Financing for Development and International Cooperation for Sustainable and Inclusive Recovery from the Impacts of COVID-19

UNITED NATIONS

ECLAC

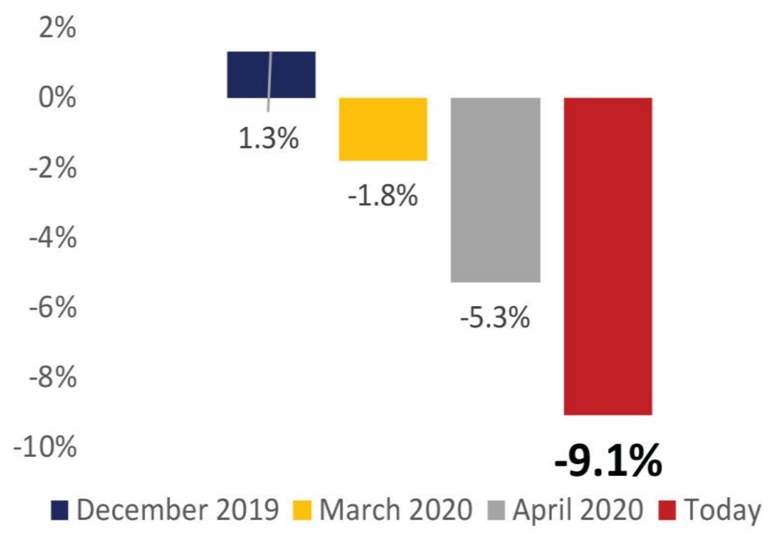
Nine key messages

1. The global economic downturn is exacerbated by unprecedented synchronization.
2. Financial risks present systemic challenges for developed and developing economies
3. The crisis is intensifying in the region: the worst contraction in the last 100 years: -9,1%
4. Lost decade: per capita GDP in 2020 will return to 2010 levels and poverty will return to 2005 levels.
5. National efforts require greater international cooperation with access to financing on favourable terms
6. Coordination at the global, regional and national levels needs to be expanded, taking into account MICs
7. Building back better must link the emergency phase to the long-run
8. Fiscal policy must play a central role in mitigating the pandemic's effects and supporting reactivation
9. Promoting equality is fundamental for controlling the pandemic and ensuring a sustainable economic and green recovery

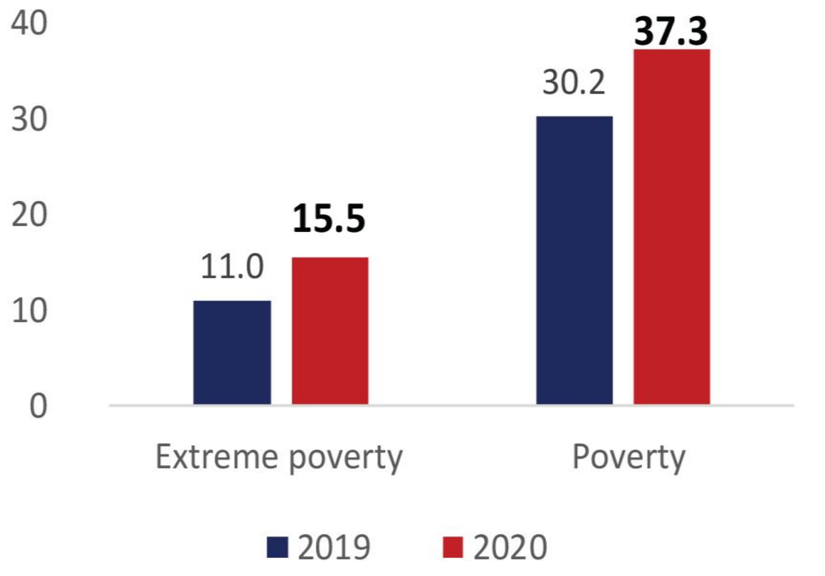
Worst crisis in a century: 9.1% decline in GDP, 37.3% of people in poverty (231 m), 98 m living in extreme poverty and unemployment at 13.5%

- **Demand- and supply-side crisis: the worst in history**
- **Regional exports set to fall by 23%**
- **Unemployment will rise to 13.5%, with 44 million unemployed: increased risk of segmentation, precarious conditions and polarization in labour markets**
- **Closure of 2.7 million formal businesses**

