



LAC POST COVID-19

CHALLENGES AND OPPORTUNITIES



CID COUNTRY DEPARTMENT CENTRAL AMERICA, HAITI,
MEXICO, PANAMA and DOMINICAN REPUBLIC





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REGIONAL OVERVIEW¹

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INTRODUCTION

The global coronavirus (COVID-19) outbreak will have a significant negative impact on health, the economy, and on the social advances made around the world over the last decade. The contraction in economic activity may exceed that of the Great Depression, so it is crucial that policies be implemented to cushion the social impact, protect vulnerable populations, and support robust, dynamic recovery, while at the same time maintaining macroeconomic stability. Furthermore, the pandemic has inevitably led countries to reflect upon how prepared they were to deal with it.

In the countries of the region comprising Mexico, the Central American isthmus, Haiti, and the Dominican Republic (henceforth, the CID region), the data show that their health systems and available resources were very limited. For example, Honduras, Nicaragua, and Guatemala have fewer than one hospital bed per 1,000 inhabitants, while Costa Rica and Mexico fewer than two, compared to three per 1,000 in Uruguay and Spain and eight per 1,000 in Germany.

Meanwhile, some 60 percent of the total workforce of the CID region workers work in the informal sector (though this varies significantly from country to country), which makes it difficult to get financial support to those in need and places both them and their families in an even more precarious position. Compared to people in Latin America and the Caribbean (LAC), those in the CID region are more vulnerable in terms of social welfare, due to the shortcomings of their healthcare systems and the high proportion of the population whose situation is precarious (see Fig. 1).

FIGURE 1. INDICATORS OF SOCIO-ECONOMIC VULNERABILITY COMPARED TO LATIN AMERICA AS A WHOLE IN THE CONTEXT OF THE PANDEMIC

Country	Health	Social Conditions			Trade			Supply Chain	Financial markets	Macro Space		
	Hospital Beds per 1000 people	Poverty at \$5.20 a day	Income Inequality	Vulnerable employment	Exports to China + EU + US as % GDP	Tourism receipts as % total exports	Commodities exports as % GDP	Commodities imports as % GDP	Imports of intermediate goods as % GDP	EMBI	Public Debt as % GDP	Primary Balance as % GDP
Belize	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
Costa Rica	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
Dominican Republic	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
El Salvador	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
Guatemala	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
Haiti	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
Honduras	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
Mexico	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
Nicaragua	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red
Panama	Red	Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red

Source: IDB. Note: Red indicates that the value of the indicator is below the LAC average and green that it is higher.

With regard to their economies, the countries of the CID region are particularly susceptible to the performance of the economy of the United States, their main trade and investment partner, and source of remittances and tourism. In several countries of the region, annual remittance flows account for anything from 5% to 38% of GDP, depending on the country. These come mostly from workers in the United States who are employed in the most affected sectors of that economy, such as construction and services. According to various estimates, remittances to LAC will decrease by more than 15% this year. Furthermore, in a number of countries, tourism from the United States and Europe represents an important source of income. In contrast, the region is less exposed in terms of the external demand for raw materials, its being an exporter of primary products (e.g., coffee, sugar, and bananas). Moreover, it has benefitted from falling oil prices due to its being a net importer of gasoline. Despite the fact that its fiscal situation is less pressing compared to the LAC average, the downturn in economic activity and the climate of global risk aversion have brought with them more restrictive financing conditions and a tighter fiscal space. The IMF estimates that the CAPARD subregion (Central America, Panama, and the Dominican Republic) will contract by 2.6% in 2020 and Mexico by 6.6%.

¹ We wish to thank Verónica Zavala, Cassandra Rogers, Baudoin Duquesne, Eduardo Almeida, Carlos Melo, Yvon Mellinger, José Ramón Gómez, Miguel Coronado, César Falconi, and Tomás Bermúdez for their comments.



In this emergency, the countries of the region have implemented a series of measures, based on the following priorities:

- 1) Tackling the health emergency and bolstering the health sector, for which purpose spending on the latter was increased, while medical and hygiene products were exempted from import duty.
- 2) Protecting vulnerable populations, which included a moratorium on mortgage repayments and on other loans. To protect people's welfare, support was provided for those left jobless, price controls were introduced, the import duty was lowered on products in the market basket of consumer goods, and rent payments were temporarily suspended.
- 3) Supporting SMEs and protecting jobs, which included postponing the date for paying taxes and contributions, developing ways to support the tourism and retail sectors, and giving priority to domestic agricultural produce in purchases.
- 4) Maintaining the proper functioning of complementary markets. Countries reduced their monetary policy rates, reserve requirements and the capital/liquidity requirement for banks, held foreign exchange auctions, and allowed their central banks to purchase public debt on the secondary market. In addition, the public procurement process was streamlined.

With the curve of infection stabilizing and healthcare systems becoming better prepared, countries have now started planning how to resume economic activity, introducing new health measures and implementing strategies aimed at gradually unlocking various economic sectors based on their importance within the economic structure and the risk of infection they represent. With this reactivation in mind, albeit slow and gradual, it is important to look at what the priorities are for those most affected, in terms of creating the kinds of opportunities they now urgently need. To this end, we have come up with a series of proposals in three areas: the social safety net, macroeconomic policy, and the system of production.

SOCIAL SAFETY NET

Unfortunately, the main downside of the economic contraction has been the deterioration in social conditions. As a result of the pandemic and its economic impact (e.g., the reduction in remittances), it is estimated that the number of poor in the CAPARD region will increase by 4.3 million people in 2020² (see Fig. 2), placing their food security at risk (see section 4c to see how this could be mitigated by supporting the agricultural sector). The people most affected by the crisis will be those whose social protection net is weakest, as is the case with those engaged in the informal economy. Consequently, it is estimated that income inequality will also increase in the countries of the region (see Fig. 3 for a Gini inequality index estimate for the countries of the Northern Triangle).

All of this shows the importance of having a social safety net in place. Therefore, let us now take a look at the various aspects of that net, such as health, education, employment protection, and social programs to aid in the recovery.

² Assuming a 4.3% contraction in GDP in the CAPARD subregion and 5.9% in the United States that results in a 17% drop in remittances, and that there are no monetary transfers.



FIGURE 2. EFFECT OF COVID-19 ON THE CAPARD SUBREGION (IN MILLIONS OF PEOPLE, NO CASH TRANSFER)

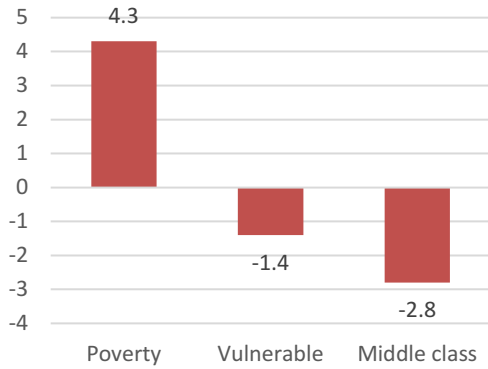
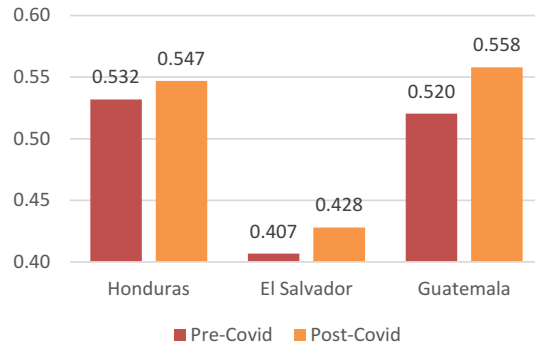


FIGURE 3. GINI COEFFICIENTS BEFORE AND AFTER COVID-19



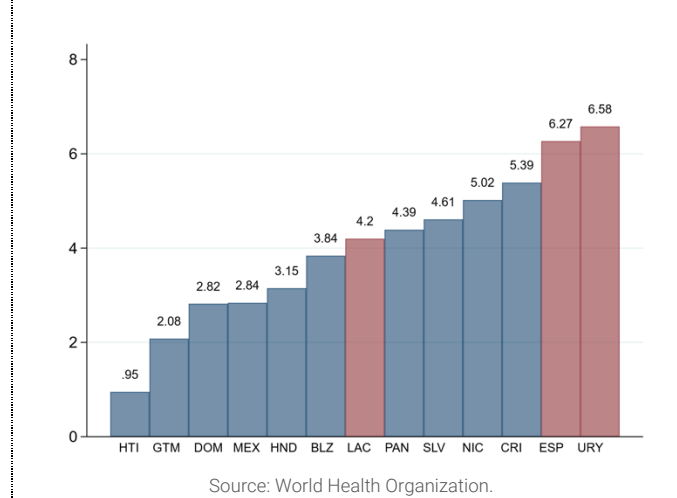
HEALTH

The governments of the region have made significant efforts to address the fragile state of their health systems so as to ensure these are better prepared to deal with the pandemic and flatten the curve of infection, and also to be able to attend to new cases during the gradual opening-up stage and prepare for a second wave. For this purpose, the public health sector has been allocated a bigger budget with which to purchase medical supplies, hire more staff, and make improvements in infrastructure, as well as operational and administrative improvements.

Given the low proportion of public spending allocated to the public health sector in the region (see Fig. 4), the risk of new epidemics and the fact that health is among the public services that most benefit low-income households, it would be wise for the countries of the region to take a closer look at their healthcare systems and to develop a clear vision of what they hope to achieve in the medium term, including the possibility of maintaining the level of spending required to provide a more robust public health system for the future.

In terms of the efficiency of the healthcare system, there is a clear need to implement data intelligence to ensure better administration and provision of hospital services (e.g., a hospital bed management information system), along with the training needed for its management (e.g., in health informatics). It is also vital that a close relationship be forged between health science (e.g., diagnosis and vaccines) and service provision, and to establish formal mechanisms for public-private coordination.

FIGURE 4. PUBLIC SPENDING ON HEALTH AS A PERCENTAGE OF GDP

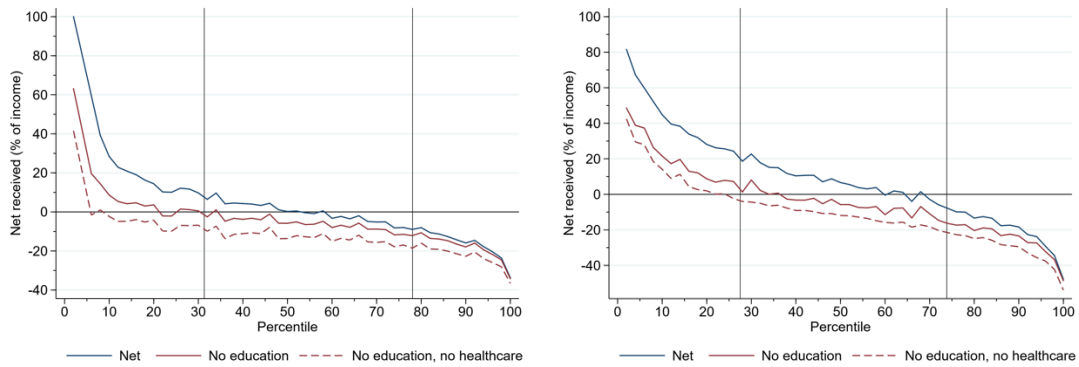


Along with public education, the health sector is one of the public services that most benefits low-income households. For example, in the cases of El Salvador and Mexico, despite the significant limitations in



the provision of these services, thanks to them over 40% of the population are net beneficiaries of public spending (see Fig. 5). Moreover, both education and health enhance human capital, which in turn contributes to medium-term economic growth. At the same time, the provision of in-kind public services may be efficient in more than just monetary terms, given the difficulty of delivering them due to the high proportion of people who work in the informal economy, decreased exposure to theft in remote, unbanked areas, and the lower risk of corruption and clientelism.

FIGURE 5. PUBLIC SPENDING MINUS TAX BURDEN AS A PERCENTAGE OF NET INCOME (DECILES ORDERED BY PER CAPITA INCOME) (EL SALVADOR AND MEXICO IN ORDER)



Source: Own calculations based on household surveys data (ENIGH and EHPM respectively). Note: The vertical lines show poor and vulnerable households, respectively. The net benefit to households is the sum of government spending on education, health, cash transfers, subsidies, and non-contributory pensions per household, minus income tax, corporate profit tax, VAT, social security contributions, and, in the case of Mexico, property tax. Public spending in Mexico is partly financed by oil revenues, which is one reason for the high number of households that are net beneficiaries of public spending.

EDUCATION

In the education sector, a need for distance learning has arisen, which in turn has highlighted its benefits, such as lower costs and greater access. Nevertheless, the current situation has also laid bare the lack of infrastructure and digital skills required to engage in this form of learning successfully. Work is therefore needed to develop innovative teaching techniques, including adapting curricula and teaching methods, incorporating useful information from the web and technology platforms. At the same time, this would help children and young people to join in the fourth industrial revolution.

Making progress in these programs requires closing the connectivity gap in the region, so it is important to invest in broadband infrastructure and digital skills. While investment in broadband infrastructure is beginning to materialize, support is needed for distance learning via television and radio. These are currently the only information networks that reach the entire region.

EMPLOYMENT

It is estimated that between 7% and 21% of formal employment will be lost in the CID region, depending on whether the second half of the year sees the start of a recovery or continued recession.³

Once measures have been taken to protect the jobs and income of workers during the pandemic,⁴ the question of what actions are required to ensure a return to work needs to be addressed. Some sectors will be back in operation very soon, albeit below their normal capacity, meaning some jobs will be recovered (e.g., in restaurants, construction, and industry); meanwhile, other employment sectors may take much longer to recover (e.g., tourism). In the case of the first, it will be important to provide liquidity during the resumption of activities (see section 4d on protecting the productive framework).

³ See: <https://publications.iadb.org/es/como-impactara-la-covid-19-al-empleo-posibles-escenarios-para-america-latina-y-elcaribe>

⁴ For more details of the measures, see: <https://publications.iadb.org/es/como-proteger-los-ingresos-y-los-empleos-posibles-respuestas-al-impacto-del-coronavirus-covid-19-en>



Meanwhile, in sectors where people have been inactive for a long period or find themselves in a vulnerable position, the following measures could be implemented to help make the return to work more effective:

- Promoting job brokering (matching jobseekers with vacancies).
- Job training to increase employability, with special emphasis on the adoption of new skills to increase the productivity and retraining of those who have been out of work.
- Active policies to facilitate the redeployment of workers among the most affected sectors and those in recovery.

Lastly, it would be a good idea to create incentives for formalization and increased use of banking services, particularly targeting the beneficiaries of the social programs implemented during the crisis.

OTHER SOCIAL PROGRAMS

Given the increased number of social programs and the sums involved, it is important to combine the data from the various programs and strengthen the registration of beneficiaries in order to make it easier to target them. Furthermore, as they have been introduced in an attempt to mitigate the effects of the crisis, their countercyclical and temporary nature needs to be reflected in the design of such programs.

