Finetuning the development system approach to address the needs of middle-income countries

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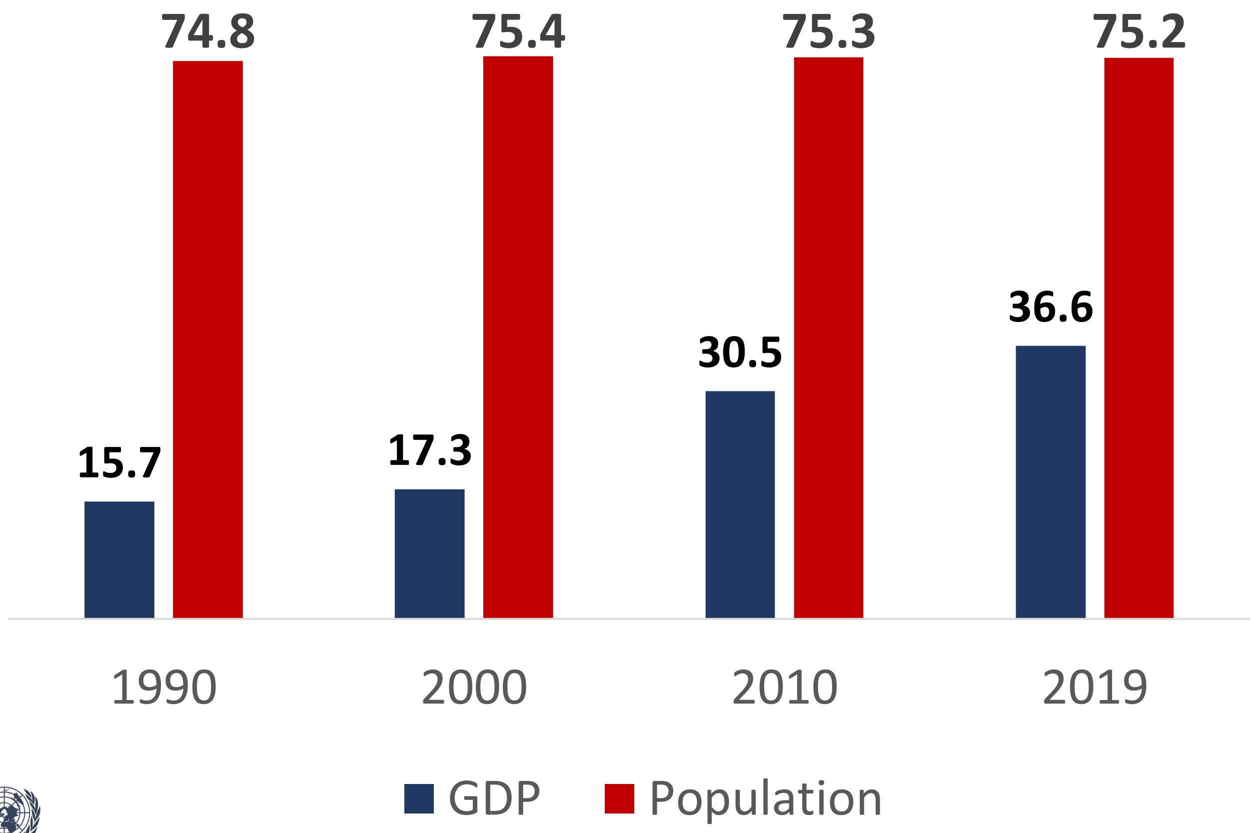
KEY MESSAGES

1. **Per capita GDP** should not be the single criteria to define development levels and needs and should not be used to exclude MICs from concessional finance and trade preferences. SIDS are particularly vulnerable.
2. **COVID does not distinguish between income levels**, and neither should cooperation to overcome this crisis be guided by GDP criteria.
3. **Global asymmetries** are conditioning access to vaccines and therefore the effects of the pandemic and the recovery.
4. **Cooperation and financing initiatives must include MICs**, which comprise a great diversity of countries with very dissimilar capacities and needs. Key areas of more inclusive cooperation should reduce structural gaps and asymmetries:
    - Equitable access to vaccines, both LDCs and MICs.
    - Multilateral financing and debt relief measures should be commensurate with the needs of all developing countries, including MICs.
    - Enabling green industrialization through access to technology, investment and infrastructure.
5. A transformative recovery requires a **global covenant** fully inclusive of MICs.

