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

A plan to spur growth with financial stability and greater equality

COVID-19 will result in the sharpest contraction in Latin America and the Caribbean (LAC) in the past century (9.1%) and risks setting back the economic and social development of the region for at least a decade.

Unemployment is poised to increase by 5.4% percentage points compared with 2019, resulting in total unemployment of 44.1 million people in 2020. Poverty in Latin America may rise by 6.9 percentage points (44.5 million more people) compared to the prior year, bringing the total number of people living in poverty to 230 million (37.2% of the region's population). Extreme poverty is likely to increase by 4.5 percentage points (28.4 million additional people), affecting a total of 96.0 million.

Although there is considerable heterogeneity in the fiscal situation and debt vulnerability across the region, government responses to the emergency, coupled with a drastic fall in tax revenues have exacerbated debt burdens, especially in the smaller economies, including in Caribbean SIDS. This places a major constraint on government responses to confront the urgency of COVID-19 and, in the medium-term, it undermines their capacity to build back better. Moreover, multilateral responses for the needs of Middle-Income Countries have been insufficient.

Latin America and the Caribbean's predicament reflects the general problematic of middle-income countries. Given their systemic importance (MICs represent 30% of world aggregate demand and account for 96% of developing country debt excluding China and India) the risks faced by middle-income countries could exert a significant drag on world growth and compromise global financial stability.

The global community needs a plan to counter the contraction of the world economy and place financial stability with equality as key global public goods.

Our plan centers on three interdependent areas of action: increased liquidity, debt relief and a focus on resilience building.

The world will not return to the pre-Pandemic levels of growth and GDP per capita, unless there is a major redistribution in liquidity from developed to developing countries that alleviates the pressure of adjustment in developing countries and enhances their policy space. The most expedient, efficient and least costly manner to increase liquidity is a massive issuance of SDRs and in the short-term, a voluntary reallocation of idle SDRs. Developing countries would receive close to 40% (Latin America and the Caribbean 7.9%) of a new SDR issue of US500 billion dollars which would boost their international reserves and liquidity without creating additional debt.

SDRs can be complemented with other initiatives such as the Fund to Alleviate COVID-19 Economics (FACE) proposed by the Government of Costa Rica. The fund of a modest size of 3% of the GDP of low and middle-income countries, would provide concessional funding with long repayment periods and near-zero interest rates to low and middle-income countries that cannot immediately expand internal resources.

Increased lending to developing economies should be facilitated by the capitalization of multilateral, regional and national development banks and by making their lending rules more flexible, as well as by improving coordination between them.

Second, all countries, independently of their level of income must be entitled to debt relief encompassing debt moratorium without penalties and, when necessary, debt condonation. The DSSI must be transformed into a truly global initiative.

It should be expanded in scope to include all vulnerable middle-income countries, contemplate a time extension beyond 2020, and it must involve all relevant stakeholders, such as the private sector and multilateral institutions.

This necessitates a change in the way credit rating agencies assess sovereign risk, including the revision of their assessment methodologies and, more boldly the creation of a public credit rating agency. Financial stability is a global public good and should not be left exclusively in the hands of the private sector.

Debt relief cannot be granted only under emergency conditions. Debt relief should become a permanent policy alternative and tied to the fluctuations of the business cycle as well as the structural vulnerability of economies. Contingent debt instruments, hurricane bonds, diaspora bonds and Sustainable Development Goal (SDG) bonds fulfil these requirements.

Finally, recovery efforts must be placed on resilience-building through initiatives, such as the Caribbean regional resilience fund (CRF). The CRF links debt relief and debt sustainability using its funds to finance green industrial policy initiatives, infrastructure, and resilience-building in general, which in Caribbean SIDS, as in other parts of the LAC region, should be a crucial component for recovery efforts and an opportunity for diversification and job creation. The CRF would be financed through debt reduction representing 12.2% of total public debt of the Caribbean SIDS, amounting to only US$ 7 billion dollars.

The current crisis should be seized as an opportunity to reach wide social and political consensus to implement ambitious reforms in order to engage in a sustainable and egalitarian building back process. Building back better means putting equality and environmental sustainability at the center of the recovery phase.

This includes high quality universal public services—including education, health, transport and environmental services— and widening access to them, thereby increasing the population's sense of belonging and reducing the gaps in wellbeing, which have driven social and political unrest in many countries, already prior to the Pandemic.

The successful implementation of this plan 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 lower borrowing costs and larger fiscal space. It resides in the recognition that the only way to respond to the urgency and medium-term challenges of a systemic crisis, such as COVID-19, is through collective action and solidarity.