It is important to recognize that the current pandemic has highlighted the urgent need to rethink the model of social protection, in particular, the need for a system based on mitigating the effects when threats to workers' income and consumption—and those of their families—become a reality; threats that range anywhere from epidemics and climate phenomena to illness, disability, and so on. Currently most elements of the social safety net (e.g., the health service, disability and life insurance, pensions, childcare, and subsidized mortgage loans) are dependent upon a person's being formally employed, so the scale of the informal economy is an indication that the system of protection is insufficient by design. Looking to the future, society in the region needs to reflect upon the system of protection it requires.

Finally, the pandemic has shown that support programs need to be designed with people in mind rather than the institutions that provide the service. A situation of this nature calls for the creation of comprehensive support programs that are coordinated inter-institutionally.

MACROECONOMIC POLICY

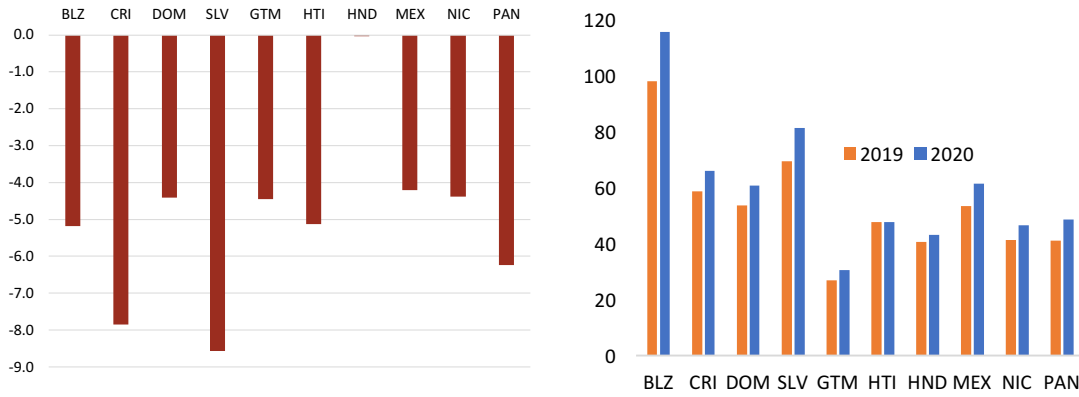
Macroeconomic policy will need to be adjusted to support the reactivation of the economy and serve the vulnerable population, while safeguarding economic stability. The following are a number of options worth considering in the area of taxes and finance.

FISCAL MEASURES

Fiscal policy post-lockdown comprises two stages: in the first, it needs to focus on being expansionary in order to speed up the recovery in output, employment, household income, and of the private sector; in the second, fiscal sustainability and, in some cases, structural changes in the level of revenue will need to be assured. This challenge will be reflected in a widening of the ratio of public deficit to GDP and rise in the ratio of public debt to GDP in 2020.

FIGURE 6. PUBLIC DEFICIT-TO-GDP RATIO IN 2020 (%)

FIGURE 7. PUBLIC DEBT-TO-GDP RATIO (%)



Source: IMF WEO April 2020.

The expansionary stage will be conditional upon the fiscal margin of each country, which itself depends on several factors: i) the initial deficit and level of debt; ii) the access to markets to obtain financing; iii) the tax margin governments have to be able to get back on a sustainable path later; and iv) the state of the foreign sector, as any interruption to flows or currency depreciation could worsen the fiscal accounts. In regard to taxation, as a general rule those countries most dependent on corporate income tax and import taxes are more sensitive to crises in terms of a loss of revenue, whereas those that are more dependent on VAT and personal income tax are usually more resilient.

Though the possibilities vary from one country to the next, the basic strategy is to boost capital expenditures, ideally through public-private partnership (PPP) schemes, as these generate a greater ripple effect on the rest of the economy and are easier to restore back to normal once the adjustment phase is complete. Of course, there needs to be an effort to boost those infrastructures with the greatest social and economic impact.

Countries with little room to increase spending will need to restructure part of it so that it can be redirected to priority projects. In this initial stage, tax measures could also be taken to facilitate the recovery of companies, though these should be temporary and as closely targeted as possible.

Once the economy enters the recovery phase, this will need to be consolidated and a focus on tax policy and spending efficiency will be required; with respect to the former, the aim will be to increase revenue to cover the cost of the overspending in the previous stage and, if possible, achieve a structural increase in revenue with which to finance long-term social policy. To do so will require an examination of the extent to which this would be possible with respect to each individual tax in the country, while at the same time taking into account the progressivity of the system without undermining the recovery.

Some of the measures that could be taken to increase tax revenue include:

- Modifying the rates for those taxes where there is clear room to do so, not just the nominal but also the effective rates, examining the rationale and distributive effects of any exemptions, special treatments, and reduced rates
- Fast-tracking the application of VAT (and income tax where appropriate) to products sold online
- In the case of products subject to excise duties (e.g., tobacco, sugar-sweetened beverages, and fossil fuels), replacing ad valorem taxes, where applicable, with unit taxes
- Regarding the sharp drop in the price of oil and derivatives as temporary and maintaining the fuel prices paid by the end-customer (or not passing on the entire price reduction), with the difference inuring to the benefit of the state.
- Increasing property taxes on real estate, both residential (with a minimum threshold for exemption) and commercial (income deductible), rural and urban, and strengthening cadasters. This would also increase the progressivity of the system.



- Increasing the taxation of vehicles, which would also improve the progressivity of the system and help defray the cost of maintaining road infrastructure
- Increasing rates on capital returns on “passive” capital income (dividends, interest, royalties, capital gains) in income tax. This would improve progressivity and the perception of fairness in the response to the crisis.
- Moving to a global income tax base, where this is not the case, by taking advantage of the international push toward transparency in the exchange of information between jurisdictions and awareness of the ultimate beneficial owner of property.
- Introducing a surcharge on public officials’ salaries and on pensions (defining a threshold)
- Modernizing and reforming tax administration and combatting tax evasion and avoidance; this will require advances in the use of fiscal intelligence, a tool that could also provide important detailed real-time information for decision-making during the various stages of the economic reactivation.

On the spending side, the following measures are worth considering:

- Increasing transparency, efficiency, and streamlining in spending. Public spending waste and inefficiency in the region averaged as much as 4.4% of GDP (DIA 2018).⁵ Transparency would be enhanced by open public procurement and technology to identify projects.
- Moving towards results-based budgeting and devoting a unit to monitoring the quality of spending. It would also be advisable to strengthen fiscal frameworks through legislation on fiscal responsibility, fiscal councils, and the modernization of tax systems.

FINANCIAL SYSTEM

To support the customers of financial institutions during the crisis, payment deadlines for various types of credit (such as mortgages, credit cards, and consumer credit loans) have been extended. This repayment break reduces delinquency, so financial system institutions are not forced to make provisions and thereby record significant losses. Furthermore, financial institution regulators and overseers have relaxed capital and liquidity requirements, and advised institutions to defer dividend payments, while central banks have implemented various measures to provide liquidity. All this helps mitigate the liquidity and solvency risks of financial institutions. However, if the economic shutdown continues for an extended period, some financial institutions may face liquidity or solvency problems and tighten credit conditions in the months to come. With this in mind, for the purposes of recovery it will be important to consider establishing a possible guarantee fund to support new loans, especially to SMEs (see section 3.4).

In the medium term, it is important to strengthen the system for protecting financial stability, including the laws on bankruptcy, deposit insurance, and lenders of last resort.

SYSTEM OF PRODUCTION

This crisis has important implications for the recovery process of the productive sector. On the one hand, as this has been a global pandemic, the recovery of each country will depend on that of the rest of the world. On the other, the degree of recovery across sectors may vary considerably.

There could also be a change in consumer behavior patterns that favors certain industries to the detriment of others (e.g., among certain segments of the population, a greater propensity to save rather than consume or to order products and services online) or a change in public priorities (e.g., protecting strategic value chains, strengthening local scientific capacities). All this could well lead to new business opportunities, a need to restructure industries, introduce new working methods, and speed up and massively expand the digital transformation, as part of a gradual process that calls for expedited action to create and consolidate the infrastructure needed to guarantee accessibility and security in

⁵ Analysis available at: <https://flagships.iadb.org/es/DIA2018/Mejor-Gasto-para-Mejores-Vidas>



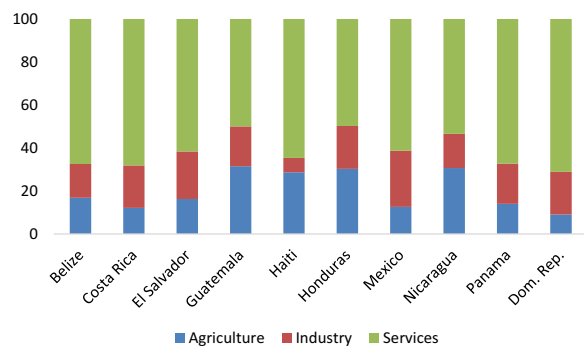
transactions. All this will in turn require human capital with increased skills and technical capabilities. With this in mind, we may see innovation, the digital transformation, and science taking on a new momentum. The IDB document *Responding to COVID-19 with Science, Innovation and, Productive Development* details ways in which science and innovation could help in Latin America.

In order to identify sectors that have shown themselves to be highly competitive and which represent the starting point for the region, it is worth remembering its productive structure. The agriculture and livestock sector (which includes, farming, forestry, and fisheries, etc.) plays an important role in several countries of the region. For example, in Guatemala, Honduras, and Nicaragua, it accounts for between 10% and 16% of GDP. The sector employs an average of 20% of the region’s workforce, and in some countries as much as 30%. It is competitive in various products and the main source of exports from the region, which is why efforts need to be made as regards policies, programs, and projects aimed at stimulating these exports, particularly as they may be subject to additional requirements in the post-pandemic context. The most important sector is trade and services, which accounts for around 60% of GDP, while the industry sector averages 25%.

FIGURE 8. GDP BY SECTOR (% OF THE TOTAL)



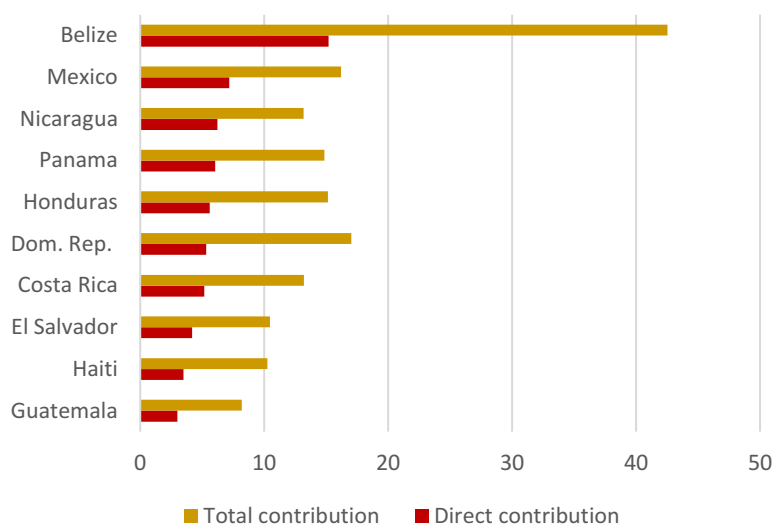
FIGURE 9. EMPLOYMENT BY SECTOR (% OF THE TOTAL)



Source: World Development Indicators. Note: Latest available data.

Within the region’s service sector, tourism is particularly important, making a direct contribution to GDP of between 3 and 15 percentage points, depending on the country. Meanwhile, its total contribution is estimated to be anywhere from 8% to 40% of GDP. The sector’s role is especially significant in Belize and the Dominican Republic, though it is also important in other countries.

FIGURE 10. CONTRIBUTION OF THE TRAVEL AND TOURISM SECTOR TO GDP (%)



Source: Official data and World Travel and Tourism Council.

Considering recent developments at the international level and the peculiarities of the structure of the region’s productive sector, efforts in this regard could be focused on the areas listed below.



VALUE CHAINS AND TRADE POLICY

The pandemic has caused a disruption in global value chains (GVCs). At the same time, due to the segments the countries of the region are involved in, where they are highly dependent on relocation decisions and have little scope for influence, a debate has developed as to whether it would be possible to shift from a competitive-cost model to a competitive-risk model. This would entail an analysis of the benefits of producing a good in different geographic areas or building multi-product capability into production lines. In this setting, Central America could be a reliable producer of inputs for GVCs in the Americas, for which purpose the region could:

- Leverage its knowledge in the textile, agri-food, and medical equipment industries
- Offer exportable products of greater added value using this production base
- Increase local production integration capacities with distribution channels supported by foreign investment, primarily in sectors such as agroindustry
- Attract new productive investments in reshoring/nearshoring processes from China and Southeast Asia
- Use market intelligence to find new business niches. Here the role of trade and investment promotion agencies is particularly important
- Develop human capital with language and digital skills.

In order to take advantage of these opportunities and attract companies relocating from other regions to get closer to the U.S. market, countries need to take action to improve the business climate, strengthen institutions in areas related to trade and investment, set out clear strategies and goals, prioritize strategic sectors, and reduce red tape in order to deal with investors online. At the same time, it is crucial that local talent be developed and trained based on the needs of the market; that there is ready access to up-to-date information and statistics to enable multinationals to decide where they want to locate, and that foreign companies already located locally are provided with aftercare to prevent them from relocating and encouraged to reinvest, serve as ambassadors for their respective national offices, and contract local suppliers instead of procuring inputs from elsewhere.

TOURISM

The tourism industry has been one of those most affected by this crisis, which makes it particularly important that work is done to maintain the competitiveness and sustainability of the sector.

This hiatus provides an opportunity to work on diversifying markets, enriching tourism products, and promoting sustainability. The players in the sector, particularly small and medium-sized enterprises, can take advantage of this time to further digitalize their activities, e.g., by adopting digital infrastructure (e.g. Wi-Fi networks and high-speed Internet), developing or incorporating digital platforms for buying and selling tourist packages, training their workers in new technologies, and performing data analysis to improve business planning and operations.

As for sustainability, it would be good to install renewable energies and to identify local eco-friendly experiences for customers, among other actions. In this regard, it is important that countries develop and implement strategies to promote more sustainable tourism. The OECD makes the following recommendations to help achieve this:⁶ (i) the notion of tourism success needs to be revised to include the views of those involved and not just focus on the number of visitors; (ii) collaboration between public sector stakeholders (at every level of government) and those in the private sector and civil society should be encouraged; (iii) concepts of sustainability should be standardized so that there is no contradiction

⁶ OECD Tourism Trends and Policies 2020: https://www.oecd-ilibrary.org/urban-rural-and-regional-development/oecd-tourism-trends-and-policies-2020_6b47b985-en



between public policy and stakeholder practices; and (iv) a long-term agenda needs to be developed that is not tied to the political cycle.