MIDDLE-INCOME COUNTRIES: KEY ACTORS OF GLOBAL DEVELOPMENT

MIDDLE-INCOME COUNTRIES:
SHARE IN THE GLOBAL ECONOMY, 1990–2019
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

- More than75% of the world's population
- Around one third of global GDP
- 62% of people living in poverty
- 45% of investment
- 30% of exports
- Key actors in the implementation of the 2030 Agenda and SDGs
- 96% of developing country public debt (excluding China and India). Debt distress and potential default in middle-income countries can have repercussions in financial markets.

A DIVERSE ARRAY OF ECONOMIES, WITH DIFFERENT PROBLEMS AND DEVELOPMENT NEEDS REFLECTING STRUCTURAL GAPS

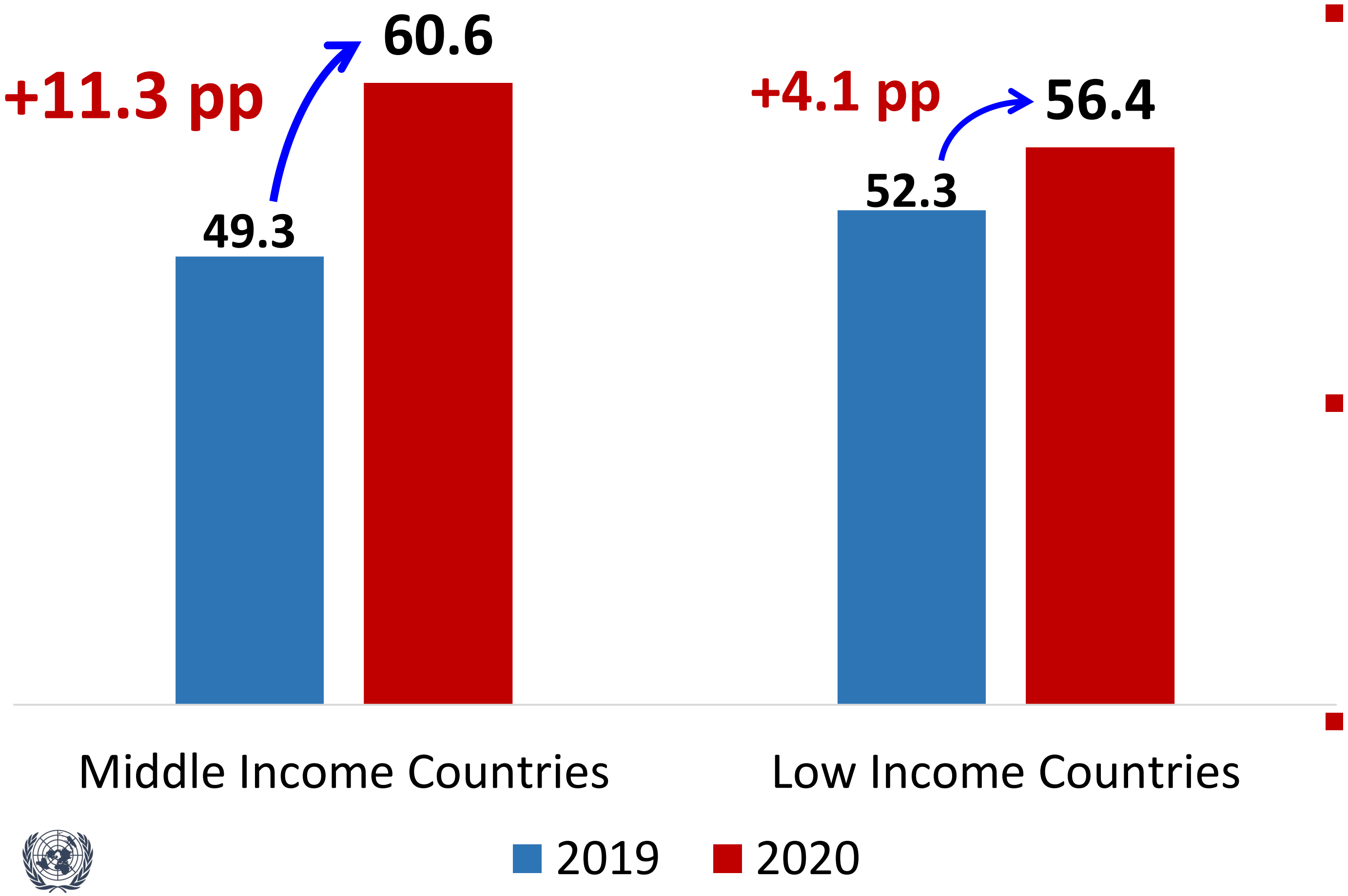
ECONOMIC AND SOCIAL INDICATORS FOR MIDDLE-INCOME COUNTRIES, 2018 OR MORE RECENT YEAR

