High-Level Meeting with Heads of State and Government on the International Debt Architecture and Liquidity

Financing for Development in the Era of COVID-19 and Beyond

29 May 2021

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ICC Secretary General John W.H. Denton AO

- Thank you, your Excellency Mr Secretary-General and the Honorable Prime Ministers of Canada and Jamaica, for the opportunity to address this session.

- Your Excellencies, distinguished colleagues, ladies and gentlemen:

- In our first High Level Meeting – in May of last year – we urged governments not to forget the financing needs of small businesses who have been deeply affected by the economic impacts of COVID-19.

- Recent research has shown two important points bearing on the plight of small and medium-sized enterprises (SMEs):

- The first is that **COVID-19 has had a dramatic impact on the failure rates of SMEs**. In countries which cannot afford to provide government support for SMEs – including least-developed countries – failure rates have been stark indeed.

- The second point is that **support policies enacted during the pandemic will not lead to a 'ticking time-bomb' of SME failure rates as economies recover.** A line of thinking goes – if in ordinary times 20% of SMEs fail in year one, with that figure increasing to 50% by year five, are government policies supporting businesses that would otherwise fail?

- Resent research by pre-eminent economists answer that question,[1] and the answer is an emphatic "No". There is strong and growing evidence that the outsized fiscal packages that advanced economies were able to deploy in 2020 have helped keep businesses and markets afloat into 2021, without the risk of a 'time-bomb' of over-indebted SMEs.

- [1] Gourinchas, Pierre-Olivier et al, 'COVID-19 and SMEs: A 2021 "Time Bomb"?' (NBER Working Paper 28418, January 2021).

- Instead, the **biggest risk to SME failure at this juncture instead come from a lack of sustained fiscal support until such time that economic activity returns to pre-pandemic levels.**

- This in turn creates a risk of a **sudden retrenchment of bank finance** which could further accelerate business failures.

- It is abundantly clear that what we need is **a new global solidarity package** that can enable developing economies to implement targeted stimulus and support programmes to keep their economies afloat, support SMEs and mitigate the risks of long-term economic scarring.

- While we are glad to see positive signals recently from the G20 and G7 on a major issuance of IMF Special Drawing Rights (SDRs), **the time for debate on this is surely over.**

- Liquidity conditions in emerging economies are tight *now*; SMEs are hurting *now*. Let's not have a proposal before the IMF Executive Board for a US$ 650 billion general allocation of SDRs <u>by June</u>, let's have SDRs allocated and exchanged as needed <u>by May</u>.

- **Further, G20 economies are on notice that global business expects to see a strong political commitment to a re-allocation of new SDR reserves to low and lower-middle income countries.**

- More than two-thirds of a general allocation of SDRs will flow to G20 economies, but it is vulnerable countries – DSSI-eligible countries and small island developing states – that most need additional support. We call on the G20 to commit to a reallocation of at least a quarter of any general SDR allocation.

- Friends, entrepreneurs don't want government support if they can help it: they want to generate a profit by adding value to their communities. But for too many businesses, health policies presage the shuttering of doors, the layoff of workers, the crushing of dreams and the creeping advance of despair…

- We desperately need to scale production and ensure the equitable distribution of vaccines.

- But in the meantime, it is vital that governments continue to support SMEs and enable the liquidity boost necessary to achieve this end. Thank you.