In the medium term, there are a series of actions governments and the players in the tourism sector can take to facilitate the economic recovery of the sector and increase its competitiveness. At the international level, the following initiatives are particularly interesting:⁷ (i) using marketing efforts to stimulate future demand (e.g., Australia, Greece,⁸ Israel, Italy, and the U.K.); (ii) taking advantage of this opportunity to rethink the tourism system, from marketing to management (as New Zealand has done); (iii) collecting data on potential markets and providing companies with more information on current and potential markets (an approach Portugal has embarked upon); (iv) promoting dialogue among the various players within the sector, i.e., companies, government agencies, and local communities; and (v) developing collaborative partnerships with colleges and universities to increase and reinforce the skills of workers in the sector.

It is also important to boost confidence in travel among domestic tourists by implementing guidelines and protocols so that the various industries involved in the sector can operate safely. Although the domestic tourism market is limited, it can provide some financial relief to smaller businesses and serve as the starting point and comparative advantage for international tourism in a second stage. Ensuring food security is one part of this effort, and there are also synergies to be found through gastrotourism in the region.

AGRICULTURE AND LIVESTOCK

The agriculture and livestock sector is vital not only to maintaining the food security of the population of the countries of the CID region, but also at an extra-regional level, its being a net exporter. Given that the emergency phase of COVID-19 could affect not only the current but also the future availability of food, the following are a number of recommendations intended to help maintain the supply throughout the food value chain.

To ensure the availability and stability of the food supply, it is important to provide:

- Incentives for the purchase of inputs by small and medium-sized producers, e.g., by means of coupons or vouchers redeemable for specific inputs and paid for by the government to suppliers
- Bridge financing to enable food wholesalers to finance the next harvest and planting by small and medium-sized farmers, as was common in the past
- Incentives for food suppliers (medium-sized and large producers, but also associative-model based producers), specifically, through productive credits and matching grants for equipment and inputs and business development services.

To support domestic and local food distribution and transportation:

- Encourage payment of first-mile shipping (farm-to-market) of foodstuffs via redeemable coupons or vouchers to cover shipping costs, which carriers then collect directly from the government
- Support last-mile distribution; loans or matching-grants could be provided to finance companies that operate via contactless delivery and in vulnerable areas; health protocols should also be implemented
- Reduce losses along the chain by investing in staple food storage facilities and facilitate the supply between supermarkets and food banks. The FAO estimates that between 14% and 30% of production is lost along the chain.

⁷ https://read.oecd-ilibrary.org/view/?ref=124_124984-7uf8nm95se&title=Covid-19_Tourism_Policy_Responses

⁸ "Greece from home" platform launched by the country's tourism ministry and tourism promotion organization to spread a positive image of the country during the pandemic.



To maintain the smooth functioning of international trade, it is important to prioritize and simplify trade procedures along the chain and to assess tariff and non-tariff distortions. Measures aimed at achieving this could include:

- Improving product management protocols at border posts in order to encourage a steady flow of food
- Recommending the implementation of schemes that directly aid streamlining, such as the GTF, (*Global Trade Finance*) program, improvements in infrastructure, technology, and so on
- Reviewing any restrictions introduced as a consequence of the pandemic that have become barriers to trade, and proposing ways to eliminate these while continuing to pursue legitimate health objectives
- Focusing on the medium and long term, proposing improvements in border-crossing infrastructure: cold rooms, safe inspection areas, waste management systems, etc.

PROTECTING THE PRODUCTIVE FRAMEWORK

Protecting the productive framework of the countries of the region means supporting the recovery of small and medium-sized enterprises (SMEs), as these generate the greatest number of jobs. In order to get back to work, these companies will require financing, which could be made more readily available to them by:

- Establishing guarantee funds
- Developing metrics to identify those companies most likely to recover or successfully restructure and channeling loans to them
- Leveraging Development Bank resources
- Exploring co-financing mechanisms and matching-grants
- Making access to credit more flexible; developing the system of movable collateral and the financial leasing market.

In addition, it would be wise to provide advice on transforming the private sector through:

- The business development center model (incubators, accelerators)
- Specific training involving educational centers, including training in the digital transformation and language learning.

Lastly, it is important to continue to work on improving the environment for doing business, an area in which the region has been found wanting, and to further develop instruments with which to more accurately identify and classify companies, something that is crucial to strengthening the business framework and designing policies to suit its characteristics.



BELIZE

LUCIA MARTIN

Belize's economic and social outlook has changed since the onset of the COVID-19 pandemic. The unparalleled shock it has dealt to the tourism industry and the disruption of productive sectors present tremendous challenges for the country. While the long-term outlook regarding COVID-19 remains uncertain, it will undoubtedly bring about a structural transformation in travel preferences and consumer behavior. To recover, Belize's government, the private sector, and the country's institutions must work within the bounds of a new normal. For instance, the tourism industry must find a new business model that emphasizes the country's uniqueness, understands travelers' demands, and remains competitive in the face of uncertainty. The country will have to make difficult decisions and implement innovative approaches in order to rekindle growth and preserve the welfare of citizens. A cornerstone of this process will be promoting diversification—both within the tourism and agriculture sectors, and throughout the economy—by advancing high-potential economic sectors and attracting private investment in a context of very limited fiscal resources.

CONTEXT

Belize was among the last group of countries in the region to report positive cases of COVID-19 and since April 13 has had no new cases for 37 consecutive days. As of May 20, Belize has had 18 confirmed cases of COVID-19, two of whom have died and 16 have recovered. After the first imported case was confirmed on March 23, Belize recorded its next 17 cases within a period of 19 days.

The Belizean economy will be one of the world's tourism-dependent economies most impacted by COVID-19. Belize is among the most tourism-dependent economies in the world, the sector accounting for close to 40% of GDP. Given the economy's dependence on tourism inflows, the International Monetary Fund (IMF) forecasts that it will contract sharply by 12% in 2020. Standard & Poor's estimates that Belize could be the third most impacted country in the world among tourism-dependent economies. This has caused both Standard & Poor's and Moody's to downgrade Belize's credit rating.

The Prime Minister and the Leader of the Opposition formed the COVID-19 National Oversight Committee to address the COVID-19 crisis. Belize stands out as one of the few countries that have taken a bipartisan approach to dealing with the COVID-19 emergency. In addition to announcing measures to reduce the spread of the virus, the National Assembly approved US\$12.5 million in supplementary budget spending and a loan of US\$25 million from the Central Bank of Belize (CBB) for economic recovery, which were later complemented by a reallocation of US\$40 million worth of previously earmarked funds from multilaterals and US\$7 million worth of donations.⁹ Additionally, the Committee announced a fiscal stimulus package to tackle the economic impact of COVID-19, which included emergency aid to unemployed workers, a moratorium on loan repayments to banks and credit unions, and support for economic sectors, particularly the tourism industry.

Belize has partially resumed business activities under a new state of emergency. A new state of emergency took effect on May 1 and will last for 60 days unless revoked sooner by Parliament.¹⁰ Under the new statutory instrument, some of the more rigorous measures introduced when the country entered into lockdown on April 11 have been lifted to allow business to resume activities to some extent.¹¹ The businesses and business persons affected include government offices, lawyers, real estate agents, accountants, carpenters, electricians, wholesalers and retailers, hotels (local guests only) and call centers.¹² These re-openings must abide by the Ministry of Health's measures. Belizeans are now

⁹ Prior to these announcements, the government approved the sum of US\$450,000 to cover training and planning for detection and care, and the purchase of equipment.

¹⁰ The state of emergency regulations were further relaxed on May 15 and will remain in effect until at least June 30. Under these, the use of recreational areas, the operation of open-air dining areas, and limited religious gatherings are all permitted. Additionally, Belizean citizens abroad are allowed to reenter the country, though the borders remain closed to foreign nationals.

¹¹ On March 30, for the first time in the country's history, the government of Belize declared a nationwide state of emergency.

¹² For more information on the list of businesses, see: <https://www.pressoffice.gov.bz/wp-content/uploads/2019/12/SI-No-65-of-2020-Belize-Constitution-1.pdf>.



required to wear a face mask when in public or to enter a business or public establishment. Public transportation also resumed, with the use of face masks mandatory for all passengers.

Nevertheless, the government is preparing for a possible second wave of cases and ensuring local testing capacity is expanded. The reduced number of cases and slow infection rate may be associated with the lockdown and early implementation of social/physical distancing measures. However, the scale of the spread is unclear, as access to test kits and supplies remains limited in Belize due to market conditions (shortages and extended delivery times), limited laboratory capacity, and budgetary constraints.¹³ As of May 19, Belize has carried out 1,363 tests and plans to increase random testing among those on the frontline, including workers in homes for the elderly, caregivers, coast guards, and immigration, customs, and healthcare workers, though this will be conditional upon the availability of key supplies and equipment.

POST COVID-19 RECOVERY CONSIDERATIONS

MACRO-FISCAL CONTEXT

The COVID-19 pandemic comes at a time when the economy is already in recession and after a year of substantial weakening of the fiscal stance. In the last quarter of 2019, Belize went into recession as a period of prolonged dry weather conditions impacted the agriculture sector and a slowdown in the country's tourism sector continued throughout the second half of the year. On the fiscal front, the fiscal adjustment was interrupted in 2019 after fiscal targets agreed with external bondholders were met for two years in a row. During FY2019/2020, the primary surplus was below the fiscal target (1.3% of GDP vs. 2% of GDP) due to additional capital spending, higher salaries, and an extended drought that resulted in weaker revenues.

In 2020, increased spending to tackle the emergency and a fall in tax revenues due to COVID-19 will further worsen the fiscal stance. As of May 15, Belize has announced a US\$89 million fiscal stimulus with which to tackle the health and economic emergency, including supplementary budget, a CBB loan, and the reallocation of previously earmarked funds from multilaterals and donors. It should be noted that the funds from multilaterals may be used to cover part of the government's supplementary budget and not all of them are expected to be disbursed in 2020. The IMF expects the overall balance to widen from 1.8% of GDP in 2019 to 5.18% of GDP in 2020, while the primary deficit is expected to move from a surplus of 1.3% of GDP to a deficit of 1.4% of GDP.

The expected fiscal deficit will reverse the downward trajectory of public debt, putting its sustainability at risk. The suspension of the fiscal adjustment will jeopardize the government's goal of reducing the debt-to-GDP ratio, which has remained above 90% since 2016. The IMF estimates that the debt-to-GDP ratio will increase to 115% in 2020. Even though most of the announced external funds from multilaterals for tackling the emergency constitute a reallocation of previously approved loans, the expected fall in growth will automatically increase the debt-to-GDP ratio. Furthermore, new funding from the IMF and the IDB that could total US\$60 million is expected to be approved in the coming months.

In the short term, the government needs to secure resources to support the health sector, vulnerable populations, and financially sound companies. Considering the fall in tax revenues expected due to the impact of COVID-19 on the tourism sector and the fact that international reserves continue to decline, it is imperative that the government secures funding to inject liquidity into the economy. The government has started implementing measures to cut expenditure across government ministries and freeze the salaries of public officials.¹⁴ Efforts to shift public spending priorities should continue, including the

¹³ IDB (2020). Reformulation proposal of the Sustainable Tourism Program II for financing the immediate health response to contain and control the coronavirus and mitigate its impact on service delivery in Belize.

¹⁴ Negotiations between the government and the Public Service Union in Belize and the Belize National Teachers' Union on salary increases for this year are still in progress.



reallocation of superfluous expenses and other inefficient spending and the postponement of capital projects that are not a priority.

However, Belize will need to get back on a sustainable fiscal path after the emergency, enhancing government revenues and making spending more efficient by:

SHORT-TERM ACTIONS

- **Restructuring current spending.** Spending allocated to wages, pensions, and transfers have increased substantially, its share increasing from 40% in 2000 to 60% in 2018. Priority measures to reduce current spending include limiting public salary increases and implementing civil service reforms to gradually reduce the number of public employees and increase the retirement age. Better targeting of social safety needs would help make spending more efficient, given that waste in targeted social program expenditures is estimated at 0.4% of GDP.
- **Limiting capital expenditure to sectors with potential for recovery.** Whilst capital expenditure could boost employment and economic activity, it involves a high fiscal cost. Hence, the investment pipeline needs to be reviewed and a set of ready-to-implement projects prepared aimed at boosting economic recovery, prioritizing those with a high social return, such as water, sanitation, and energy projects.

MEDIUM-TERM ACTIONS

- **Broadening the tax base.** Since the space to raise tax rates is very limited in Belize due to the fact that the tax burden there is already high compared to LAC countries,¹⁵ **the government should focus on broadening the tax base by phasing out exemptions on GST and excises and tightening tax incentives.**
- **Strengthening tax administration.** Measures should be taken to close administrative loopholes that lead to revenue leakage due to inefficiency and to address pay-as-you-earn threshold and rate anomalies. Basic taxpayer services (such as those for payment and filing) are essentially paper-based/walk-in, as fewer than 10% of registered taxpayers file or pay their taxes online.
- **Taxing digital platforms.** One consequence of the lockdown measures has been an increase in online purchases, which are unregulated in Belize. Home-sharing facilities, which could be more resilient in a post-COVID scenario, as they do not use common spaces for guests, have grown considerably. These are not currently regulated and do not contribute to tax revenues. The IDB monograph *Tourism in Belize: Options to Tax and Regulate the Home-Sharing Sector* presents a menu of options for regulating and taxing the sector.

PRODUCTIVE SECTOR

Belize must focus part of its recovery efforts on reaping the potential of the tourism and agriculture sectors in a post COVID-19 scenario by making them more competitive. Any recovery plan should incorporate public policies aimed at supporting the most important sectors in Belize's productive structure, namely tourism and agriculture. Tourism and travel constituted 37% of GDP, 40% of total employment, and 48% of total exports last year when direct and induced effects are included.¹⁶ Meanwhile, agriculture and fisheries represent 15% of GDP, providing employment to one fifth of the workforce and accounting for 90% of goods exports. Although the tourism and agriculture sectors show room for new investment and growth, recovery plans should adapt to a post COVID-19 scenario. One advantage is the fact that government assistance with and expansion of investment should not require any significant coordination efforts, as these sectors are relatively well organized. The recovery plan should also bear in mind that Belize's export potential is not limited to tourism and agriculture. Other services, under nearshoring/outsourcing, should be included, given the bilingual population, competitive

¹⁵ OECD revenue statistics for Latin America and the Caribbean. Available at: https://www.oecd-ilibrary.org/taxation/revenue-statistics-in-latin-america-and-the-caribbean-2020_68739b9b-en-es

¹⁶ According to the World Travel and Tourism Council (WTTC). Official statistics do not estimate the direct contribution of tourism to GDP because Belize does not currently produce a tourism satellite account.



costs (salaries are 60%-80% lower than in the United States), low attrition and turnover, and time zone. Furthermore, the Business Process Outsourcing (BPO) industry has been singled out as a specialized “niche” area and priority industry for Belize’s socio-economic growth in both the government and private sector.