	AVERAGE	MINIMUM	MAXIMUM
GDP PER CAPITA *(In PPP dollars)*	10 187	**2 035**	**28 201**
POVERTY RATE *(3.2 dollars per day, % of population)*	10.5	**0.0**	**69.8**
YOUTH UNEMPLOYMENT *(% of labour force 15-24 years old)*	18.82	**1.28**	**52.85**
COVERAGE OF SOCIAL SECURITY PROGRAMS *(% of population)*	22.6	**0.7**	**59.5**
GINI INDEX *(1-100)*	39.4	**24.0**	**63.4**
TAX INCOMES *(% of GDP)*	16.6	**5.9**	**30.1**
GROSS FORMATION OF FIXED CAPITAL *(% of GDP)*	22.7	**11.5**	**47.7**

THE ECONOMIC AND SOCIAL IMPACT OF COVID-19 HAS SIGNIFICANTLY WIDENED MICS' FINANCING GAP

DEBT OF THE GENERAL GOVERNMENT FOR LOW INCOME COUNTRIES, MIDDLE INCOME COUNTRIES, 2019-2020

(As percentage of GDP)



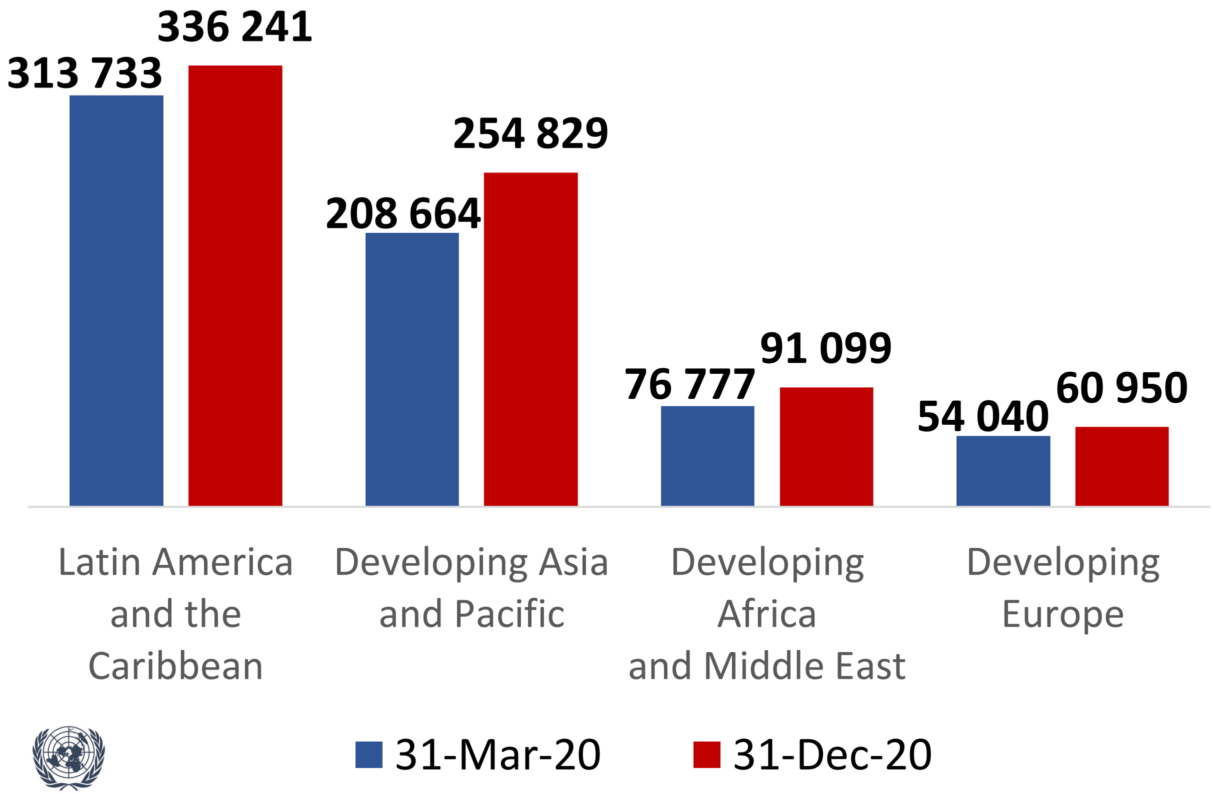
- The capacity to mobilize external resources is not linked to GDP per capita
- Between 2019 and 2020 the debt of the general government increased by 4.1 and 11.3 percentage points of GDP for low-income countries and for middle income countries, respectively.
- Latin America and the Caribbean is the most indebted region in the developing world with the highest debt service (59% of its exports of goods and services)
- LAC also has the largest share of MICs whose debt to GDP ratio is above 100% (41% of the total).

