Statement by
H.E. Waldo Mendoza Bellido
Minister of Economy and Finance
Peru
On behalf of Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay
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The Latin American and Caribbean (LAC) region is one of the most heterogeneous -in terms of income level- of the world, with high poverty rates and unresolved development challenges. Some LAC countries have made remarkable economic and social progress over the last decades. Nevertheless, they still must grapple with high-income inequality, pockets of poverty and vulnerability, and weak governance and institutions, among other development challenges, and they remain vulnerable to external shocks.

The magnitude of the global crisis triggered by COVID-19 is unprecedented in modern times, and it has hit the LAC region the hardest among all regions. With just 8% of the global population, the region accounts for 25% of global COVID19-related deaths. GDP plunged by 7.4% in 2020, the largest fall on record. Public debt increased from 58% of GDP in 2019 to 72% in 2020, and it is projected to rise to 76% by 2023, the highest among all regions. LAC has also experienced a 37% decline in foreign direct investment in 2020, the largest contraction among developing regions. An estimated 24 million jobs have been lost and almost 3 million companies are likely to close because of the severe blow the pandemic has dealt to the regional economy. Given the magnitude of the shock, extreme poverty is projected to increase from 12.1% to 14.6% in 2021 while moderate poverty is expected to rise from 11.7% to 14.6%. In a nutshell, the region will come out of this crisis with higher levels of poverty, income inequality, and indebtedness.

Against this backdrop, we will focus on the short-term needs and long-term structural problems faced by many developing countries, especially in the LAC region.

COVID-19

We welcome the paper “COVID-19: World Bank Group Support for Fair and Affordable Access to Vaccines by Developing Countries”, which very appropriately addresses the unprecedented global public health and economic crises brought about by the COVID-19 pandemic. By and large, the LAC region has been hit the hardest, with over 20 million cases since the start of the pandemic and, except for a few countries, lagging behind many developing regions in terms of vaccination efforts.

We acknowledge and commend the WBG’s work, in close collaboration with other development partners, to help low- and middle-income countries prepare for the vaccination rollout and facilitate affordable and fair access to vaccines; including the US$12 billion of additional financing for the Global COVID-19 MPA program, which is part of the US$160 billion already committed through June 2021 to help countries respond to the pandemic.
We support ongoing WBG’s efforts to facilitate access and deployment of COVID-19 vaccines and, given the severe blow the pandemic dealt to the LAC region, we expect it to benefit from the MPA program and from additional financial and technical assistance support during the ongoing recovery phase. On the latter, the WBG should scale up and fast-track technical, advisory, and capacity building support to low- and middle-income countries so that they are adequately prepared for effective vaccine deployment, results monitoring, and data maintenance. At the same time, we expect the WBG to adhere to the country-driven principle, by respecting member countries’ vaccine choices and adopting a fair and flexible approach to vaccine financing.

Several and apparently more transmissible coronavirus variants have recently emerged, suggesting that COVID-19 might become a chronic virus requiring periodical vaccine reformulations as the virus mutates. We encourage the WBG to provide technical assistance to develop innovative approaches to address this challenge and to consider a long-term financial strategy for client countries.

Currently, developing countries are facing critical issues such as the inability to secure vaccine deals on their own in a timely and affordable fashion. We praise the Bank Group’s allocations for vaccine financing and strong advocacy for transparent vaccine rollout to prevent queue-jumping. At the same time, we believe that the WBG should do more by strengthening advocacy and improving coordination with vaccine manufacturers, to boost production and facilitate equitable access.

Finally, regarding transparency in the vaccine procurement process, our stance is that countries should have the prerogative to acquire vaccines and enter into purchase agreements under the terms and conditions of their choice. However, we also expect that countries receiving World Bank financial support be transparent in terms of the main contractual provisions to which they agreed to adhere.

**Debt Service Suspension Initiative (DSSI)**

We welcome the paper “Joint IMF-WBG Staff Note Implementation and Extension of the Debt Service Suspension Initiative (DSSI)”, which provides a thorough debt vulnerability assessment of low-income countries and seeks to address the current debt challenges.

Low- and middle-income countries are facing a critical situation due to the COVID-19 as well as the economic and climate change crises, which are gradually eroding their capacity to achieve the 2030 Sustainable Development Goals (SDGs). In addition, substantial debt obligations are significantly hampering economic growth and wearing down the capacity to manage the social crisis. In these countries, poverty and extreme poverty have significantly increased and the various dimensions of inequality are already being exacerbated by the economic and social crisis. Socio-economic advances have been reversed and the prospects are uncertain.

We acknowledge the progress made in implementing the DSSI, with 43 countries having benefitted from US$5.7 billion in debt service suspension. It is noteworthy that a six-month DSSI extension through June 2021 could provide an additional US$7.3 billion. Given that liquidity support remains essential, we welcome the proposed six-month extension of the DSSI for all DSSI-eligible countries (Option 1). Nevertheless, liquidity support will not be sufficient for many countries due to imminent solvency concerns. To avoid a looming debt crisis, we believe it is essential that the World Bank and IMF must work jointly to facilitate debt resolutions in the case of countries with unsustainable debt levels, even beyond the current list of DSSI-eligible countries.

