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**Statement By**
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**to the Ministerial Meeting of the Group of 24**
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# Financing for Development in the Era of COVID-19 and Beyond

## Priorities of Latin America and the Caribbean

In 2020, the Latin American and Caribbean region faced the worst crisis on historical record and the sharpest economic contraction (-7.7% and -20%, respectively, in GDP and investment growth for 2020) within the developing world. The COVID-19 pandemic has magnified structural gaps and institutional obstacles that hold back sustained, equitable and inclusive growth for Latin America and the Caribbean. The crisis has severely impacted productive structures – resulting in the closure of more than 2.7 million firms – and the labour market, as the number of jobless persons has escalated to 44.1 million as well as informality that has reached more than 54% of workers, consisting mainly of women.

Significant firm closures and employment losses, together with the fact that the more vulnerable segments of the population have borne the brunt of the crisis, have pushed up poverty levels from 185.5 to 209 million people (from 30.3% to 33.7% of the total population). Meanwhile, extreme poverty will increase by 8 million, to 78 million people. Also, the sharp contraction of investment will constrain future capital accumulation and the capacity of the region's economies to generate growth and employment. The region will confront a lost decade. As by the end of 2020, the level of per capita GDP equaled that of 2010.

The severe impact of the pandemic and the policies implemented in response have sharply increased the liquidity needs of most of the countries of the region to confront the emergency phase. At the same time, these factors have led to rising debt levels and, in some cases unsustainable debt service payments, which may jeopardize the recovery and countries' capacity to build forward better.

Latin America and the Caribbean is the most indebted region of the developing world, reaching, on a regional basis roughly 80% of GDP. Latin America and the Caribbean's predicament reflects the long-standing situation of middle-income countries whose position in the international cooperation system in terms of level of social and economic development is gauged on the basis of per capita GDP. Middle-income countries are often characterized by high levels of inequality and share many of the vulnerabilities of low-income countries. Several middle-income countries do not have access to capital markets and at the same time are unable to create the broad-based capabilities at the firm and social level to undergo a process of structural change towards innovation and more knowledge-intensive production, and to drive convergence with more advanced economies.

Two main priorities will be addressed in the coming weeks: the urgency of redistributing existing liquidity from developed to developing countries and debt vulnerability. Redistribution liquidity initiatives include the issuance and reallocation of Special Drawing Rights (SDR), the Liquidity Sustainable Facility (LSF) and the Fund for the Alleviation of Covid Economics (FACE).

The recent call to action by the Secretary of the Treasury of the United States, Janet Yellen, to the Group of Twenty (G20) for a new issue of IMF Special Drawing Rights (SDRs), which the G20 recently approved, and the re-allocation of excess SDRs to low-income countries is a much welcome and needed initiative. A truly multilateral and global response to the pandemic must extend the benefits of this initiative to all developing countries, irrespective of their level of income, including to middle-income countries, which represent 75% of the world's population, and roughly 30% of global aggregate demand. More importantly, they account for 96% of developing country public debt (excluding China and India). Their success in confronting COVID-19 is central for global recovery and financial stability.

A hypothetical new issue of 650 billion SDR (requiring the approval of 85% of the voting power of IMF board of governors) would generate the equivalent of US$ 72 billion dollars in additional reserves for Latin American and Caribbean countries. This would benefit some of the most indebted economies in the region. Since any new issue of SDRs would be allocated mainly to developed countries (roughly 60% of the total) a mechanism must be put in place for the voluntary reallocation of excess SDRs from developed to developing countries. A mechanism to pool SDRs within the existing multilateral facilities and their reallocation to strengthen the financial capacity of Regional Financial Arrangements and other regional financial institutions should receive serious consideration as a means to increase liquidity and put SDRs at the service of economic and social development.

The issuance of SDRs and other initiatives to expand liquidity (such as FACE) must also be complemented by action towards reforming the international debt architecture. This would include the creation of a multilateral debt restructuring mechanism and the establishment of a multilateral credit rating agency. The Debt Service Suspension Initiative (DSSI) of the G20 must also be extended and expanded. Extended beyond 2021 and until vaccination is completed in developing countries. It should also be widened in scope, to include all relevant stakeholders (i.e., the private sector and multilateral institutions) and vulnerable middle-income countries.

Strategies to confront the debt issue must avoid a one-size-fits-all approach. Like other developing regions, Latin America and the Caribbean is heterogeneous in terms of its economic and social structures. Different realities (in terms of size, productive base and vulnerabilities) will require careful choice and calibration of policies and instruments tailored to the specificities and needs of a particular subregion or country. Due to their structural vulnerabilities and their recurrent exposure to natural hazards, Caribbean SIDS should benefit from debt relief initiatives and/or haircuts and entitled to introduce innovative instruments such as hurricane clauses in debt restructuring programs.

Finally, increased access to liquidity and debt reduction must be intertwined with medium- and long-run development objectives and thus with initiatives to build forward better. In this sense, the current crisis should also be seized not only as an opportunity to rethink the financing for development agenda of middle-income countries, but also as an occasion to reach wide social and political consensus to implement ambitious reforms in order to engage in a sustainable and egalitarian building back process. Building forward better means placing equality and environmental sustainability at the centre of the recovery phase.

Confronting and overcoming the effects of the pandemic in its different dimensions does not depend on its financial requirements, which are modest by any standard, especially in comparison with the scale of the stimulus packages introduced in developed economies, which benefit from comparatively lower borrowing costs and larger fiscal space. It resides in part in the recognition that the only way to respond to the urgency and the medium- and long-term challenges of a systemic crisis, such as COVID-19, is through collective action and solidarity. Collective action requires external multilateral cooperation, including the expansion and redistribution of liquidity, and a reform of the multilateral debt architecture, allowing countries to address their financial obligations and pursue expansionary fiscal policies without hindering their future development.