Source: On the basis of World Bank (2021) and IMF (2021)

THE INCREASE IN DEBT HAS ALSO AFFECTED THE PRODUCTIVE SECTOR

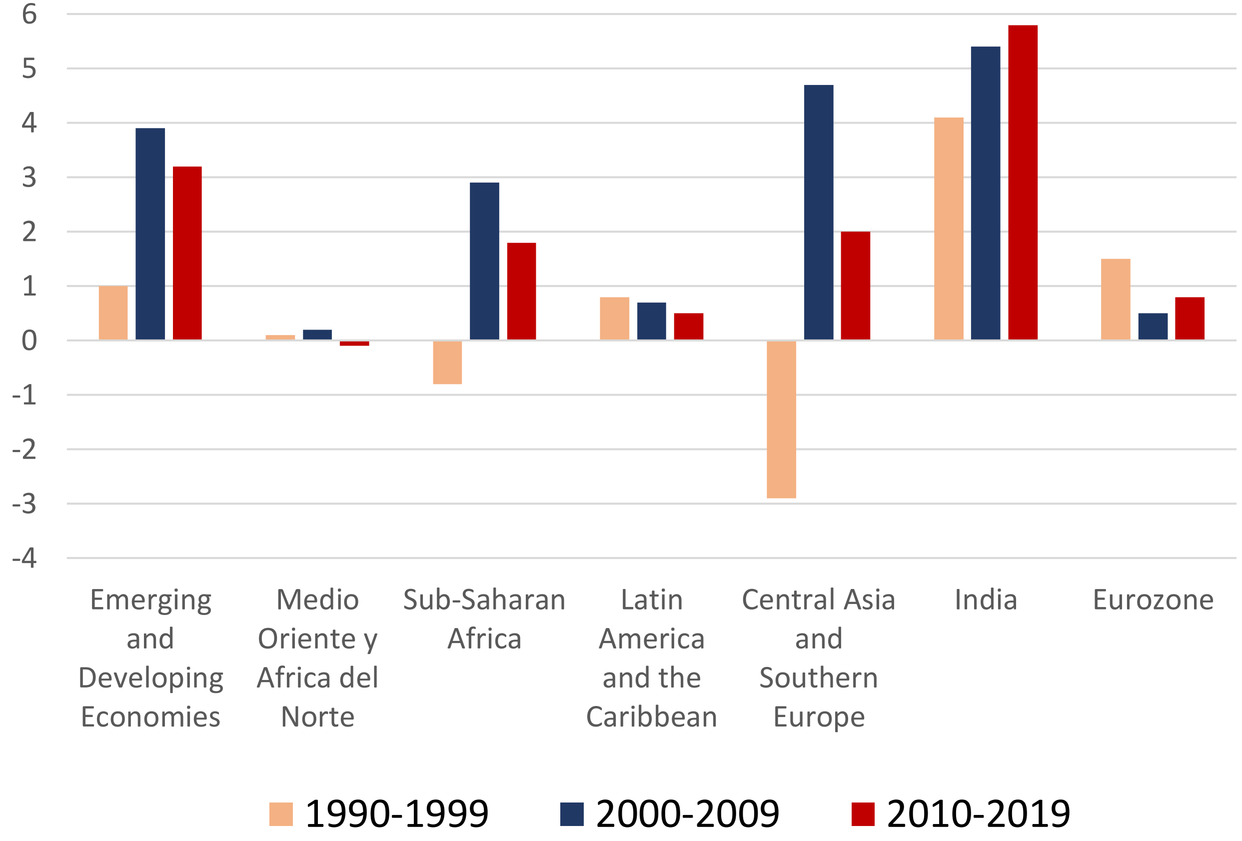
- The debt stock of the non-financial corporate sector has increased throughout the developing world.
- Latin America and the Caribbean registered the highest debt stock levels in the developing world.
- In Asia-Pacific MICs, labor productivity growth also declined by more than 30% to 3.9% a year by 2013.

