Statement by

Arturo Herrera Gutiérrez
Secretary of Finance and Public Credit

Mexico

On behalf of Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Kingdom of Spain
The Spring 2021 Development Committee meeting provides an opportunity for the international community to discuss key challenges following the onset of the first global pandemic of the 21st century. 2020 will be remembered as a milestone in our collective history, a time of setbacks in livelihoods, development gains, and progress to reduce inequality and vulnerability. The unexpected outbreak of a new corona virus (SARS-CoV2) swept the globe in a matter of weeks. It became a global emergency because populations of all countries faced the risk of infection leading to death. The need for cooperation and collective action, especially the financing and convening roles of multilateral organizations, became -and continue to be- critical.

We must humbly recognize that risk preparedness and disaster risk management were insufficient. SARS-CoV2 caught all countries’ health sectors off-guard. The sudden surge in demand for beds, intensive care units, ventilators, and personal protective equipment surpassed existing infrastructure, inventories, and manufacturing capacity. Notwithstanding the unrelenting efforts of paramedics, nurses, doctors and other medical personnel, the death toll paid has been extremely high, and the pain and suffering of those who contracted the COVID-19 disease without any proven treatment or lost their loved ones is unbearable.

Drastic decisions had to be taken to contain spread of the disease and save lives. Mandatory lockdowns suddenly interrupted trillions of transactions, limiting the exchange of goods and bringing services to a near stand-still. Tourism- and transport-related areas were massively affected and physical distancing requirements also hampered other productive activities, triggering a historic level of unemployment and furloughs. The induced recession was expected to be short, but it extended much longer, wreaking widespread havoc across and within economies.

The result at a global level has been the worst recession since WWII, but for most countries only the Great Depression was worse. While debt accumulation began before the pandemic, many countries are now experiencing an additional substantial debt increase, partly due to the stimulus programs they are implementing coupled with large reductions in tax revenues linked to a large economic contraction. These difficult circumstances impacted countries unevenly due to different economic structures and fiscal space to respond to the crisis. Therefore, the impact, struggle, and future challenges will also differ across economies.

Now, after a year of living with the pandemic, the World Bank Group needs to take stock of the pandemic and its consequences. The organizations should address the constraints to future development, identifying sources of growth, jobs, and the drivers of sustainable and inclusive growth after such a devastating period. And they need to do so urgently, considering the challenges facing all members.
The most advanced economies with reserve currencies have had access to historically low or even negative interest rates. On the other hand, the poorest countries have received support from the international community, and those in debt distress have had access to the Debt Service Suspension Initiative supported by the G20 countries. In the short term these measures allowed them to reallocate their scarce foreign exchange resources to the more pressing response to the pandemic. Nonetheless, there are two categories of countries with particular needs that deserve specific attention by the WBG: “the underserved middle” and the “forgotten majority”.

The “underserved middle” countries have some sort of identity crisis within the WBG’s income-based classifications and instruments to fight poverty and achieve shared prosperity. They are halfway between the classifications of IDA Only and Middle-Income Countries (MICs). Some are IDA “gap” and others are MICs, but neither category nor GNI describe their plight. They have a higher per capita income on average, but at the same time very high poverty rates and stubborn structural shortcomings. They seldom have access to grants, despite their pockets of extreme poverty. The IDA Private Sector Window (PSW) is closed to them, making de-risking financing inaccessible despite the hurdles to private investment and job creation. They are not FCV countries, even though some of them have fragile institutions and violence spurred by gangs and other organized crime. They are small in population and territory but cannot be considered in the Small States category. Migration works as a pressure valve due to the lack of jobs and economic opportunities, low salaries, poor public services, personal insecurity, political instability, and weak justice systems. These country situations demand a more strategic approach and require much more attention from the WBG.

The “forgotten majority” are the MICs which are overlooked. This group of countries represents 75% of the world’s population and faces persistent challenges such as national and regional disparities. Moreover, these countries have been disproportionately hit by the pandemic and, as a result, it is estimated that extreme poverty will raise dramatically in these countries, deepening the already existing gaps. Additionally, risks and vulnerabilities are increasing, and given the challenges ahead, we call on the Board of Governors to give the WBG a clear mandate to design a specific strategy for MICs. This strategy should help the MICs recover from the crisis in a sustainable, inclusive, and resilient manner and resume their contributions to the collective global, social, and economic goals we have agreed upon. We have to make sure that MICs are not a forgotten majority.

The recent WBG regional update on Latin America and the Caribbean reports LAC as the region most heavily impacted by the pandemic. Accounting for about 8% of the world's population, LAC has had 20% of global contagion cases and about 30% of COVID-related deaths. The economic effects of the health crisis have led to the worst economic recession in 100 years and a contraction in GDP of around 7%. Investment has nosedived by almost 40%, the largest decline among all developing regions. Twenty-four million jobs have been lost. With the highest inequality in the world before the pandemic, the situation in LAC has worsened. The Gini coefficient increased from 0.51 in 2019 to 0.53 in 2020. Social advances achieved over the last decade have been reversed in the past year. Thirty million people are newly poor and about 220 million people became vulnerable to poverty as the pandemic severely eroded the middle class. Female-headed households are now 60% more likely than male-headed households to experience temporary job losses. The catastrophic economic and social situation is fueling increased migratory flows and institutional instability.

During the unprecedented health and economic crisis derived from the COVID-19 pandemic, the MDBs have played a key role in supporting response at the country and sectoral levels, not only by frontloading financing flows, but also by rapidly responding with innovative programs.

Looking ahead, prioritizing green sustainable, inclusive, and resilient development is justified, but these elements must be incorporated in the daily work of our institutions. It is suggested that we link development and climate strategies. In our view, to fully endorse and commit in this direction we need to discuss how best to generate and where to use our scarce resources to significantly and simultaneously impact development and climate. A “green recovery” will require significant and fresh resources. This
Development Committee is the ideal space to start thinking about the means - such mobilizing net private savings and intensifying domestic resource mobilization – as well as timing and workable approaches. The way forward should enable a gradual transition without losing sight of our other priorities such as the JET agenda and productivity increases that are essential to fulfill our twin goals and the SDGs. In order to best serve all of our clients and foster truly inclusive economic growth within countries and regions alike, the discussion needs to consider the post-COVID development realities and challenges as well as the capital increase commitments.

A final word on health. Science and medicine responded by applying accumulated research to produce vaccines and treatments at an unprecedented pace. Stimulating investment in health sector research, development, and tripling vaccine manufacturing capacity as suggested by WHO remain top priorities. But now the difficult task of deploying vaccines threatens to leave many economies, vulnerable groups, and sectors behind. Only a successful global rollout of the vaccine will halt the spread of COVID-19. This is a necessary condition to recover and grow. Addressing bottlenecks in production and ensuring a sufficient and equitable distribution are the major challenges and they need to be tackled by the multilateral system, with all agencies and banks acting in close coordination. Given our deep concern that there is a race against time to achieve comprehensive vaccination coverage to stem the spread of the pandemic, deployment of the COVAX scheme must be accelerated. Therefore, we call for global solidarity to avoid hoarding of vaccines, ensure equitable access, and surmount logistical and funding hurdles to allow very low-income countries to implement mass inoculation programs. None of us will be safe until all of us are safe.

We call on the WBG to closely coordinate its efforts with development partners, both multilateral and bilateral, with a view to fully leveraging comparative advantages and maximizing the impact of limited resources.