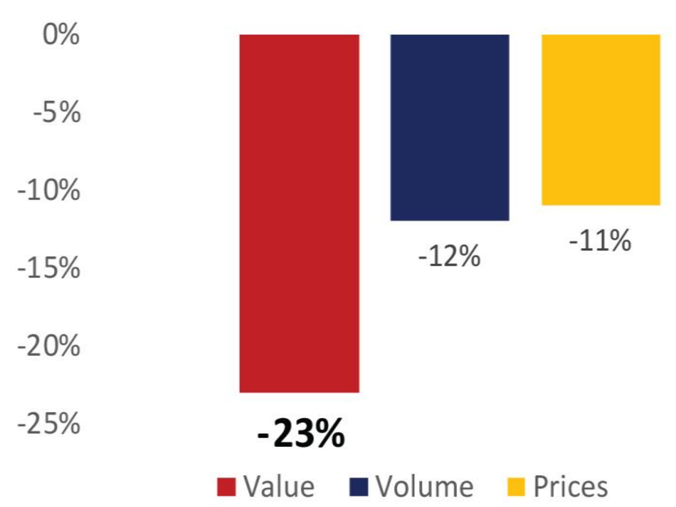
Latin America and the Caribbean: projected growth



Latin America: poverty and extreme poverty



Latin America and the Caribbean: exports

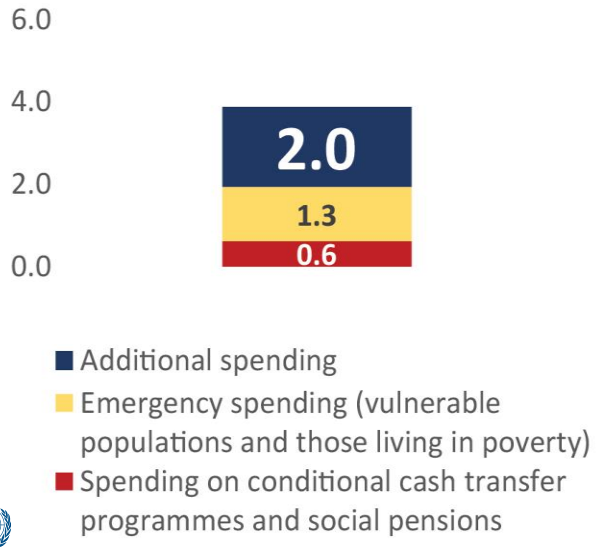


ECLAC five short-term proposals

1. **Emergency basic income for six months for the population living in poverty, accompanied by an anti-hunger grant for the entire population living in extreme poverty.**
2. **Extension of repayment terms and grace periods for lending to MSMEs, especially those that produce food, and co-financing of payrolls.**
3. **Expansionary fiscal and monetary policies, to support a longer period of spending (which will be structural) with non-conventional instruments.**
4. **Access to external financing under favourable conditions for middle-income countries.**
5. **Political and fiscal pacts towards universal, progressive, redistributive social protection.**

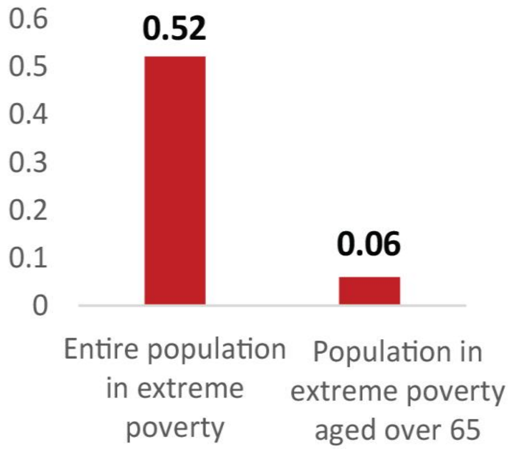
Emergency basic income for six months

(Percentages of GDP)