OUTSTANDING DEBT STOCK OF THE NON-FINANCIAL CORPORATE SECTOR FOR REGIONS OF THE DEVELOPING WORLD, 2019-2020
(Us$ billions of dollars)



Source: BIS (2021)

LABOR PRODUCTIVITY GROWTH RATE FOR THE WORLD AND SELECTED REGIONS / COUNTRIES, 1990-2019



Source: Based on Conference Board (2019)

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THE CAPACITY TO MOBILIZE EXTERNAL RESOURCES IS NOT LINKED TO PER CAPITA GDP

- Volatiliy of growth
- Official development assistance (ODA) is still important for many countries: 34% of financial flows received by the Caribbean in 2019.
- FDI is linked to trade specialization patterns and competitive advantages, and concentrated in the largest economies.
- MICs are slowdown of productivity
- Despite the importance of the international bond market as a source of financing for governments and the non-financial corporate sector, not all countries have access to this market and under the same conditions. Access to debt in the non-financial corporate sector is concentrated in major economies and comes at a higher cost for small economies.

ILLICIT FINANCIAL FLOWS ARE AT THE ROOT OF MANY PROBLEMS LINKED TO THE MOBILIZATION OF DOMESTIC RESOURCES

- ECLAC estimated that Latin America and the Caribbean loses US$ 85 billion per year in outflows from the region because of illicit financial flows owing to trade misinvoicing.
- UNECA estimates that illicit financial outflows siphon at least US$ 50 billion out of Africa annually.
- Arab states would have lost around US$ 43 billion in 2015 as a result of trade misinvoicing, according ESCWA's estimates.

GRADUATION IMPLIES MORE THAN LOSING OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

DIRECT EFFECTS

FINANCIAL	NON-FINANCIAL
1. Contraction in the flows of concessional lending and grants 2. Reduced funding for scholarships and academic training flows 3. Contraction and displacement of sectoral flows 4. Changes in the terms and conditions of non-concessional development financing	1. Increase in contributions to the multilateral system 2. Difficulty mobilizing resources for triangular and South-South cooperation 3. Reduction of funds for science, technology, academic and professional training, and scholarships 4. Less support for Green Energies 5. End of trade preferences in some schemes

INDIRECT EFFECTS

FINANCIAL	NON-FINANCIAL
1. Possible reduction of concessional and non-concessional resources for development challenges 2. Difficulty leveraging other resources	1. Possible closure of formal channels of dialogue with donor countries 2. Low participation of graduated countries in forums for dialogue

INTERNATIONAL COOPERATION INITIATIVES TO REDUCE DEBT AND REDISTRIBUTE LIQUIDITY FROM DEVELOPED COUNTRIES TO DEVELOPING COUNTRIES SHOULD INCLUDE MIDDLE-INCOME COUNTRIES