In a context of very limited fiscal space, attracting private investment is crucial. The government will not be able to make all the investments needed for a successful recovery. Accelerating the implementation of low-cost reforms to address the obstacles faced by the private sector, such as measures to streamline business startup procedures, and facilitating access to credit by establishing a credit bureau and collateral registry are top priorities. A key element in this process is the rapid advancement of the country’s e-government transformation agenda to eliminate bureaucratic silos and modernize the government’s framework and infrastructure.

The Government’s immediate response requires supporting viable though at-risk companies in order to avoid the dismantling of the productive framework. Small-scale Belizean enterprises,¹⁷ for which the economic impact of COVID-19 has been particularly distressing, predominate in the tourism and agriculture sectors. As the survival capacity of these firms is low, government programs to facilitate access to credit—such as credit lines with public guarantees, liquidity guarantees to finance working capital, and trade guarantees to finance export-import operations—could help them stay afloat. Following the monetary policy measures implemented by the CBB, domestic banks and credit unions started to offer grace periods on commercial loans and refinance loans. However, the government could complement these efforts by designing and implementing a private sector growth policy in partnership with the CBB, commercial banks, and financial institutions in order to develop mechanisms to provide liquidity to viable firms to facilitate growth and protect jobs. The policy would facilitate the creation of a team to frame the processes for resilient and innovative sectors (including tourism, agriculture, manufacturing and energy) to grow, driven by a very specific targeted approach that looks at marketing, product development, incentives, and financial sustainability. Another aspect to guaranteeing the survival of firms in the short run is the development of strategies to reallocate services, e.g., for businesses operating in the tourism industry, alternatives such as food delivery, laundry pickup and delivery services or transportation services could constitute options to offset the downturn in sales.

The development and dissemination of guidelines and bio-protocols is a priority to build confidence among tourists. A successful resumption of business activities in the local market will be vital for the reopening of the economy to the international market later. This requires clear bio-protocols and guidelines tailored to all economic sectors, as well as coordination with public and private institutions to disseminate and guarantee their compliance. As tourism has reopened to locals, all of the sectors involved in the provision of visitor services (hotels, transportation, restaurants, guided tours, and so on) must be prepared to follow safety protocols, and while the domestic tourism market is relatively small, it could provide some partial financial relief to small businesses. Moreover, reactivating this without any new cases being reported will be fundamental to establishing Belize as a safe destination in the eyes of the world. In the case of the agriculture sector, local farmers have continued to work in recent months and the government should redouble its efforts to guarantee food quality and safety in accordance with international standards.

As the revival of tourism will be slow, the country should aim to build a more resilient sector that operates under a new business model. As a relatively young industry, tourism in Belize has room to grow. However, COVID-19 will force the sector to adapt and to address structural challenges that have persisted since before the pandemic began. These challenges include: low average expenditure per tourist compared to other countries, an influx of tourists to a limited number of destinations; an overnight ecotourism product comprised primarily of the Belize Barrier Reef and “sun and beach”; an increased number of visitors to the main tourist attractions that had exacerbated the need to preserve the biodiversity; and a vulnerability to the combined effects of climate change on both tourism-related infrastructure and the natural assets on which the industry depends (e.g., beaches and reefs). Given that the government has very limited resources, investment should focus on a limited number of activities in order to aid the recovery of the sector and, at the same time, help overcome the structural challenges.

17 As reported by Nuenninghoff et al. (2015), Belize’s stock of tourism accommodation is predominantly small scale, characterized by small boarding houses, guesthouses, hotels, and resorts. Based on the 2002 Farmers’ Registry, the country had slightly under 10,000 farms, a quarter of which had fewer than five acres of land and 57 percent of which had fewer than 20 acres.



Priority areas could include:

SHORT-TERM

- **Strengthening real-time disease surveillance and response through a mobile app.** A mobile travel app for sharing real-time information could provide a platform for accessing up-to-date health information for travelers to Belize, including alerts and details of vaccinations and health facilities, as well as information and response and control guidelines on travel-related illnesses/public health issues, and information on evacuation protocols.
- **Market intelligence to assess demand.** Market analysis on consumer preferences and behavior is essential to be able to anticipate changes in post-COVID demand and consumption habits. Since COVID-19 will affect future travel behavior, companies and policymakers should assess potential markets for Belize (distinguishing by age group/income level) and destinations that could constitute its main attractions.
- **Developing a business plan in order to remain competitive.** Any recovery plan needs to identify the country's strengths in preparation for a more competitive post-COVID-19 world. As economies reliant on tourism will undoubtedly implement aggressive campaigns to attract visitors, Belize will need to find ways to promote its own unique tourism assets, particularly those that are land-based. Since the sun-and-beach product may be less appealing in this new environment, fostering private sector investment to develop new products could serve as an effective strategy to set the country apart and enable it to remain competitive. This is also key for the BPO sector.
- **Conservation initiatives.** There are several opportunities for tourist guides and other stakeholders to participate in conservation initiatives, such as replanting coral, monitoring the reef system, tracking wildlife, and replanting forest, among others.
- **Marketing efforts to stimulate demand.** Initiatives such as the *From Belize to the World: We Miss You!* video are promising. TV and social media campaigns to encourage domestic and international tourism demand could boost the country's image (these should include details of health measures in the country).
- **Air routes.** As airlines are restructuring routes, the government should actively engage in discussions with the airlines operating in the country to share information on the measures introduced to guarantee the safety of international visitors.

MEDIUM-TERM

- **Strategic investments with a social impact.** Given fiscal budget constraints, all investments should target attractions with the greatest post-COVID-19 potential based on the analysis of demand. Investments with a high social impact that would benefit not only tourists, but also local communities should be prioritized, such as the provision of water and sanitation services or reliable electricity and internet connectivity.¹⁸
- **Digital transformation, including virtual tourism.** This is a strategy that could improve the tourist experience, shape tourist offerings, and stimulate the transformation of the sector at a relatively low cost. SMEs could develop mobile technology to facilitate reservations and the sharing of experiences, the use of virtual reality to bring remote locations closer to the traveler, leveraging of the Internet of Things to keep the industry up to date, and the use of big data for analytics to develop visitor profiles, insights, and trends.
- **Consolidation of the domestic tourism market.** Domestic spending represents 13% of total tourism spending in Belize, while in Costa Rica the figure is 33% and in the Dominican Republic

¹⁸ Additionally, there are some tourist areas that could have potential but have barely been tapped into. They have not been fully explored, as they require greater infrastructural development to facilitate increased visitor arrivals, including better roads, visitor centers, parking facilities, and dedicated staff, as well as investments in marketing and distribution, quality assurance, and asset management. One of the advantages of Belize given its small land area is that tourists can visit various tourist attractions on a single trip, which would increase average expenditure.



and Jamaica 27% and 21%, respectively. Developing a new model for domestic tourism should help to identify and prioritize the preferred destinations and attractions of the domestic market and ensure accessible and affordable transport to tourist attractions and routes. The current opening-up of the industry to locals presents an opportunity to collect information on consumer preferences.

Given the size of the population and availability of land and water, agriculture has a great potential for expansion. Agricultural exports in Belize are highly concentrated in four groups of products: citrus fruit, bananas, sugar, and marine products. The lack of dynamism of these products, the sharp drop in their prices, and their vulnerability to crop diseases make it necessary to look for new products and markets. Given that the food sector has proved to be a more resilient industry during economic crises, some of the policies that could foster a faster recovery include:

SHORT-TERM

- **Food security.** The consumer food basket is composed mainly of imports and import-competing products, while export products are much less important. Despite Belize's ample endowment of resources, the country has a large import bill. In a first stage, the government could create incentives for retailers to buy local products from small and medium-sized producers to meet local demand. Considering the essential role of the Food Pantry Program, its basic food basket should prioritize local products in order to support small farmers. In a second stage, commodities should be a priority area, as these account for a large chunk of the import bill and could be competitively produced in Belize.
- **Information systems.** The two previous strategies would require a comprehensive system to generate, transform, and consolidate the information on the sector. The Belize Agriculture Information Management System (BAIMS) is an excellent starting point for facilitating the matching of local producers and buyers, but its use needs to be encouraged by the government for it to become an effective tool.
- **Promoting strategic linkages with the tourism sector.** The tourism sector offers several market opportunities for expanding agriculture-tourism linkages. Products with potential market opportunities include onions, tomatoes, cabbage, carrots, lettuce, milk, and various meat products, while there are farmer cooperatives that could constitute a reliable source of high-quality agricultural products to businesses in the tourism sector at competitive prices. These strategic partnerships could be extended to the creation of agri-tourism and experiential tours, which offer great potential.
- **Aquaculture and seaweed farming.** Both sectors have proven to have high potential for growth and there are clear advantages to Belize's entering these industries. If developed, they could constitute a sustainable and alternative source of income for farmers or those workers who have lost their jobs in the tourism sector.

MEDIUM-TERM

- **Diversification to non-traditional crops and new markets.** Belize is well positioned to compete in niche markets, such as those for organic oranges, cocoa, and rice. Pursuing this avenue would help insulate producers somewhat from the lowest-cost competition that characterizes commodity markets. The development of other sectors (such as forestry) should also be analyzed. The country's location could position it as a provider of forest resources in the Caribbean.
- **Strategic investment in irrigation systems.** One of the first steps toward a priority investment plan is the formulation of an irrigation strategy, as one of the reasons for the low rate of utilization of arable land is the lack of irrigation facilities. Irrigation is important to ensure the adequacy of the water supply for crops in the dry season and during dry spells in the rainy season.
- **Dissemination of best practices.** There is much scope for increasing the productivity of agricultural products. Some of the strategies to increase productivity among small farmers include expanding agriculture literacy programs and the dissemination of best practices already



implemented in Belize (in particular systems based on greenhouse farms for better management of inputs such as water, fertilizers, and pest control with standardized procedures). Obviously, this strategy should be accompanied by financing to ensure its effectiveness. For instance, Mennonite communities have significantly expanded their agriculture production, even though they use the same infrastructure and workforce as the rest of the economy

- **Waste and circular economy models.** Innovative waste management measures in tourist destinations are recommended, such as upcycling and recycling to promote environmental conservation awareness, minimizing environmental damage, and fostering a holistic sustainability strategy to conserve valuable environmental assets. Likewise, Belize needs to adopt circular economy approaches to managing agricultural and food waste in order to reduce natural resource use and waste production, while at the same time designing new valuable by-products and co-products.

As tourism and agriculture are highly dependent on natural resources and vulnerable to natural disasters, the country needs to diversify to other high-potential sectors such as ICT. The impact of COVID-19 could create ICT opportunity areas, such as telework, telemedicine, food delivery, remote learning, and entertainment. Given that Belize is English-speaking and more than half the population is bilingual, and the fact that it is geographically close to the United States, ICT could be one of the most promising sources of growth for the private sector in the areas of call centers, software development, and offshore data processing. ICT services constitute the third most important sector in terms of exports, but its share has decreased from 14% of export earnings in 1995 to 11% today. Affordable access to utilities and the Internet, and to programs aimed at developing skills in these areas (such as coding bootcamps) is a prerequisite to attracting investment. All this will require increased support for the work of BELTRAIDE in attracting new FDI inflows and further development of Ladyville, Belmopan, San Ignacio, Corozal and Orange Walk, in a coordinated effort with the industry to boost exports and employment. Based on the review of current practices and investor feedback, the following suggestions for further developing BELTRAIDE's aftercare program are worth considering:

SHORT-TERM

- Building and maintaining a national database of existing investors in the country, perhaps using company registers as a starting point
- Recruiting staff with industry experience in the private sector into Belize's National Investment Promotion Agency (IPA) for them to lead strategic engagement with key accounts, as part of a dedicated aftercare unit
- Developing a key account management approach, with segmentation of investors into key accounts and account managers assigned to each investor
- Revamping the Customer Relationship Management (CRM) system to support the process of generating FDI leads and managing key accounts

MEDIUM-TERM

- Working to strengthen the mandate of the IPA as the main national agency for FDI attraction
- Strengthening policy advocacy through an investor council to fully address any strategic issues that might be holding back new, reinvestment, and export projects so as to tackle issues such as access to finance and export assistance. If investors are able to access more finance and receive more export support, they are more likely to reinvest rather than repatriate capital.
- Gaining a more detailed understanding of the supply chain of investors and mapping out local SME capability to meet the supply chain needs and assess how local SME capabilities could be upgraded.

Recent innovations in the face of COVID-19 for the purpose of reallocating manufacturing production to the health and healthcare industries are promising. Manufacturing companies have found innovative ways to respond to the COVID-19 outbreak by reallocating production to the health industry. Examples



include the production of face shields and “medical cubes” designed by the company Slingshot Advertising & Signs, the manufacture of hand sanitizer by the Travellers Liquors Ltd distillery, and testing booths produced by Gallardo Services and Hardware.

SOCIAL SECTOR

The social impact of COVID-19 in Belize will be severe. The IMF estimates that the unemployment rate will more than double from 9.1% in 2019 to 18.6% in 2020. The shock of COVID-19 to the labor market is evidenced by the more than 80,000 applications received by the Unemployment Relief Program launched by the government on April 1 (i.e., 43% of the labor force).¹⁹ The program will cover a 12-week period at a cost of between US\$20-30 million.²⁰ In addition to the Unemployment Relief Program, the Food Pantry Program, which usually offers low-price baskets every week to approximately 17,000 beneficiaries, is now providing them for free.

As projections point to a slow economic rebound, a more prolonged safety net will be required, though without becoming a permanent liability for the government. As the pandemic has hit the economic sector responsible for generating most of the country’s employment, a wide safety net to assist the vulnerable population will need to operate to prevent irreversible damage to the accumulation of human capital caused by malnutrition, poor health, and education deficiencies. In the tourism sector in particular, no full recovery is expected for at least a year. Some 60,000 people work in tourism, just over a third (21,000) of them in the formal sector. Nevertheless, the Unemployment Relief Program and any additional cash transfers should be temporary and phased out once the economy starts to recover. In the meantime, vulnerable groups should be provided with a buffer to shield them from the impact of fiscal and austerity measures, as they will be more inclined to support a stabilization program if they have a way to cope with a slump in their income.

Measuring the social shock of COVID-19 and reaching the most vulnerable will be a challenge, as information on poverty and inequality remains scant. Belize’s last poverty assessment is 10 years old and the 2020 Population and Housing Census has been postponed until 2021.²¹ The IDB study *Mapping Income Poverty in Belize Using Satellite Features and Machine Learning* shows how poverty in the country is confined to rural areas, though improvements have been observed in areas with touristic activities. Consequently, the downturn in the tourism industry could result in any improvements made in terms of poverty reduction being reversed. As the number and financial resources of social programs have expanded, it is important to strengthen the registry of beneficiaries in order to improve their targeting and assess the effectiveness of any interventions.

