C20 Finance Working Group's Communiqué on the Second G20 Finance Ministers and Central Bank Governors meeting

The G20 Finance Ministers and Central Bank Governors (FMCBG) meeting, which was held on 7 April 2021, took place at a crucial moment with the world continuing to struggle with the worst crisis since the great depression while urgently expecting measures that could contain the pandemic and its socio-economic impacts.

The G20 FMCBG communiqué unveils a shared forecast for a slow and uneven recovery, while no consensus appears to exist on when, and how, words will turn into concrete actions. The G20 is mainly reaffirming the continuation of current policies without more transformative decisions. Against this reality, we urgently call on the G20 to provide a much stronger and braver demonstration of multilateralism and international solidarity. We therefore expect that G20 countries meet their human rights obligations and their commitments to sustainable development and international cooperation, and advance concrete proposals for the deeper and structural reforms of the global financial systems, recognizing the need for inclusive decision-making under the aegis of the United Nations.

The G20 finally agrees on supporting an SDRs allocation, though its scope remains far from the actual need of developing countries.

A new SDRs allocation has been asked by civil society worldwide since the explosion of the Covid-19 pandemic, as a measure to provide cost-free additional liquidity to countries struggling with multiple crises. The G20's call on the IMF to make a comprehensive proposal for a new Special Drawing Rights (SDR) general allocation of USD 650 billion has been expected for months, and it will be the oxygen that allows countries to breathe while deeper and sustainable measures are timely addressed.

However, SDRs are distributed in proportion to IMF's member quotas, meaning that 67% of the issuance will go to high income countries, while LICs and MICs continue to face limited access to concessional finance and liquidity sources.

For this reason, CSOs have been calling for a much larger allocation, in the order of US$3 trillion, to provide the urgently needed liquidity to boost reserves, provide much-needed foreign exchange resources to countries whose capacity to earn them continues to be severely constrained in the short to medium term, and free up funds urgently needed for the pandemic response, including gender-responsive public health systems, universal social protection and comprehensive vaccine, testing and therapeutic rollouts and for preparedness to future pandemics.

It is also critical to find adequate modalities for advanced economies to direct their current and newly-received SDR holdings to support low- and middle-income countries that need them the most. Such modalities should be debt and conditionality free for receiving countries. Regrettably, the G20 FMCBG communiqué does not convey any strong commitment by G20 countries to embark on such a path. Such redistribution modalities would constitute a first step towards a much-needed deeper reform of the

global financial system, including the pending reform of IMF quota, and of the global debt architecture.

The G20 is still failing to tackle global unsustainable debt

The G20 proposed solution to the problem of unsustainable debt for developing countries continues to be short term and fails to address the structural reforms that are needed for a definitive and sustainable resolution of the debt crisis. The agreed extension of the DSSI by 6 months through December 2021 implies potential savings for US$ 7.3 billion[1] (for the 45 participating countries that have requested the DSSI either in 2020 or 2021); while this means to free up 37.7% of all payments due during this period, these payments are just being postponed, increasing the debt service burden for these countries in the near future. In addition, the lack of participation of all creditors implies that up to US$ 11.8 bn will be diverted during those 6 months to private (US$ 6bn) and multilateral (US$ 5.7bn) creditors.

We are seriously concerned that after one year of crisis, the call on private sector involvement in the DSSI is only reiterated, with no single measure being announced to solve the problem. The engagement of the Institute of International Finance failed to deliver debt relief, or even transparency, by private creditors. If no binding approach is put in place, with the active participation of debtor countries, the official debt relief efforts will continue to pay off the private creditors and erode government budgets. Arguments for continued market access and blended finance will increase the debt burden. The financial stability risks from excessive indebtedness and emerging market investment funds need more attention.

The countries' scope of the DSSI is still insufficient, covering a mere 5.2% of debt payments from developing countries in 2021. Only 73 countries are eligible for the Common Framework beyond the DSSI, excluding middle income countries with debt vulnerabilities. The DSSI and CF eligible countries make up about two-thirds of the group of vulnerable countries but only about one-third of the total of risky debt service payments, leaving one-third of vulnerable countries, holding two-thirds of this debt service.[2]

Addressing debt problems amidst the current crisis is not only a matter of liquidity, but of debt unsustainability. The debt solvency problem is not being timely addressed, and as the IMF has recognised, time is of utmost importance when it comes to debt restructuring and reprofiling. Moreover, debt vulnerabilities can even increase when the solutions offered are mostly based on increasing the IMF lending capacity and improving developing countries access to the financial markets. Fire to put down the fire.

