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Revised

November 18, 2020

**Joint Statement by Mr. Buissé, Mr. Fanizza, Mr. Hilbers, Ms. Riach, Mr. von Kleist, Mr. Spadafora, Ms. Albert, Mr. Chrimes, Mr. Cools, Ms. Korinthios, and Mr. Krahnke on
Nicaragua
(Preliminary)
Executive Board Meeting
November 20, 2020**

We thank staff for their informative paper and their outreach, and Mr. Bevilaqua, Mr. Saraiva and Mr. Coronel for their buff statement. **Nicaragua is facing acute economic and human challenges.** As staff outline, the country was hit by the COVID-19 crisis on the back of two years of substantial GDP contraction. The virus has had a significant health and economic impact this year. Staff assess that this has opened up an “urgent balance of payments financing need”. On top of this, hurricanes this season – particularly Eta and now Iota – have added further humanitarian pressures. Given these pressures and the strong safeguards and governance measures which staff and the authorities have agreed, we support this RCF/RFI request at a combined 50 percent of quota, with half of that being delivered through UNOPS and the World Food Programme, which will help the most vulnerable.

We welcome the innovative efforts staff have made to devise an approach that increases the prospects of support providing effective relief to those in Nicaragua who need it most. In this specific case, channeling half of the resources through UNOPS and the World Food Programme is a helpful way of targeting some of the support and ensuring that it is well used. We understand staff’s rationale that a degree of purer budget support is also necessary. This carries greater risks, which cannot be eliminated completely through formal safeguarding measures. However, the set of prior actions and commitments made by the authorities and detailed by staff appear to be meaningful positive steps which can help ensure these resources are used for their intended purpose. A timely, robust and public independent audit of all COVID-related spending is crucial. More broadly, commitments such as the one made on publishing the names of beneficial owners of *all* public procurement contracts – if properly fulfilled – can also help embed a more transparent approach to governance and public procurement beyond the immediate crisis priorities. *Moves to publish financial*

statements of the largest SOEs – and to gradually expand this to all SOEs – sound welcome, though we would welcome staff’s clarification on the auditing arrangements for this. Going forward, sustained and comprehensive reforms to address identified governance weaknesses more broadly seem crucial to allow for a sustained and inclusive recovery. Full implementation of the FATF action plan requirements as soon as possible will be important to address weaknesses in the AML/CFT framework, as the country came back to the grey list in February 2020.

Wherever possible throughout the COVID-19 crisis, our general approach has been to look to support IMF members whose populations are in real need. In our view, that principle of evenhandedness should extend to Nicaragua and its people. That does not mean common standards in every case: it means equitable treatment, with greater attention to those instances where the risks are greatest. Our support for staff’s proposal is not an endorsement of some of the broader policies and actions adopted by some elements of the Nicaraguan government: indeed, many of our authorities have deep and public concerns. But on balance, we judge that the potential benefits of this emergency financing proposal outweigh the potential costs.

We anticipate that there to be careful external scrutiny of how the funds linked to this emergency financing arrangement are used – but also of the authorities’ actions more generally. Therefore, being able to demonstrate that IMF assistance has been deployed effectively and has contributed to positive change – adhering fully to the spirit and the specifics of the commitments set out in the paper and the authorities’ letter of intent – will matter for the Nicaraguan authorities and for the reputation of the IMF.

This emergency financing will provide critical help in a context of recession and risks associated with increasing in poverty. Staff expects that 2021 will be the fourth consecutive year of negative growth, which is concerning, and downside risks are high, including the uncertainty surrounding the evolution of the pandemic and risks of social tensions. Regarding public finances, staff considers that fiscal consolidation should reach at least 3 percent of GDP over 2021-2023, and we welcome the authorities’ request for FAD technical assistance. *Could staff provide more details on the types of measures needed (which should be as growth-friendly as possible)?* Moreover, we note that the authorities have not yet requested debt service suspension under the Paris Club – G20 DSSI – we encourage them to do so. *Could staff clarify the reference in the report that the DSSI could constrain “other important sources of non-concessional financing”?* Finally, *have the authorities expressed an interest in a UCT arrangement?*