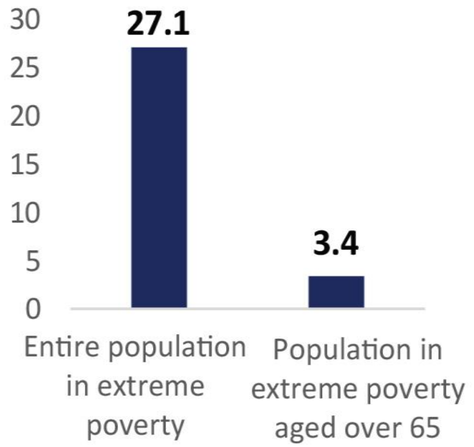


Anti-hunger grant

Percentages of GDP

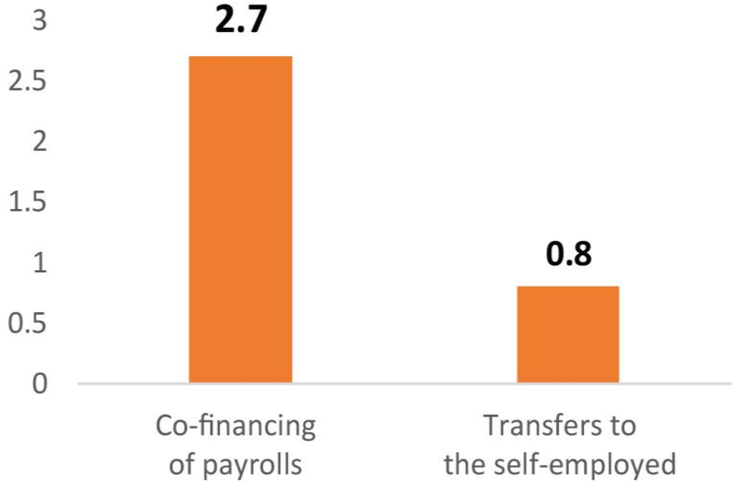


Billions of dollars



Measures for enterprises

(Percentages of GDP)



Global multilateral institutions have responded to increase liquidity to developing countries in a case-by-case basis

IMF has responded with rapid, but limited, measures to increase liquidity to developing countries

- **Quota** of annual access limits doubled from 50% to 100%
- **Total financial assistance of** US$ 87.6 billion to 80 countries worldwide; US$ 50.9 billion to 20 LAC countries.
  - **Rapid Financing Instrument:** US$ 4.7 billion to 10 LAC countries
  - **Rapid Credit Facility:** US$ 193 million to 5 LAC countries
  - **Catastrophe Containment and Relief Trust (CCRT)** to provide rapid debt service relief (US$ 5.61 million for 1 LAC country)
  - **Flexible Credit Lines**: US$ 45.7 billion to 3 LAC countries

IMF Resource Availability and Developing Country Financing Needs
(*trillions of dollars*)