All social policies should be accompanied by labor policies, particularly training capacity to support labor mobility. In addition to the implementation of policies to protect workers (such as early vacation packages during the crisis and temporary unemployment relief), cash transfers conditional upon attendance at training programs could increase employability in those economic sectors that recover faster. To facilitate mobility across sectors, training programs should focus on providing cross-cutting skills, such as computer basics, Internet usage, ICT, client and business management, entrepreneurship, and social media. For those companies receiving government support, the aid should be conditional upon the supported firms not reducing their payroll and their implementing training programs.

19 The Economic Oversight Team (EOT) has approved a total of 40,453 unemployment aid applications, all of which have been sent to the Social Security Board (SSB) for disbursement purposes.

20 Employees and self-employed persons who have lost their jobs as a result of the impact of the COVID-19 pandemic (particularly though not exclusively in the tourism sector) will receive BZ\$150 (US\$75) every two weeks for a period of 12 weeks, while those who were unemployed prior to the onset of the COVID-19 pandemic and are now experiencing even greater hardship will receive BZ\$100 (US\$50) every two weeks over the same period.

21 Belize’s last poverty assessment was undertaken in 2009 and found that 41.3% of the population lived at or below the poverty line, while 15.8% were classified as extreme poor. The evolution of income per capita suggests that poverty has remained high since 2009.



COSTA RICA

PRISCILLA GUTIÉRREZ AND MAURICIO MONGE

CONTEXT

Costa Rica reported its first case of COVID-19 in early March, prompting the authorities to declare a state of national emergency. To date, there have been more than 800 cases recorded (54% of whom have recovered) and eight deaths. The government’s declaration of a national emergency made it possible for it to expedite administrative, operational, and budget regulations in order to provide a swift response to the crisis.

The crisis will impact economic growth and employment. The International Monetary Fund (IMF) estimates that the pandemic will cause economic growth to drop to -3.3% in 2020, while the Central Bank of Costa Rica (CBCR) estimates it at -3.6%. The main repercussions will be a reduction in trade; a decline in the tourism sector (which accounts for 9.0% of all jobs and 6.3% of GDP) and in revenue from the creative and entertainment industries; lower domestic demand; a worsening of fiscal conditions; and an increase in poverty and unemployment.²²

The economic impact of the crisis and its impact on labor will be felt most by women. The main reasons for this include: (i) the higher rate of participation of men in the economy compared to women; (ii) women spend up to nearly three times as much time on domestic and family responsibilities as men do; (iii) women are less represented in the most dynamic, technological, and high-productivity economic activities and sectors; (iv) women are employed in those sectors most affected by COVID-19, such as retail, hotels and restaurants, tourism-related activities, cleaning services, and paid domestic work;²³ (v) women are over-represented among the most vulnerable workers, such as the self-employed in informal activities with no social welfare protection or insurance; and (vi) women have less access to savings accounts than men do and lower average savings.

The country acted promptly to contain the spread, mitigate the economic impact, protect jobs, and safeguard the liquidity of the most vulnerable households and businesses.

<p>Fiscal</p> <ul style="list-style-type: none"> ✓ Tax moratorium on payment of VAT, income tax, tariffs, and excise duties ✓ VAT exemption on commercial leases ✓ Freeze on salary increases and incentives 	<p>Employment and Social Security</p> <ul style="list-style-type: none"> ✓ Monthly payroll subsidy (for 3 months) ✓ Withdrawals permitted from Labor Capitalization Fund ✓ More flexible working hours ✓ Temporary reduction in employer social security contributions
<p>Financial</p> <ul style="list-style-type: none"> ✓ Monetary policy rate cut (to 0.75%) ✓ Purchase of government securities on secondary market by the CBCR ✓ Loan readjustments with no effect on debtors’ credit ratings 	<p>Public Services</p> <ul style="list-style-type: none"> ✓ 3-month moratorium on electricity payments for industry and commerce ✓ Extension of deadline for paying domestic electricity bills ✓ Moratorium on disconnection of water/power supply ✓ Moratorium on hikes in electricity tariffs and fuel prices

22 According to the Ministry of Labor, as a result of the COVID-19 crisis, by April 20 a total of 28,561 formal workers had experienced a change in their work status (i.e., been furloughed or seen a reduction in their working hours) and an estimated 129,000 people had lost their jobs.

23 In Costa Rica, 51.4% of employed women work in these sectors (17.2% in paid domestic work, 16.7% in commerce, 9% in hotels and restaurants, and 8.5% in food services) compared to only 30.2% of men (for whom the equivalent figures are 3.5%, 17.5%, 4.6%, and 4.6%, respectively).

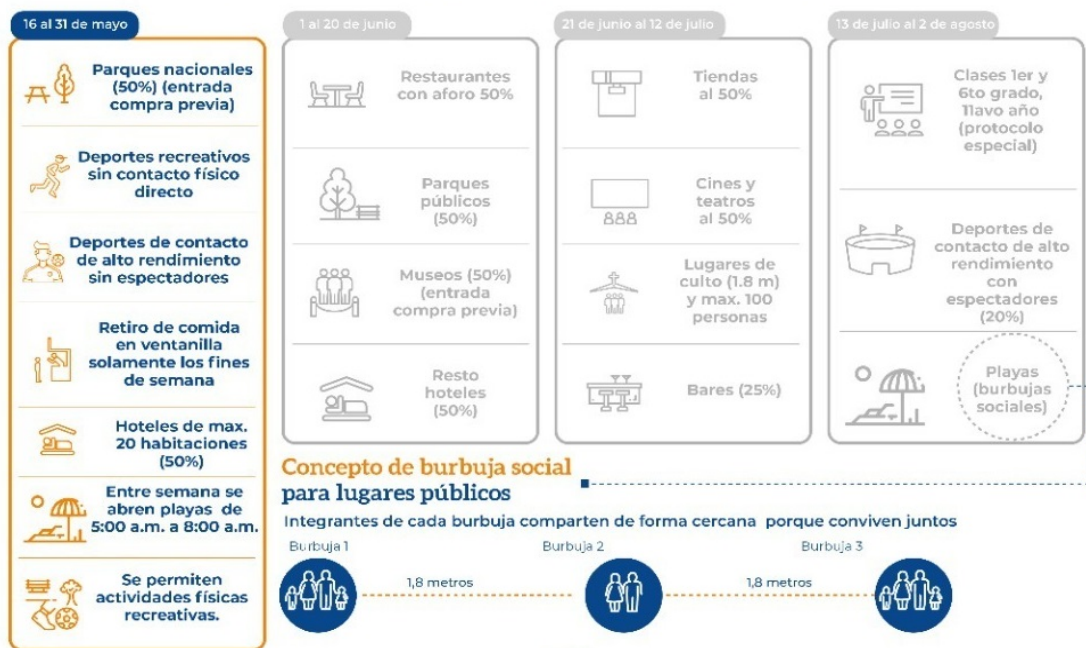




LIFTING OF CONTAINMENT MEASURES

The authorities have issued guidelines for the lifting of restrictions and for the resumption of activities. Provided people continue to comply with the measures, the Ministry of Health projects 1,368 cases by July; if not, this figure could reach as high as 52,638, including 1,197 people in intensive care. President Alvarado announced the timetable for the lifting of restrictions over the next three months, in accordance with specific protocols for preventive and mitigation measures. Among the most important of these are:²⁴ (i) the opening up on weekdays (up to 25% of their capacity) of cinemas, gyms and non-contact sports venues, with a special timetable for people at particular risk; ii) the opening up on weekends (in keeping with the restrictions on vehicle use) of beauty parlors and barber shops, retail outlets selling auto parts and auto accessories, and parking lots (up to 50% of their capacity); (iii) the opening up (to a maximum of 50% capacity) of restaurants, hotels with a maximum of 20 rooms, and stores; and (iv) the opening up of national parks and museums to 50% of their capacity at weekends. In addition, as part of its efforts to revive the economy the government announced a four-stage timetable of measures to be followed over the next three months, between May 16 and August 2.

TIMETABLE FOR REOPENING



Source: Office of the President of the Government of Costa Rica

Public opinion is behind the measures taken by the government. The COVID-19 emergency has proved to be a unifying theme in the country, where the public’s perception of the government’s response has been positive. According to a survey of public opinion carried out by the country’s Center for Research and Political Studies (CIEP), the spread of the virus is perceived as the most important problem they face, followed by the economic situation and unemployment. The measures taken by the government to contain the disease are viewed favorably by 93 percent of the public, while 70 percent have a positive opinion of the economic measures.

ECONOMIC RECOVERY IN THE MEDIUM TERM

The economic recovery will depend on a multitude of factors, starting with the effectiveness of the response to the health crisis, when and how restrictions on movement and social/physical distancing are

24 For further details of the measures (in Spanish), see: [Gobierno presenta cronograma de reapertura de actividades.](#)



lifted, and the scope and “boldness” of policies aimed at encouraging growth and redistribution. What will enable Costa Rica to return to “normality” will be the decisions taken now looking to the medium term. In this respect, the lessons learned from the 2008–2009 crisis cannot be overlooked and the policies adopted in this context will need to be restrained, targeted and temporary, and safeguard medium- and long-term macroeconomic stability. This will ensure that once the current crisis is over the State is able to continue to address long-standing structural challenges, such as reducing the deficiencies in multimodal infrastructure, encouraging the development of human capital and its incorporation into the formal labor market, increasing productivity and strengthening institutions and the business climate. This it will need to do while at the same time taking into account the need to address climate change, reduce the gender gap, and adopt and make efficient use of technology.

The government has already announced reactivation measures, most notably: (i) an injection of funds for working capital totaling US\$1.58 billion (2.5% of GDP) for loans at preferential rates; (ii) a program of public investment worth US\$5.25 billion (8.5% of GDP) from 2020 to 2021 to create 109,000 direct jobs; (iii) the streamlining of administrative formalities; (iv) promoting a bill aimed at modernizing the country’s National Institute of Learning (the INA) and reducing flexible working hours; (v) a program to attract new investment and business (e.g., in hemp cultivation, attracting pensioners from abroad, and creating a welfare and life sciences hub); and (vi) support programs for SMEs, agriculture, and tourism via platforms that match up supply to demand.

MACRO-FISCAL CONTEXT

The country is facing the pandemic against the backdrop of a difficult fiscal situation. Fiscal sustainability, a necessary condition for increased economic growth and improved social welfare, has been jeopardized by low tax revenues and rapid growth in current spending. Following repeated attempts to pass legislation to address these imbalances, in December 2018 the country passed a Public Finance Consolidation Act, the successful enactment of which would reduce the Central Government (CG) deficit and stabilize the medium-term debt path. The reforms have been introduced gradually, with some results already starting to emerge. For example, the 2020 budget was drawn up in accordance with the fiscal rule, while in the first quarter of 2020 the primary deficit was at its lowest level in a decade. However, in 2019, the primary and financial deficits reached 2.8% and 6.9% of GDP, respectively, partly due to the slowdown of the economy, which ended the year with 2.1% growth, while public debt—which has doubled in the last decade—continues on a trend that will see it exceeding 60% of GDP in 2020. Short- and medium-term financing needs amount to over 10% of GDP, with more than 37% of the total debt maturing in 2023. This situation recently led to the country’s sovereign credit rating being downgraded,²⁵ which will cause an increase in its financing costs and refinancing risk in the short and medium term.

COVID-19 has put a halt to the ongoing fiscal consolidation efforts and will inevitably cause a further decline in the sustainability of public finances. The IMF has forecast an increase in the primary deficit from 2.8% of GDP in 2019 to 3.7% in 2020, whilst the financial deficit is expected to rise from 7.0% to 8.7%. This outcome takes into account countermeasures²⁶ to increase tax revenues in 2020. Without such measures, the financial deficit could reach as high as 10% of GDP. Meanwhile, current expenditure is expected to rise from 14.9% of GDP in 2019 to 16.4% in 2020 as a result of healthcare requirements and increased payments to households,²⁷ despite a nominal freeze on public sector wages and the cancellation of bonuses for this year. Debt will reach 67.2% of GDP in 2020, peaking at 70% in 2023 before dropping back down to 67% in 2025. The financing needs of the central government will total about 12% of GDP in 2020–2021 and remain above 11% in 2022–2023. While most of the financing will be provided by the international market,²⁸ a significant portion of it will be covered by the domestic market, which has little scope to continue funding the government due to the current liquidity pressures it is facing.

25 In March 2020, Moody’s downgraded the sovereign rating from B2 to B1 with stable outlook.

26 The proposed measures include a solidarity tax on the earnings of public and private sector employees, a fuel tax, and the elimination of certain exemptions.

27 The government has introduced the *Bono Proteger*, a monthly subsidy given to families suffering the effects of unemployment or reduced working hours. So far, some 197,000 people have received it, with over 421,000 applications already approved.

28 Multilateral financing worth almost US\$3.4 billion is expected to be provided, including US\$508 million in emergency funds from the IMF and US\$250 million from the IDB. The Ministry of Finance has no plans to issue any further Eurobonds until 2021.



The downturn in economic activity and the high unemployment rate have kept inflationary pressures at bay, allowing the Central Bank to implement measures to revive the economy. In March 2020, Costa Rica’s central bank cut the monetary policy rate to 1.25%, its lowest level since the 2008 financial crisis. This cut was due to the low rate of economic growth, high unemployment (12.5%), and low growth in monetary aggregates and private sector borrowing, and was aimed at maintaining the downward pressure on domestic interest rates. In addition, in 2019 the CBCR reduced the minimum reserve requirement for domestic currency from 15% to 12%, thus raising the incentive for banking institutions to extend credit to economic agents.

The following are a few suggestions for strengthening the fiscal situation in the short and medium term:

	Revenue	Expenditure
Short term	<ul style="list-style-type: none"> Continue to consolidate tax revenues 	<ul style="list-style-type: none"> Pass and enact the Public Employment Act Define the timetable for administrative reform and embark on its implementation²⁹ Include the entire public sector in the budget Create a debt management office³⁰ Reinforce the medium-term fiscal framework
Medium term	<ul style="list-style-type: none"> Review social security financing and carry out comprehensive reform 	<ul style="list-style-type: none"> Establish a National System of Public Investment (SNIP) with a project bank and coverage at the cantonal level Establish an office for monitoring and managing fiscal risks³¹ Implement the Public Employment Act throughout the NFPS with a set timetable

The authorities’ commitment to adjusting the fiscal position after the pandemic is over is crucial if credibility is to be restored. The government has a number of short- and medium-term options available to it to help consolidate the deficit once the pandemic is over. The most important action, not only in terms of results but also in terms of the effect it will have on the country’s credibility, will be to comply in due time and form with the fiscal rule from 2021 onwards. This will mean continuing to work to ensure that there is no erosion of the core institutions needed to do so. The fiscal rule will benefit from a strengthened medium-term fiscal framework, consistent with best practices, something that has proved an effective tool with which to control medium-term public spending in OECD countries whilst ensuring support for the government’s strategic priorities. Furthermore, it would allow fiscal policy to contribute more effectively to growth and equality.