- Most MICS, including in Latin America and the Caribbean should access the Debt Service Suspension Initiative (DSSI).
- The issuance of new special drawing rights (SDRs) by IMF amounting to US$ 650 billion (a record high level) should be accompanied by a proposal for the reallocation of SDRs to developing economies, including middle-income countries.
- Liquidity should also be redistributed through:
  - Multilateral funds the Fund to Alleviate COVID-19 Economics (FACE)
  - Liquidity and Sustainability Facility for Africa (Reduction of the external debt service cost and a greater access to international capital market)

THE CRISIS HIGHLIGHTS THE NEED FOR A NEW FORM OF COOPERATION ADDRESSING STRUCTURAL GAPS IN MIDDLE-INCOME COUNTRIES

INCLUSIVE	Cooperation mechanisms must include **countries of all development levels** on an equal footing, as peers, develop and participate in multistakeholder and multilateral partnerships (South-South, triangular, regional and multilateral cooperation)
COUNTRY-SPECIFIC	Cooperation instruments must take into account the **development priorities of countries** and strengthen their capacity to devise, implement and evaluate their own development policy plans and objectives, ensure that national, regional and international priorities are aligned, and seek comprehensive solutions to the most complex and interconnected problems
MULTISTAKEHOLDER AND INNOVATIVE	**Expand instruments** for improved international cooperation that includes knowledge-sharing, public policy dialogue, capacity-building and technology transfer, and **involve more stakeholders**, including public sector, in a country-level approach

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ANALYTICAL FRAMEWORK FOR RETHINKING DEVELOPMENT IN MIDDLE-INCOME COUNTRIES AND RENEWING INTERNATIONAL COOPERATION

MIDDLE-INCOME TRAP

Countries that have reached their technological frontier cannot compete globally on the basis of low wages

And have not built capacities to compete on the basis of innovation, technological change and the production of knowledge-intensive goods and services

DEVELOPMENT IN TRANSITION

Concept of development as a "*continuous process*" instead of a linear one.

The "*graduation*" process replaced by "*progression*"

Measurement based on per capita income inadequate for assessing country realities

Move beyond the vision of poverty-focused and growth-centric cooperation towards a broader concept of cooperation

STRUCTURAL DEVELOPMENT GAPS

ECLAC developed an operative approach identifying and analysing 11 structural gaps in economic, social and environmental areas

Alternative to the per capita income criterion for the allocation of official development assistance flows

Gaps vary in size from country to country

Multidimensional frameworks and taxonomy of gaps applicable to all countries, regardless of their income level

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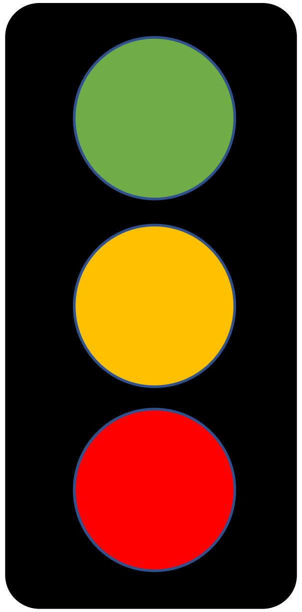
INDICATORS WITH A MULTIDIMENSIONAL FRAMEWORK TO REFLECT MICS REALITIES AND PRIORITIES IN LINE WITH AGENDA 2030

There are 41 indicators for five structural gaps

- Production and productivity
- Vulnerability: food security
- Inequality and social protection
- Environmental sustainability
- Institutions and governance



Targets have been met or would be met by 2030 with current trend

Targets will not be met without political interventions to accelerate them

Targets will not be met unless the current trend is reversed

WE NEED COOPERATION AND STRATEGIC PARTNERSHIPS FOR A TRANSFORMATIVE RECOVERY, AND MUST…

- Put graduation on hold and retain ODA
- Multidimensional approaches and new tools to classify levels of development in line with Agenda 2030
- Ensure access to concessional development financing for middle-income countries, especially for the smallest economies.
- Extend the scope of special and differential treatment provisions availed through the multilateral trading system to MIC's
- Support MICs in their industrialization process and diversification of their economies through concessional access to technologies.
- New multilateral debt mechanism for debt restructuring and relief and an intergovernmental platform for tax issues

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