In this respect, we highlight the call for the IMF and the World Bank Group to review the debt challenges of middle-income countries and explore expeditiously a range of solutions to fiscal and debt stress in those countries on a case-by-case basis, as expressed in the April 2020 Development Committee Communiqué. We want to reaffirm the importance of fulfilling this commitment to ensure that debt sustainability is addressed and restored in all countries.
In addition, the risks of downgrades by credit rating agencies is worrisome. During the pandemic, private capital markets have become an important source of finance for MICs, including many in the LAC region. At a time when financing is much needed, a rise in public debt levels in response to a systemic crisis such as COVID-19 could trigger credit ratings revisions and downgrades and lead to a tightening in financial conditions even further -by increasing the cost of capital and limiting credit access. In this regard, the Joint IMF-WBG Staff Note states that eight countries have expressed concerns about cross-default clauses in their other borrowing, or possible indirect impacts on their sovereign credit ratings and access to international markets.¹

Debt relief is a central issue that must be included in our toolbox to tackle the growing debt challenges affecting developing countries. Debt vulnerability risks are undermining our economies and testing governability. There is an urgent need to address this issue by building a common framework that should include an international agenda to facilitate debt resolution in the long run. Private sector participation in comparable terms is of the essence in this regard.

We underscore the importance of debt sustainability for development. As the experience of the LAC region has shown, the debt crisis is a major setback in the fight to end poverty and drive inclusive prosperity. Addressing pandemic-exacerbated debt vulnerabilities should remain a global priority to mitigate the impact on reaching the SDGs. In this regard, we reaffirm the importance of raising the prospects for sustainable, inclusive, and balanced growth for debt stabilization. Finally, we agree on the relevance of enhancing debt transparency, but to make the system more balanced and ensure access to reliable and comprehensive debt information, creditors must also be involved as they are key stakeholders.

**Green, Resilient and Inclusive Development (GRID)**

We welcome the paper “From COVID-19 Crisis Response to Resilient Recovery. Saving Lives and Livelihoods while Supporting Green, Resilient and Inclusive Development”. The COVID-19 pandemic has been a test, demonstrating that multilateral cooperation is vital to a global recovery. A fundamental step going forward is to turn the challenges into opportunities towards an inclusive, resilient, and green sustainable development pathway. In this regard, we welcome the GRID approach, with the understanding that to really make a change, the focus should be on fighting poverty and address all dimensions of sustainability: environmental, social, and economic. For us, rebuilding better means embedding the Twin Goals and the 2030 Agenda for Sustainable Development in the recovery policies. The approach must also recognize the heterogeneity across countries and regions to inform and structure a response in line with borrowers’ commitments and development priorities. Also, it is important that the WBG focus its efforts on mainstreaming climate in all its operations, consistent with the Country National Determined Contributions (NDSs) and development priorities.

The links between development and climate change are significant and, thus, a well-balanced response that rightly integrates growth-supporting interventions and climate action –including adaptation and co-benefits with mitigation-- will be crucial for the success of the GRID approach. Given today’s fiscally constrained environment in some developing countries, financial support mobilization spearheaded by international financial institutions will be critical. In this regard, although the GRID approach underscores private sector solutions as drivers of recovery and development, it is also important to support an active and smart public sector that, together with multilateral partners, could encourage private investment and boost public/private associations and joint investments. Also, we call on the WBG to continue providing large positive net flows of public and private finance to support clients, including by advancing IDA20, and significantly increase collaboration across all institutions with a holistic perspective.

To benefit from the GRID approach, WBG financing and technical assistance should be rightly deployed. Therefore, access to financing should be targeted to those at risk of severe loss and damage to help build

¹ Joint IMF-WBG Staff Note Implementation and Extension of the Debt Service Suspension Initiative (paragraph 12, page 10).
resilience. Failure to do so might reduce the effectiveness of any actions aimed at achieving sustainable and inclusive growth. This underscores the fact that development extends well beyond the level of per capita income. Such indicator presents the advantage of shining the spotlight on the poorest countries in the world. Nonetheless, by relying on national averages, it has the disadvantage of ignoring the fact that poor and vulnerable people also live in many MICs, as well as high income countries. Thus, the income per capita indicator should not be the only basis for development financing; rather, social and environmental considerations should also be factored in.

It is noteworthy that more than 70% of the world’s poor already reside in MICs, where millions of poor people might be left behind if we fail to address their needs now. In this regard, IBRD lending commitments to below- and above-GDI countries should be in line with the 2018 IBRD Capital Package commitments. Hence, we expect lending to below-GDI countries to be at an average of 67% for the period FY19-30, below the current 74% average for FY19-20, to allow more room for lending to above GDI.

While the world is still in the midst of dealing with the health and socio-economic impacts of the COVID-19 shock, one key question is how countries can “build back better” and make sure that international cooperation can respond quickly and efficiently to future shocks. In this sense, and given that the pandemic has impacted heavily on MICs, it is imperative that the WBG put together a development strategy in support of this country group -considering the specific challenges faced by each country - with the aim of building and strengthening community resilience to physical, social, environmental, and economic vulnerabilities and shocks.

Lastly, we urge the Bank to reconsider its policies on graduation and the respective mechanisms that limit MICs access to WBG financing.