PRIVATE SECTOR, PRODUCTIVITY, AND INNOVATION

Costa Rica not only presents a number of challenges with respect to increasing its productivity, but also a sharp disparity among and within the various productive sectors, depending on the size of the firms. The productive apparatus is characterized by a combination of high-productivity firms (both domestic and multinational) coexisting alongside small domestic companies with low, diffuse productivity.³² While this simple black-and-white characterization is not entirely accurate, generally speaking those sectors with lower productivity levels have a greater capacity to create jobs, though low-

29 This will involve merging and dismantling redundant public bodies and carrying out an extensive review of existing budget programs in order to identify overlaps and/or repetitions as regards objectives and beneficiaries.

30 Debt management should be modernized to contain the risks of refinancing and lower the cost of servicing it. The IMF recommends: i) using different instruments to manage debt and cash needs; ii) moving towards market-based mechanisms and strengthening price discovery by establishing a technical pricing committee in charge of developing guidelines for pricing methodologies; and iii) improving communication with markets.

31 It is particularly important that the transparency of the accounts, administration, and operations of public enterprises be improved by means of effective oversight by the Ministry of Finance in coordination with MIDEPLAN.

32 Monge-González, Crespi, Beverinotti, and Torrentes, *Confrontando el reto del crecimiento: Productividad e Innovación en Costa Rica*. (IDB 2019) forthcoming.



skill and less well-paid ones. In contrast, the most productive sectors, which are generally focused on non-traditional agriculture and new services and located in free-trade zones, provide more-skilled jobs but have less capacity to create them. The trade link and innovation exchange between the two groups is somewhat limited, which makes it difficult for less productive sectors to become part of the main value chains.

Improving the business climate and the competitive framework is key to enhancing competitiveness.

In the current climate, the biggest impediment to business development is bureaucracy³³ and the differences in the level of digitalization of public bodies, coupled with the time it takes to complete complex formalities, a product of the regulatory and institutional shortcomings of e-government and lack of interoperability of systems among agencies. Furthermore, a significant number of markets and sectors are exempt under the Competition Act, on top of the numerous exemptions that already apply, to the detriment of the consumer.³⁴

The causes of the low business productivity include a lack of investment in innovation and of access to needs-specific funding.

The first of these is linked to the lack of preparedness of human capital, underinvestment in general knowhow,³⁵ and the dearth of financial products for this purpose. The country allocates 0.6% of GDP to Research and Development (R&D), compared to the OECD average of 2.4%.³⁶ 57% of lending has gone to trade and services, while only 0.3% to innovation and development.³⁷ Technology to support the productive transformation of SMEs and enable them to tap into export markets is essential in order to increase levels of economic sophistication, strengthen productive linkages and clusters, and contribute to more balanced and carbon-free growth. It is therefore essential to link technical education to this goal. Costa Rica is endowed with resources to promote this development, both in tourism and in agriculture. Enabling these innovation processes to flourish will also require increased funding and specialized instruments. Among the barriers that prevent SMEs from increasing their productivity are the availability and cost of loans to enable them to grow and the limited capacity to develop bankable projects.

COVID-19 will have a negative impact on Costa Rica's productive apparatus, with all sectors of the economy expected to contract in 2020.

Among the sectors most affected are the food and entertainment industry and tourism—expected to shrink by nearly 50% in 2020—, as well as public transport, which has seen an 80% drop in demand,³⁸ this will cause a 52% fall in the number of jobs from 211,000 in 2019 to 101,280 this year.³⁹ At the company level, it is estimated that micro-, small, and medium-sized enterprises (MSMEs) will be most affected, with 42.3% of workers employed in sectors at risk of job losses,⁴⁰ primarily affecting women, whose participation rate (45%) in the workforce is 29 percentage points below that of men (73.8%).⁴¹

The productive sector needs to become more resilient and integrated and start to reinvent itself.

It is vital that companies be provided with financing and liquidity to enable them to keep operating in the short term, particularly in the most affected sectors. In the medium term, policy should aim to reinforce free competition, provide security for investment, and further pursue the search for and integration of new markets. While there is no certainty as to the structure of post-COVID-19 global value chains (GVCs), the most important lesson is diversification and “redundancy.” In this context, there is an opportunity for the country to position itself as a reliable supplier of inputs to GVCs. From the most basic to the most complex inputs, Costa Rica has the potential to develop new business and employment opportunities, capitalizing, for example, on its experience in high-precision manufacturing and the service industry.

33 *Global Competitiveness Report 2018*. (World Economic Forum, 2018).

34 Peer review Costa Rica. (OECD-IDB, 2015).

35 *Dualidad productiva y espacio para el crecimiento de las PYMEs en Costa Rica*. (Beverinotti, Coj-Sam, and Solís, 2015).

36 OECD Economic Surveys: Costa Rica 2018. (OECD, 2018).

37 *Dualidad productiva y espacio para el crecimiento de las PYMEs en Costa Rica*. (Beverinotti, Coj-Sam, and Solís, 2015).

38 *La República* (April 2020).

39 F. Naranjo (2020). “Sector Turismo y Perspectivas Inmediatas: Impacto del COVID-19.” CEFSA, presentation.

40 International Labour Organization, ILO.

41 The participation rate for women is 17 percentage points below the average workforce participation rate of women in OECD countries (62%) and 5 percentage points below the average for women in the Latin American region (49.7%). The biggest gender gaps in labor market participation are found in the Huetar Norte, Huetar Caribe, and Brunca regions. (INEC 2018) and (OECD 2017).



In the immediate term, reactivating the productive sector will depend on how well health conditions in the workplace are managed through the development of sector-specific protocols. As already discussed at a national level, this will require laboratory testing to identify those geographic areas with the highest number of healthy people, broken down by age group and region.⁴²

The following are a number of suggestions on actions that could be taken in the short and medium term:

- Designing, testing, and implementing industry-specific safe-work protocols, including developing monitoring, testing, and tracking mechanisms, regulatory adjustments, training, and developing innovative solutions for protocol implementation.
- Identifying those sectors with the greatest economic and social impact, developing criteria based on their importance to GDP, employment, and degree of interlinkage. This could be reinforced by conducting a survey of private sector needs that is constantly updated and provides real-time information to the authorities responsible for recovery.
- Guaranteeing the liquidity of the financial system to provide loans to companies at the lowest possible cost.
- Creating incentives for financial institutions to channel resources to those customers most affected by the pandemic. One option would be to create guarantee funds that would allow financial institutions to share the risk with the public sector and thus be able to direct loans to the worst affected companies in order to enable them to safeguard formal employment, obtain working capital or reinvent themselves.
- Reviewing the use of funds from the *Sistema de Banca para el Desarrollo* (Development Banking System) in order to design lending programs targeted at the most affected SMEs, conditional upon their maintaining jobs.
- Promoting access to innovative credit solutions and analyzing the role that non-banking institutions can play in providing financing alternatives (*fintech*). This could include looking at the option of introducing a regulatory sandbox with maximum monthly amounts, along with the financing of fintech entrepreneurs who propose technological solutions.
- Expanding Procomer's *Alivio* relief program so that it reaches at least 2,000 exporting SMEs (the program currently has funds for just 200) that are experiencing liquidity crises, disruptions to supply and contracts, problems paying debt and salaries, and other problems that have brought them to the brink of bankruptcy.
- Promoting the digital transformation of SMEs (beginning with a diagnosis of their state of readiness) by providing loans and subsidies to enable them to acquire hardware, software, digital apps and platforms, and the implementation of digital extension services for digital transformation assessments and strategies, or expert consulting services to support firms in their process of organizational change.
- Strengthening the promotion of local businesses abroad by identifying specific projects for sustainable productive transformation, exporting companies, and companies with export potential. This should be accompanied by increased diversification of the exportable range of goods and services and of export destinations beyond the Central American market. Costa Rica can draw on its knowledge and expertise in the agri-food industry, in medical equipment, telemedicine, and various other highly sophisticated niches to produce sophisticated supplies sought in the international marketplace.
- Using new technologies to promote market knowledge that will help identify new business niches. The role of agencies involved in promoting trade and investment is particularly relevant in the current context of reshaping global value chains.
- Encouraging investment in rural areas and promoting the development of productive linkages through the development of clusters. In this endeavor, the support and interaction of the Costa Rican

⁴² Ricardo Monge (2020). *Ideas para la reactivación económica*.



Coalition of Development Initiatives (CINDE), the Ministry of the Economy, Industry, and Commerce (MEIC) and the Foreign Trade Promoter (Procomer) will be crucial.

- Developing the skills of those who have lost their jobs as a result of the crisis to enable them to find employment in vibrant sectors of the economy through new mechanisms for developing talent (bootcamps and certifications), co-financed by companies themselves and closely tailored to their needs.
- Providing non-financial services to support companies in their restructuring strategies or search for new markets. This will require a rethink of the Business Development Center model, to include success metrics and looking at virtual approaches.
- Simplifying, digitalizing, and automating business start-up procedures and keeping the existing ones open, adapting regulatory issues and tackling challenges of interoperability.

Specific proposals for the tourism sector include:

- In the short term, providing English-speaking workers who have lost their jobs and who have other skills with opportunities to rejoin the workforce in other service export sectors, such as call centers, and so on.
- Developing protocols for the opening and management of airports, cruise ships, and other modes of public transport, as well as biosafety protocols for the various sub-sectors of the tourism industry and each aspect of the latter (COVID-safe destinations).
- Deploying apps for the monitoring and continuous management of tourist flows.
- Maintaining, expanding, and rechanneling technical and financial support to companies in tourism and related sectors.
- Tailoring professional training plans to the needs and trends of the sector.
- Providing detailed up-to-date information on each destination and port of entry.
- Promoting domestic and local tourism.
- Incorporating new technologies and analyzing the value chains of the range of tourism experiences in order to hyper-segment the market and highlight specific tourism resources.

Specific proposals for the agricultural sector include:

- Introducing production vouchers, whereby subsidies are provided for supplies and labor in those regions where production has been most affected. A register should be compiled of all the suppliers that are still operating and those that have shut down as a result of the crisis. A program of matching grants or low-interest loan facilities is recommended for the latter, in order to re-establish the supply of inputs without affecting production.
- Maintaining the vouchers that partially cover the cost of supplies and labor in the communities most affected by the crisis, with a special focus on agrochemicals.
- Creating school vegetable gardens or short routes for supplying food to rural schools, which would involve finding producers in the area who are interested in selling their produce to the region's schools.
- Boosting agricultural technical education (vocation-technical colleges or CTPs) by incorporating new technologies aimed at increasing local productivity.
- Creating emergency employment programs in rural areas, focusing on infrastructure improvements, such as rural roads or irrigation systems.
- Improving the provision of healthy food in affected areas by issuing food vouchers that can only be redeemed for certain foods with high nutritional value.



- Assessing safety systems to ensure the entry of chemical supplies that are not harmful to health or the environment and that food is of a high quality and free from toxic residues.
- Actively monitoring those food items that are most required in order to be able to quickly regulate cash transfers so that domestic consumption is not affected.

INFRASTRUCTURE SECTOR

Costa Rica is approximately 35 years behind in its infrastructure, so improving and maintaining what it has is crucial to boosting the country's productive development and competitiveness. In contrast to current requirements, public investment in infrastructure in recent years amounted to 1.0% of GDP.⁴³ The state of the logistics and transport infrastructure and the cost of managing border crossings and dealing with the urgent need to modernize them have pushed up transport costs by between 4% and 12%,⁴⁴ impacting the main value chains that require specific routes to connect production hubs to the main hub of local consumption (the Greater Metropolitan Area), as well as to regional and international ones. A further concern is how resilient this infrastructure is to climate change in the face of intensifying extreme weather events that cause human, physical, and financial losses.

Business competitiveness has been affected by the high cost of electricity. The Costa Rican electrical grid is one of the lowest-emission systems in the world. In 2019, 98.5% of the electricity it generated was from renewable sources (hydroelectrical, geothermal, wind and solar) and 99.4% of the population had access to electricity. However, studies on the country's electricity tariffs have highlighted the need to improve tariff structures in order to encourage better use of energy and increase competitiveness.⁴⁵ In recent years, Costa Rica has had the highest industrial sector tariffs⁴⁶ of any Central American country. Moreover, whilst the country boasts a high rate of penetration and diversification of renewable energies in its electrical grid, domestic energy consumption is mostly oil-based, primarily in the transport sector. From an institutional standpoint, the Costa Rican Electricity Institute (ICE) has been experiencing a gradual deterioration in its financial position, which poses a risk to the future sustainability of the sector, makes it difficult to set competitive tariffs, and could potentially create a contingent liability for public finances.⁴⁷ This situation may be further complicated by the current lack of liquidity generated by the impact of the COVID-19 national emergency measures, despite the ICE efforts outlined in its roadmap for operational and financial sustainability.

The current state of telecommunications infrastructure could be improved to help with the digital transformation, improving the business climate, and innovation. Fixed broadband penetration is just over 10%, which is in line with the Latin American average, though below Uruguay (which at almost 25% ranks highest in the region) and the OECD average (28%).⁴⁸ Fixed and mobile last-mile network services offer low connection speeds compared to OECD countries.

The challenges of the brown agenda⁴⁹ have acquired unprecedented significance and urgency as a result of the pandemic. While the country has a good record with regard to drinking water and basic sanitation coverage, it faces challenges in terms of the quality and continuity of service provision in peri-urban areas, and the outlook as regards sewerage and wastewater treatment is poor.⁵⁰ Only 21.5% of the population are covered by sewerage services, while 76.4% have a septic tank.⁵¹ This is becoming a critical issue requiring an immediate response from the government, given that reliable water and sanitation services—the demand for which has increased due to hand washing—are vital for cleanliness and hygiene in combating the spread of COVID-19. Similarly, these services are crucial to the revival of tourism. As for

43 *Evolución y perspectivas de la actividad de la construcción en Costa Rica*. CEPSA (2019).

44 Border Integration Program. (IDB, 2014).

45 ECLAC, 2018. Review and update of the structure of distribution tariffs.

46 *Estadísticas del subsector eléctrico de los países del Sistema de la Integración Centroamericana*. (ECLAC 2017).

47 This situation stems from the substantial drop in electricity revenues caused by slower growth in the demand for electricity, which is due, among other factors, to the economic slowdown, structural changes in economic growth patterns, greater energy-efficiency, and high electricity tariffs.

48 *Broadband Policies for Latin America and the Caribbean* (IDB-OECD, 2016).