Regional initiatives have followed suit

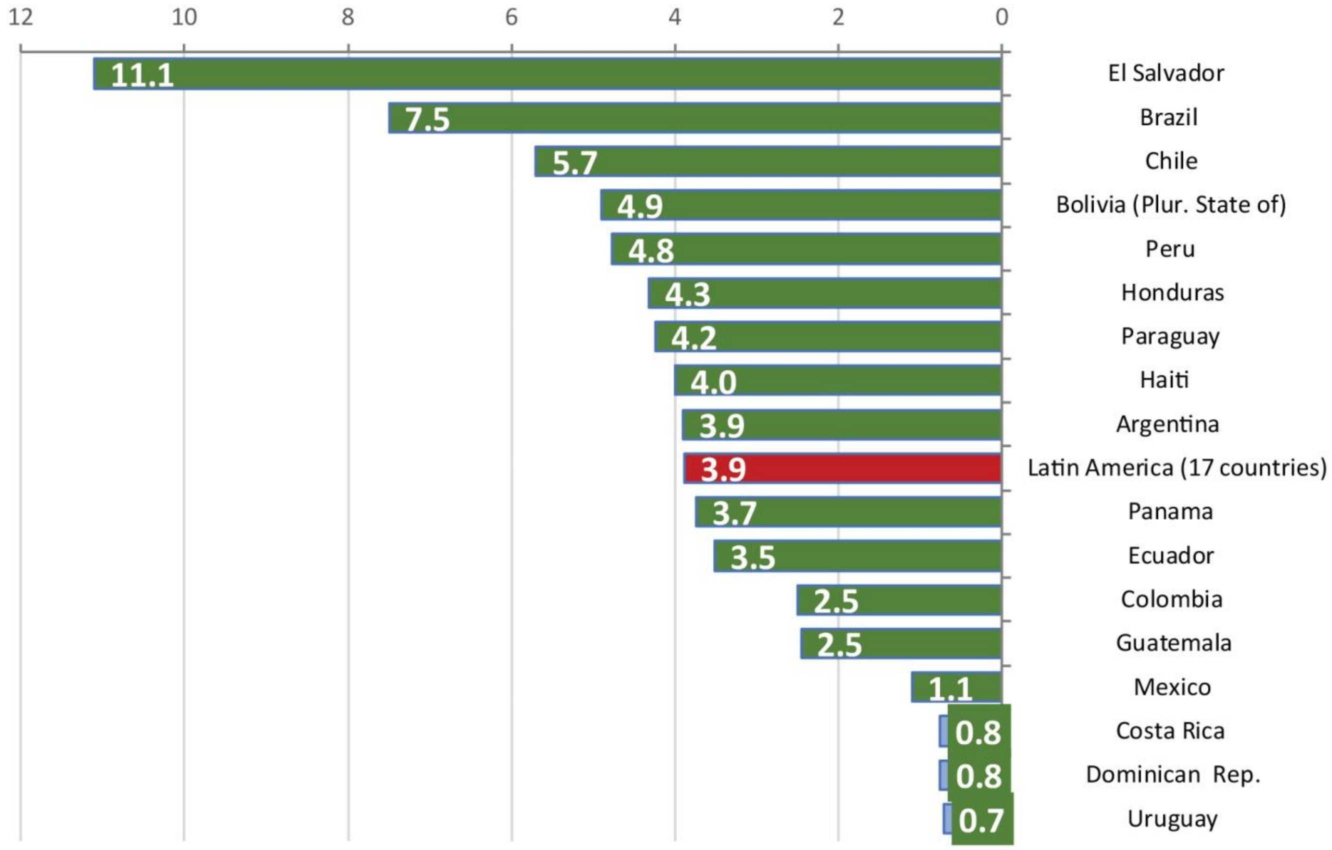
- **CAF** - $2.5 billion rapidly disbursing Emergency Credit Line of for the COVID-19 response, business operation continuity and economic recovery.
- **IDB** - $1.5 billion for pandemic preparedness and response in Mercosur and $1.7 billion to Central America and the Dominican Republic.
- **BCIE** - $1.96 billion emergency program of for member countries for a central bank liquidity contingency line ($1 billion) and a commercial bank liquidity plan ($350 million).
- **CDB** - $140 million in aid to the Caribbean nations, increasing the limit of its policy-based loans and intending to support economic growth and poverty reduction.

National initiatives: fiscal measures announced in a context of lower tax revenues and higher short-term spending requirements

LATIN AMERICA (17 COUNTRIES): FISCAL EFFORT OF MEASURES TO ADDRESS THE CORONAVIRUS (COVID-19) PANDEMIC

(Percentages of GDP)

Measures to mitigate the impact of the emergency-7 July 2020



- **Tax relief**
- **Public expenditure**
- **Government backed liquidity support**

✓ **Strengthen health services**

✓ **Support household incomes**

✓ **Protect productive capacities**

Source: ECLAC. on the basis of official figures. The fiscal effort is calculated on the basis of expenditure measures (reallocations and exceptional expenditure). tax relief and liquidity. State credit guarantees are not included. Updated on 6 July 2020.

Financing for Development in the Era of COVID-19 and Beyond will require collective action

Initiative convened by Prime Ministers of Canada and Jamaica and the UN Secretary-General António Guterres

Key milestones:

- May 28. 2020 **High-level event on Financing for Development** in the Era of COVID-19 and Beyond
- September 8. 2020 **Meeting of Ministers of Finance**
- September 29. 2020 UN General Assembly- **Meeting of Heads of State**
- December 2020. Follow-up to benchmark and place progress in the context of 2030 Agenda Delivery

6 working groups co-led by Member States

- I. External Finance. Remittances. Jobs and Inclusive Growth
- II. Recovering better for Sustainability
- III. Global Liquidity and Financial Stability
- IV. Debt Vulnerability
- V. Private Sector Creditors Engagement
- VI. Illicit Financial Flows

Member States, UN, stakeholders thought leaders will produce policy options

Prime Minister of Canada ⟷ Secretary-General of the United Nations ⟷ Prime Minister of Jamaica

Minister of Finance/ Foreign Affairs of Canada ⟷ Deputy Secretary-General of the United Nations ⟷ Minister of Finance/ Foreign Affairs & Foreign Trade of Jamaica

Permanent Representative of Canada to the United Nations ⟷ UN Special Envoy on Financing the 2030 Agenda for Sustainable Development ⟷ Permanent Representative of Jamaica to the United Nations