The G20 continues to avoid the bold decisions that would be needed for a fair, timely and durable resolution of the debt crisis. There is still no debt cancellation for countries struggling with high debt levels. What's needed, rather than temporary and partial measures, is a multilateral, fair and transparent framework for debt resolution under the aegis of the United Nations, which can adequately recognize the systemic nature of the

[1] World Bank and IMF paper on Debt Relief, April 2021

[2] Sovereign Debt Vulnerabilities in Developing Economies, UNDP, April 2021

debt crisis, the co-responsibilities of lenders and borrowers, and provide a legally binding framework for private sector participation.

Private finance remains as the panacea of finance for development

While the current pandemic exposes the urgent need to strengthen public systems and increase public spending, the G20 reaffirms its strong call to scale up efforts to mobilize private financing, without addressing how to avoid and even revert the negative impacts that the diverse initiatives of private sector financing have at economic, social and environmental levels. This call is not only a message for the World Bank, but it also promotes a path to be followed by all Multilateral Development Banks, which has significant implications for development finance across the world.

The G20 sticks to keeping the roadmap on infrastructure as an asset class, as lobbied for by the B20 and IIF and supported by the OECD, despite the fiscal risks that this financing mechanism can create. The G20 also calls for a dialogue between public and private investors, even when it takes place under an unequal and unregulated power relationship among both sectors. However, the G20 is less assertive to move forward previous commitments on quality infrastructure investment, much more needs to be done in this area to ensure that infrastructure projects deliver for the public interest in a transparent and accountable way.

The crisis has once more reflected the need of public investment for social infrastructure, including caregiving infrastructure, crucial towards a fair recovery. Public investment will continue to dominate infrastructure spending in many areas, especially in sectors where public interventions are critical for social equity, therefore recovery policies need to also address how to scale up publicly financed infrastructure.

The G20 demonstrates stronger concern for financial regulation moves, but needs to advance beyond soft commitments

The G20 took note of the Financial Stability Board's evaluation report on the effectiveness of too-big-to-fail reforms for systemically important banks and commits to work on the gaps in reforms identified in the evaluation. It is worth noting among those gaps **are the** risks that, according to the evaluation, moved outside the banking system. The G20 also committed to work to strengthen the resilience of the non-banking financial intermediation sector with a systemic perspective. While these are welcome developments, the communiqué lacks any explicit reference to the urgent need to regulate – rather than merely strengthen the resilience of – the asset management industry, curb speculative and excessively volatile capital flows and urgently redirect and reconnect financial markets with the real economy and productive investments, including urgent investments for a just transition away from the climate crisis.

We welcome the permanent establishment of the Sustainable Finance Working Group. We urge the Working Group to ensure that capital is moving swiftly out of activities and companies that lead to climate change, inequality and breach of social rights. Discussing standardisation of reporting and definitions/taxonomies should not be an excuse for countries not to move forward on sustainable finance policies and legislation.

Whether the G20 continues to show some concern about "global stablecoins," saying they shouldn't commence operations until relevant legal, regulatory and oversight

requirements are addressed, the expectations are that assessments and policies are put in place towards closing loopholes that allow money-laundering through virtual assets.

Despite the urgency of new tax regimes, same old story from the G20

We regret that the communiqué continues to repeat the same narrative, while the need for a new global tax regime is more urgent than ever. Tax havens, especially major financial centres, continue to offer secrecy provisions and are not being compelled to improve towards automatic exchange of information, beneficial ownership registration and country-by-country reporting. The international financial and tax systems, including conduit countries, have failed to solve the increasing inequality between countries and within countries, with a special impact on gender inequalities. Such systems foster corruption and further undermine democracy. Digitalisation has exacerbated the fundamental flaws of the international tax regime, further facilitating tax avoidance by multinationals. The proposals resulting from the BEPS Reports have patched up existing rules, based on the arm's-length principle, but have not ensured that multinationals will be taxed ‘where economic activities occur and value is created’, and they should be taxed as a single entity, based on a unitary enterprise principle. We are therefore deeply concerned that the urgent need for a truly universal intergovernmental space under the auspices of the UN, where all countries can agree on how to rethink and reform tax systems, continues to find no space in the G20 deliberations and meets the complete opposition by many G20 members.

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