49 Sanitation, air pollution, water pollution, industrial waste, etc. (ECLAC, 2009).

50 After Nicaragua, Costa Rica is the country with the lowest sewage coverage in Central America.

51 National Policy on Wastewater Sanitation (the Costa Rican Institute of Aqueducts and Sewers (AyA), Ministry of the Environment and Energy (MINAE), and the Ministry of Health, 2016).



the treatment of sewage, it is estimated that over 85% of discharges to surface water sources are carried out without any kind of treatment whatsoever,⁵² with around 30% of wastewater left untreated and 20% left in the open air.⁵³

COVID-19 is having a major impact on infrastructure sectors. The drop in demand for some public services, non-payment, dealing with the range of credit plans for paying for the service, and the lack of resources to finance working capital has meant financial difficulties for the companies in this sector. In particular, COVID-19 has led to a fall in demand that has almost completely paralyzed public transport services, land transport services (down 80%), air transport (limited to freight transport and humanitarian flights), and maritime transport (a total suspension of all cruises), due to the closure of borders and the lockdown required of the population, which will pose a serious operational challenge in re-establishing transport services, in addition to generating financial difficulties for the various types of companies involved in the sector. In the case of urban transport in particular, the impact of low passenger demand, coupled with the informal nature of companies (mostly SMEs), places the continuity of transport services at risk. In the energy and water sector,⁵⁴ the various payment deferral and service reconnection measures implemented for delinquent customers are having an impact on the liquidity of companies in the sector, exacerbating the financial difficulties that they were already experiencing before the pandemic.

Even though the country has practically no more fiscal space for new investments, it is important to see the infrastructure sector as an ally in the effort to reactivate the economy in the short term. In this respect, it is crucial that infrastructure projects, particularly transport projects, be sped up in order to help restore jobs and improve the country's competitiveness. Similarly, investing in the energy sector should be considered, as this can be done quickly in order to help create jobs and stimulate recovery, and to bolster the decarbonization plan and create new value chains within the industry. Infrastructure contributes to growth by raising the economy's productivity, lowering production costs, helping diversify the production structure, and generating employment through the demand for the goods and services used in its provision.

The following are a number of suggestions on actions that could be taken in the short and medium term:

- Proceeding with approved projects and prioritizing the maintenance of labor-intensive ones (sanitation projects, energy projects, roads and the modernization of land border crossings).
- Supporting the Costa Rican Institute of Electricity (ICE) and other businesses in the sector, looking for options for refinancing their debt with better terms and rates that will allow them to adjust their cash flow to their revenues, expenses, and investments in order to reactivate the economy.
- Extending credit facilities to enable basic utility providers to cover OPEX needs caused by the fall in revenues due to the crisis.
- Designing an OPEX optimization and CAPEX prioritization scheme for the recovery stage for utility providers and analyzing, evaluating, and identifying innovative OPEX and CAPEX financing strategies.
- Analyzing any gaps in regulatory coverage identified during the crisis, such as the need for recovery policies, corporate governance tools for companies, and training for decision makers in times of crisis, along with the fiscal implications for the sector.
- Identifying rapid-impact operational measures aimed at improving efficiency and increasing the financial flows of utility providers (updating user registers, enhancing business systems, online billing, online payment, and so on).

52 Idem.

53 *Programa Estado de la Nación en Desarrollo Humano Sostenible* [National Program for Sustainable Human Development] 2012.

54 This is due to factors such as: i) decreases in operating revenues as a result of lower collection rates (temporary exemption from the payment of services, tariff freezes, increased delinquency, and so on), a prohibition on cutting off services; and ii) an increase in CAPEX and OPEX to deal with the crisis as a result of increased investment in equipment, the cost of supplying water by vehicle in areas with no access, new projects to improve systems (production, storage, disinfection, distribution, monitoring, and control), and the rise in operating expenses in emergency conditions.



- Temporarily deferring payments for companies linked to the transport sector (land, air, sea) value chains affected by the fall in demand and the social/physical distancing restrictions and health protocols required for reopening. In addition, offering easy credit facilities with grace periods that enable companies to deal with months of operating at a loss, along with minimum requirements secured by surety policies.
- Speeding up infrastructure projects by promoting alternative mechanisms such as public-private partnerships (PPPs), not only in transport but also in sectors such as water and sanitation, energy, telecommunications, and education infrastructure. The involvement of both public and private entities will be required. In the energy sector in particular, policymakers will need to develop energy plans that provide the long-term clarity sought by private investors.
- Establishing universal service funds to enhance the deployment of infrastructure in areas with limited or poor-quality coverage. In the water and sanitation sector in particular, establishing a sanitation fund (as provided in the National Sanitation Policy) may help close the gap in coverage of this service, which is of vital importance for the development of tourism in the country. This could be achieved by means of joint ventures with the private sector, in which service providers would identify the need in a given area and the private sector would then get involved through the use of the fund's resources.
- Promoting the electrification of the transport sector and of industrial processes. The electrification of energy use (e.g., electric vehicles, electric industrial boilers, and electric stoves) would not only reduce GHG emissions, but also create greater demand for electricity, which is virtually renewable.
- Promoting the mass-scale installation of distributed solar energy and the rapidly developing medium-scale decentralized systems. The demand for electricity will recover very gradually, so the introduction of small-scale generation could help to gradually increase supply using technologies which, in addition to creating more jobs, can do so in the short term and in keeping with the faster pace of the energy transition.⁵⁵ Hence, there could be investment in the mass installation of solar panels at homes, businesses, and small industries through the direct financing of partial or complete installation based on the stratum and level of consumption, and policy frameworks and clear rules for the deployment of this technology.
- Modernizing the power grid, strengthen cybersecurity, and improve interoperability with smart grids. COVID-19 has prompted a mass experiment in teleworking and home schooling, and while power grids are helping ease the current crisis, they are not yet ready for a more electrified future. Therefore, investment should focus on incorporating intelligent digital technologies into their operation.
- Promoting large-scale energy efficiency programs. This would include upgrading the current frequency converters of buildings (retrofitting), including improved thermal insulation conditions, and replacing lighting and cooling equipment with more efficient versions. The program would include work on public buildings and financing guarantees and programs for private sector buildings.
- Promoting the digitalization of the construction sector to improve its productivity and efficiency.

SOCIAL SECTOR

While Costa Rica has been relatively successful in terms of social development compared to other countries in Latin America, there are clear signs that the social contract needs to be updated. Poverty has remained constant in recent decades at around 20% of households due to a combination of factors, including, most notably, the education gap in secondary education and low academic achievement; challenges in the quality of education and its impact on the educational development of young women; a lack of relevance in technical education; and differences in access to social services. Inequality in

⁵⁵ Renewable energy sources, such as solar and wind, are cheap to install on a small and medium scale and allow for distributed installation.



income distribution has increased, a trend linked to greater informality, limited opportunities for high-quality work, and the persistence of high salaries in the public sector.

The high level of informality and the number of people living hand to mouth will compound the regressive impact of COVID-19. Consequently, poverty and inequality will rise, which could impact social and political polarization. In addition to these factors, the low level of savings and high level of indebtedness, not only at a macroeconomic but also microeconomic level, will have an effect not only on the scale of the recession but also on the direction and speed of the expected recovery.

The following are a number of suggestions on actions that could be taken in the short and medium term:

- Establishing guidelines to ensure the continuity of services for treating other diseases, especially for chronic patients, pregnant women, and children. The CCSS's digital file (the EDUS file) enables the authorities to identify those at high risk of contracting the virus and proceed with their isolation, as well as allowing for continuity of care for other diseases.
- Continuing to develop zone-specific epidemic information and early warning systems.
- Improving the development and deployment of telemedicine platforms.
- Boosting the digital transformation of the social sector with a view to deploying and utilizing an interoperable platform and systems.
- Ensuring the necessary sanitary conditions exist to enable students to return to class, such as access to bathrooms and cleaning supplies, and so on.
- Continuing to improve educational information and management systems to make it easier to monitor and support academic development.
- Devising a plan for the reopening of schools with clear geographically differentiated protocols, reducing the hours of face-to-face teaching and complementing this with online/distance learning.
- Developing support and fast-track programs, particularly for students transitioning from grade school to middle school and from middle school to high school, as well as for students who have fallen behind.
- Strengthening existing mechanisms for ensuring students remain in school by providing academic, financial, and social support.
- Continuing to enhance distance education platforms, training teachers in online teaching and how to manage e-learning platforms. This should be done in a context of a broader national e-education strategy that includes modifying educational curricula and targeting support for more vulnerable students.
- Outlining a strategy for identifying the new support needs of educational institutions, in anticipation of a significant switch from private to public schools among students.
- Reinforcing mechanisms for attending to victims and preventing violence (especially against women and children) and gearing crime prevention measures to those young people most at risk.



DOMINICAN REPUBLIC⁵⁶

JOAQUÍN ZENTNER AND FANNY VARGAS

CONTEXT

The Dominican Republic reported its first confirmed case of COVID-19 on March 1. By May 17, confirmed cases totaled 12,725, with 434 deaths.⁵⁷ The incidence per 100,000 inhabitants is 115.9, higher than the LAC average (84.3).⁵⁸

The Dominican Republic has imposed severe restrictions in order to contain COVID-19. The government declared a state of emergency on March 19, which was then extended through June 1; borders and non-essential businesses were closed, social/physical distancing measures put in place (suspension of classes, public events, mass gatherings, and urban and interurban transport), and a 5 p.m. nationwide curfew imposed. As of May 18, the curfew is in place from 7 p.m. to 5 a.m. Monday to Saturday, and from 5 p.m. on Sundays. The May presidential and congressional elections were postponed until July 5.

The health crisis will have a severe impact on growth. Estimates of the effect the pandemic will have on the economy range from stagnation (with 0% growth forecast by the World Bank and ECLAC) to slumps in GDP of between 1% and 3% (according to the IMF and The Economist Intelligence Unit, the EIU). In all scenarios, consumption and investment are expected to stagnate, while exports, tourism revenue, remittances, and FDI are all expected to fall.⁵⁹ The government has increased social spending by around 1.2% of GDP, subsidizing the most vulnerable households, informal workers, and furloughed formal employees, as well as some workers employed in sectors that remain operational, and tax exemptions have been granted to businesses. Meanwhile, the authorities have made monetary policy more flexible and relaxed regulatory requirements, injecting additional liquidity into the financial system to the tune of nearly 2.6% of GDP, which will be funneled to households and businesses.

LIFTING OF RESTRICTIONS

In late April, the COVID-19 pandemic was estimated to be on the wane in the country. The estimates of Ovalle, de Peña, and Ramírez (2020) indicate that the social/physical distancing measures put in place managed to reduce the spread of the virus and bring the basic reproduction number (R_0) down to 1.9 by mid-April,⁶⁰ though that this will not be enough to contain the epidemic. According to official estimates, on April 24 the R_0 was somewhere between 1.6 and 1.8.⁶¹ Estimates by Imperial College London indicate that by May 12 the epidemic had probably stabilized or was slowly growing in the country.⁶²

On May 20, the gradual reopening of the economy begins. The first stage will entail a partial resumption of business operations, with a cap on the number of employees physically present at any facilities (of 50% in the case of MSMEs and 25% for medium-sized and large enterprises). The public sector is to operate with 50% of its personnel. The return to work will be accompanied by mandatory prevention protocols. In addition to the official general protocol, sector-specific protocols have also been established for their respective activities. State public transport services have resumed at 30% of their capacity. Each activity will have staggered start times to avoid overcrowding: supermarkets, pharmacies, construction

56 Written by Joaquín Zentner and Fanny Vargas. The authors would like to thank Carolina González, Bruno Jacquet, Michael Hennessey, Olga Gómez, María Victoria Fazio, and Manuel Rodríguez for their contributions.

57 Ministry of Public Health (2020). Special epidemiological bulletin No. 60

58 IDB (2020). COVID-19: Situational report as at May 18, 2020.

59 World Bank (2020). Macro Poverty Outlook; ECLAC (2020). Measuring the impact of COVID-19 with a view to reactivation; IMF WEO April 2020; EIU (2020). Dominican Republic country forecast.

60 The number of expected cases directly caused by one infected person in a population that is completely susceptible to infection.

61 Office of the President of the Dominican Republic (April 24, 2020). Petition to the National Congress to extend the state of emergency declared under Decree 134-20.

62 Imperial College COVID-19 Response Team (May 12, 2020). Short-term forecasts of COVID-19 deaths in multiple countries.



sites, industrial and transformation businesses (including export free-trade zones), mining and quarries, agricultural and agroindustrial activities, as well as ports and airports will open at 7 a.m. Public employees will begin work at 8 a.m.; hardware stores, car dealerships, mechanical workshops, the financial sector, furniture and home appliance stores, fabric stores and tailoring services, as well as the service sector will open at 9 a.m. Restaurants will continue to provide a delivery service only until stage 3. Public guidelines regarding border closures and the mandatory use of face masks in public places and workplaces will remain in place. Given the shortage of this type of product globally, the possibility of providing the public with free face masks at strategic locations such as food stores (based on a person's ID card number or other form of identification) could be an option.⁶³

Stages of Reopening

Tamaño de la empresa	Fase 1 Miércoles 20 de mayo	Fase 2 Miércoles 3 de junio	Fase 3 Miércoles 17 de junio	Fase 4 Miércoles 1 de julio	Lunes 24 de agosto
Micro empresas de 1 a 10 empleados	Hasta 5 empleados y no más de 50% del personal	Hasta 100% del personal	Hasta 100% del personal	100% del personal	Lugares de entretenimiento y otras actividades de aglomeración de personas.
Pequeñas empresas de 11 a 50 empleados	Hasta 10 empleados y no más de 50% del personal	Hasta 75% del personal	Hasta 100% del personal	100% del personal	En el caso de las escuelas, el inicio del próximo año escolar será decidido por el Consejo Nacional de Educación.
Medianas empresas de 51 a 150 empleados	Hasta 25% del personal	Hasta 50% del personal	Hasta 75% del personal	100% del personal	En cuanto a universidades, será informado por el Ministerio de Educación Superior, Ciencia y Tecnología.
Grandes empresas de 151 empleados en adelante	Hasta 25% del personal	Hasta 50% del personal	Hasta 75% del personal	100% del personal	
Otras actividades permitidas	Juegos de azar excepto casinos. Comercios permitidos en centros comerciales. Transporte colectivo privado de pasajeros.			Hoteles, aeropuertos, Restaurantes y Gimnasios	

Source: Office of the President of the Dominican Republic, High-Level Commission for the Prevention and Control of Coronavirus Disease.

If these measures progress satisfactorily for a period of 14 days, stage 2 will enter into effect on June 3. Microenterprises can bring back their entire staff, small enterprises up to 75%, and medium-sized and large ones up to 50% of theirs. Gambling venues (except for casinos) and shopping malls will be allowed to reopen, and private transportation services and Sunday religious services allowed to resume. In stage 3, medium-sized and large enterprises can bring back another 25% of their employees; hotels, airports, restaurants, and gyms will reopen; and churches will be allowed to resume activities three times a week. If all four stages progress satisfactorily, mass entertainment, arts, sports, and cultural events will resume on August 24. The start of the next school year and college classes will be decided by the relevant education authorities.