Thought leaders

Coordination Hub

IFAD	ILO	IOM	UNDRR	UNEP
RECs	SG-CAT	UNCTAD	UNDP	UN-DESA
UNESCO	UNIDO	UNODC	UN Women	

Logistics and Coordination Team

Discussion Group 1	Discussion Group 2	Discussion Group 3	Discussion Group 4	Discussion Group 5	Discussion Group 6
Co-Leads: Egypt, Japan, Spain Bangladesh	Co-Leads: EU, Fiji, Rwanda, United Kingdom	Co-Lead: Costa Rica The Maldives	Co-Leads: AU, Netherlands, Pakistan	Co-Lead: Senegal Antigua and Barbuda	Co-Leads: Barbados, Nigeria
Member States GCF, IFAD, ICC, ILO, IOM, RECs, ECLAC UNCTAD, UNDP, UNESCO UNIDO, UN Women, WBG	Member States GCF, ICC, ICMA, IDFC, Oxfam, RECs, SG-CAT, UNDP, UNDRR, UNODC, WBG, WRI	Member States G24, ICC, IMF, Peterson Institute, RECs, UNCTAD	Member States Brookings, CGD, DESA, ICC, IMF, RECs, UNCTAD	Member States DESA, EMTA, IIF, UNCTAD	Member States DESA, ECLAC, FACTI Panel, OECD, Oxfam, UNCTAD, UNDP, UNODC

Institutional Partners

- Civil Society
- Private Sector
- Academia
- Other expert bodies

COVID-19 effects on Middle Income Countries will have systemic impacts on the global economy

Developing countries (Excluding India and China) External debt, public and publicly guaranteed
(Millions of US Dollars and as percentage of total)

	Millons of USD	As % of total
Low and middle income (excluding China and India)	2,509,982	100.0%
Low income	118,111	4.7%
Lower middle income (excluding India)	850,770	33.9%
Upper middle income (excluding China)	1,541,102	61.4%
Middle income (excluding China and India)	2,391,872	95.3%

Source: World Bank, International Debt Statistics and World Development Indicators 2019, Data on gross fixed capital formation 2018.

- Middle-Income Countries account for:
  - **75%** of the world's population
  - **62%** of the world's people living in poverty
  - **36.6 % of the global GDP**
  - **30% of global exports** in goods and services
  - **45.7% of investment**
- MIC's concentrate the bulk of external public debt of developing economies
- ***The potential insolvency issues of MICs pose a systemic risk to the global economy and require a coordinated global response***

ECLAC's proposals and endorsements for immediate policy options seek to address the needs of MICs and the regional financial architecture

ECLAC's endorsements	ECLAC's original proposals
New SDR issuance	Reallocation of SDRs to strengthen Regional Financial Arrangements
Expansion of DSSI to include MICs	Debt for climate adaptation swaps (Caribbean)
CRA standstill on sovereign debt ratings	Natural disaster clauses supported by IFIs in sovereign debt restructurings
	Reestablish correspondent banking relationships in the Caribbean, to facilitate growth and development and drive down cost of remittances
	Granting a basic emergency income

ECLAC's proposals and endorsements for medium-term policy options promote progressive structural change with equality and sustainability and consider asymmetries between countries

ECLAC's endorsements	ECLAC's original proposals
Capitalization of multilateral, regional and national development banks	DB's mandated loans to green investment and climate change related projects
Capital account management coordination	Change criteria for allocation (to include MICs) and composition of ODA
Expand the role of UN Tax Committee	Financial inclusion for SMEs through financial innovation of national development banks
Ensure that multinational firms pay a fixed tax rate where value added is created	Creation of regional resilience funds to assist smaller economies (SIDS)
International mechanism for orderly sovereign debt restructuring	A new public (independent) CRA
	Compulsory licensing for green investment and sanitary resilience

All measures to deal with COVID-19 must link the short (emergency) phase to the long-run

- **The** medium-long run **cannot be seen a separated from short-run**
  - How we think about the short-run will determine to a large extent what the medium and long run will look like.
  - Both must be articulated in order to reshape the development model towards productive transformation with sustainability and equality
- **Reshaping the development model** should be spearheaded by State policies
  - Government must increase its policy space and policy autonomy to increase public investment towards sectors that foster social inclusion, productive transformation and a just transition towards environmental sustainability.