during an emergency. For instance, relaxed regulations should only apply to those banks that will not distribute dividends based on their profits of last year and in 2020, nor pay back shares, and do not award bonuses, requiring a retaining of profits to strengthen buffers. This could be accompanied by a ban on trading their shares if investors flee out of their holdings of bank shares and bonds.