In order for the restrictions to be lifted, it is absolutely crucial that testing capacity continue to grow so that infected persons can be identified through mass contact tracing and the expansion of isolation facilities nationwide. More than 60,000 COVID-19 rapid tests have been performed and PCR testing capacity is being ramped up in order to solve bottlenecks in the procurement of supplies.⁶⁴ In the second week of May, the number of PCR COVID-19 tests a day averaged 1,682, four times the average number in late March.⁶⁵ The authorities claim they have begun mass testing of healthcare workers, law enforcement officers, and military personnel though it would be wise to expand systematic testing to all other essential workers, such as firefighters, food chain workers, and public transport employees.⁶⁶ Mass

63 For information on Taiwan's experience, go to: https://www.jhsph.edu/covid-19/events/_documents/2020-04-24-inside-taiwanas-response-to-covid-19-transcript.pdf

64 *Diario Libre* (April 24, 2020). "Trabajamos en un plan de distanciamiento social inteligente y de apertura gradual de la economía" ("We are working on an intelligent social distancing and gradual reopening plan"). Accessed online at: <https://www.diariolibre.com/>

65 By comparison, on May 4 Panama was performing 1,097 test a day; New Zealand, 3,232; and South Korea, 6,316. Our World in Data (May 6, 2020).

66 P. Romer (2020). Roadmap to responsibly reopen America. Available at: <https://roadmap.paulromer.net/paulromer-roadmap-report.pdf>.



contact tracing will require the involvement of doctors and nurses, as well as field staff, and it would also be a good idea to use medical, nursing, and bioanalysis students in this endeavor.

MEDIUM-TERM RECOVERY AND PERSPECTIVES

MACRO-FISCAL CONTEXT

Since 2014, the Dominican Republic has maintained an average annual growth rate of over 6%, higher than the LAC average (of 0.6%),⁶⁷ boosted by a favorable external environment and the robust growth of domestic demand. The current account deficit remained around 1% of GDP (1.4% in 2019), a figure that was financed by FDI flows (3.4% of GDP on average). The non-financial public sector deficit has remained around 4% of GDP since 2016 due to the weight of the structural deficits of the electricity sector and the Central Bank,⁶⁸ as well as the low level of collection.⁶⁹ The persistent deficit has driven an increase in consolidated public debt, which grew by 9.2 percentage points from 2012 to reach 50% of GDP in 2019. While 52% of the consolidated debt corresponds to central government foreign debt, most domestic debt (57%) corresponds to the Central Bank of the Dominican Republic.⁷⁰

The negative impact of COVID-19 on the economy will have a noticeable effect on the fiscal balance.

The slump in economic activity caused by the virus containment measures will translate into a 0.8 percentage-point GDP drop in expected collections, while public expenditure will grow by about 1.2 percentage points. This means the current spending deficit will double (from 2.2 to 4.4% of GDP), while the consolidated deficit will be around 6% of GDP. In this scenario, net consolidated debt would be expected to grow by 7.3 percentage points to 57% of GDP by year end.⁷¹

In this context, the main vulnerabilities lie in the weight of servicing the debt in public finances, the foreign exchange risk, and the volatility of currency flows. Due to the expected reduction in collections, the weight of debt servicing will increase compared to its current level,⁷² undermining sustainability and reducing the room for essential expenditures. Moreover, the foreign exchange risk is important, as the foreign-currency debt ratio is around 70% and the flow of foreign currency into the economy is volatile due to a high dependency on the non-tradable sector (i.e., tourism, remittances, and FDI) and on the issuance of global bonds. Therefore, the expected increased devaluation in 2020 would raise the cost of servicing the debt.

Greater efficiency in public expenditure could be key to boosting the measures aimed at maintaining employment and increasing the productivity of Dominican workers. After the reopening, the economic effects of the pandemic are very likely to be protracted, so the State will play a critical role in maintaining the level of economic activity and employment. The public sector agenda should include public policies designed to achieve greater efficiency in public spending (e.g., by reducing electricity sector losses) and an increase in tax revenue (through tax reforms to eliminate exemptions), policies that provide fiscal space for the implementation of the packages of measures aimed at maintaining employment and boosting the productivity of Dominican workers (e.g., crash courses to raise human capital and greater digitalization among businesses).

To stimulate the economic recovery, greater public investment will be needed, something that can also be achieved through expenditure restructuring. There is an opportunity to reform public expenditure in order to increase its effectiveness, and with no greater outlay, by reducing the high levels

67 IMF WEO April 2020 and Central Bank of the Dominican Republic.

68 The central bank deficit is a liability incurred by the government as a consequence of the 2003 financial crisis and averages 1-1.3% of annual GDP.

69 13% of GDP on average in the last five-year period. Central Bank of the Dominican Republic and Ministry of Finance.

70 DGCP, General Directorate of Public Contracts (2020).

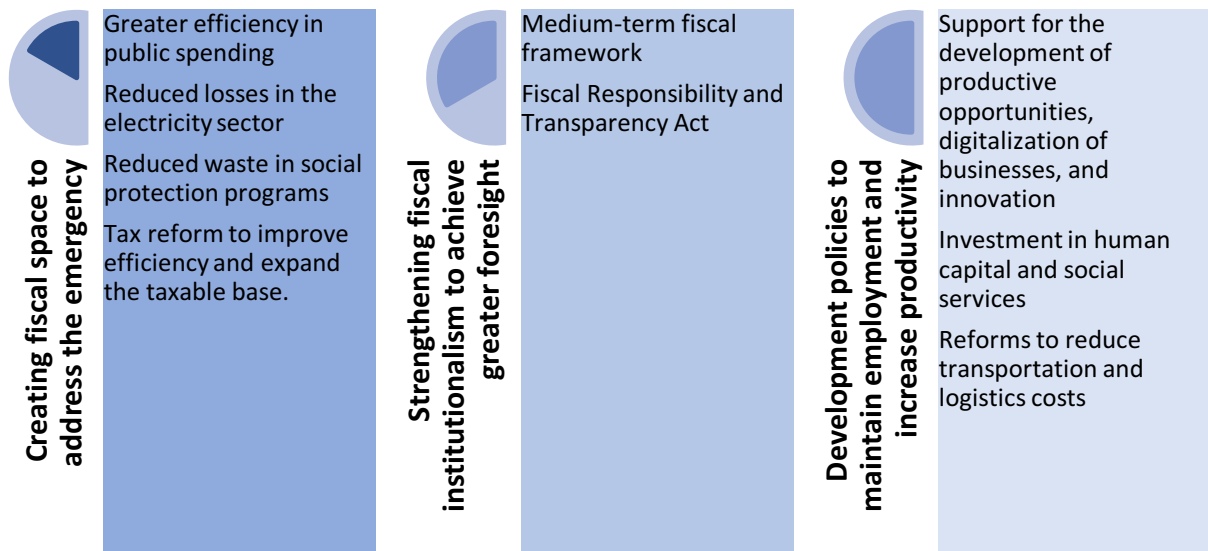
71 Own calculations based on the IMF's WEO for April 2020, subtracting intergovernmental debt (3.5% of GDP on average) in order to compare against data from the General Directorate of Public Contracts. The data on collections and expenditures were taken from IMF Country Report No. 20/154 (2020).

72 Interest payments constituted 19% of tax revenue in 2019 and were estimated at 20% in the 2020 budget.



of rigidity and the technical inefficiencies and wastefulness in allocation, at the same time increasing social returns. It is estimated that technical inefficiencies cause losses equivalent to 3.8% of GDP, the result of an increase in the total wage bill, regressive subsidies, and targeting and undercoverage issues in social protection programs.⁷³ All this limits what the government can do to improve equality and soften economic cycles. The public sector could be reorganized based on efficiency criteria, by streamlining recruitment and salary policy, and eliminating any overlapping of functions among public institutions, while strengthening the Budget Office (DIGEPRES) and the Ministry of Public Administration (MAP) in terms of their roles in the creation and auditing of posts and clarification of duties. The public investment system could be reformed to leverage the multiplying effect of spending; the implementation and regulation of the PPP law would help in this regard. These investments could provide an opportunity to make headway towards reaching greenhouse gas emission reduction targets. Interventions could be designed in such a way as to boost investment in green infrastructure (e.g., encouraging renewable energy generation and storage, the modernization of the power matrix, carbon capture) and the renewal of existing infrastructure to make it more energy efficient and resilient. Another option is investing in ways to maintain the resilience of ecosystems and reduce the environmental footprint of agriculture.

Fiscal Policy Agenda Post-COVID-19



The current situation calls for comprehensive tax reform aimed at expanding the taxable base through the re-engineering of taxes and reduction of exemptions, based on criteria of efficiency, equity, and progressivity. Such reform should implement VAT (Tax on the Transfer of Industrialized Goods and Services, ITBIS) reforms by eliminating many of its exemptions,⁷⁴ which would expand the taxable base and reduce evasion and management/enforcement costs. At the same time, it would be a good idea to incorporate redistribution mechanisms to target low-income segments of the population. Within the framework of comprehensive tax reform, direct taxation will need to be revised and streamlined in order to reduce evasion, while reinforcing the efforts to provide stronger institutions for the administration of customs and tax. Sectoral, free-zone, and investment incentives could be reformed to achieve greater effectiveness and more-precise targeting by prioritizing schemes that are more effective than tax exemptions. Such measures will create fiscal space to be able to implement policies aimed at developing production and reducing inequality and poverty.

A Fiscal Responsibility and Transparency Act and the implementation of a medium-term fiscal framework would support fiscal sustainability targets. The act would set the government's medium-term targets, guide current policies towards a baseline level of debt through an operational rule,⁷⁵ and eliminate uncertainty while the finalization of the Fiscal Pact is still pending; this would help reduce fiscal risks and financing costs. The multiannual framework still needs to analyze the results and purposes of fiscal policy and verify the consistency between the budget, fiscal targets, and the macroeconomic

73 IDB (2018). *Better Spending for Better Lives*.

74 Keeping the exemptions on healthcare and education services, financial brokerage services, residential leases, and fuel.

75 The project sets numerical targets for the level of NFPS deficit and debt, escape clauses, and penalties for non-compliance.



forecast. The framework could also strengthen tax risk management by identifying and quantifying risks, and developing principles and strategies to improve management.

PRODUCTIVE SECTOR

Dominican growth has been underpinned more by the accumulation of production factors than productivity gains.⁷⁶ Over the last 20 years, the country's stock of capital and working population grew on average by 5.7% and 2.6%, respectively,⁷⁷ whereas Total Factor Productivity (TFP) grew by 0.8%.⁷⁸ This stagnation of productivity is consistent with a segmented economy,⁷⁹ low levels of skilled labor and innovation, and limited institutional capacity to manage resources.

Productive potential is held back by a slow-growing export sector weakly connected to the local economy, one that offers low value-added products and services lacking in complexity⁸⁰ that are sold in just a few markets (the United States, Haiti). The main obstacle for the productive sector is the high costs generated by the gaps in electricity infrastructure, transportation logistics, and the regulatory burden,⁸¹ all of which significantly hinder the country's competitiveness. FDI is concentrated in the free-trade zones, while tourism produces no linkages to the rest of the economy. Businesses invest little in innovation, and both the business environment and human and financial capital are inadequate for the development of an innovation ecosystem. Moreover, the institutional environment is not conducive to entrepreneurship and there is little penetration and use of ICT among the population at large. The productive sector faces bottlenecks stemming from poorly developed capital markets and financial instruments that would otherwise help sustain long-term financing, as well as multiple institutional and regulatory flaws that prevent the participation of the private sector.⁸²

The road to reactivating tourism is a treacherous one, as the fundamental forces that govern it lie beyond the country's borders. The possible impacts of the pandemic will depend not only on its duration, something that will affect the survival of tourism firms (particularly MSMEs), but also on the possible long-term changes in people's behavior, as their willingness to travel abroad may be hampered by greater health concerns.

The main policies to support the tourism sector should focus on encouraging the diversification of business lines in different subsectors to boost domestic demand while foreign demand recovers.⁸³

The liquidity of businesses needs to be supported through actions aimed at cutting costs,⁸⁴ particularly operating costs (in an effort to facilitate the return to activity), and boosting access to financing. Another key aspect will be the design of new comprehensive safety measures and bioprotocols, and their implementation (infrastructure, signage, training, etc.). Additionally, market intelligence systems should be strengthened, paying particular attention to the analyses of how different demand segments evolve post-COVID-19, which will serve as the basis for comprehensive competitiveness studies by destination, and a recovery/repositioning plan for the sector in the medium/long term.

76 See Guzmán and Lizardo (2003): *Crecimiento económico, acumulación de factores y productividad en la República Dominicana*; and Mota Aquino (2012): *Crecimiento económico dominicano: Acumulación y productividad total de factores 1966–2007*.

77 Employment growth was calculated based on ILO employment data estimates from 2000 to November 2018; for capital stock, WEO data from October (2019) were used. IMF.

78 In the last 10 years, TFP growth became negative (-0.55%). Calculated as the annual average variation between 2000 and 2018 with National Productivity Index (NPI) data (CNC, 2019).

79 Where capital-intensive high-value-added sectors with limited capacity to create formal jobs coexist with unskilled-labor-intensive low-value-added sectors in which most informal workers are employed. See Fanelli and Guzmán (2008): *Diagnóstico de crecimiento para la República Dominicana*. IDB.

80 MIT (2018): Economic Complexity Index.

81 According to the 2019 GCR, the Dominican Republic ranks 79th out of 141 countries assessed based on infrastructure—electricity and water being the most underdeveloped sectors—. World Economic Forum (2019)

82 The cost of borrowing tends to be higher than in comparable countries. The high market concentration (five institutions command a 75% share of the market) helps push up financial brokerage margins (10%) and administrative expenses with respect to assets (6%) above the Central American average (of 7% and 3.5%, respectively).

83 For example, using convention centers as collection centers, using public transport to shuttle staff or deliver healthcare supplies, using catering services to deliver meals to homes and businesses, making the laundry facilities of resorts available to hospitals or local residents, etc.

84 Discounts or deferrals on leases and basic supplies, taking early vacations or supporting reductions in workdays and voluntary furloughs (on reduced pay), deferrals or partial discounts on taxes and social contributions, moratoriums on the payment of mortgages and various financial obligations, etc.



The recovery of the sector will require the design and implementation of a long-term tourism strategy that diversifies demand and expands and reinforces the new range of products and services beyond sun and beach tourism. The strategy will need to take a close look at the digitalization of the sector and at positioning what it has to offer in digital distribution channels, and evaluate specific strategies to promote domestic tourism and improve the skills of the labor force. Another thing to consider is channeling financial support in order to help strengthen basic infrastructure and encourage the renewal or retrofitting of obsolete tourism equipment, as well as the adoption of solutions consistent with climate change mitigation and adaptation goals to help ensure the sustainability of the sector and the preservation of the country's natural, heritage, and cultural assets.

With regard to the agricultural sector, the first priority is to ensure the availability and stability of the food supply. For those regions and/or segments whose production has been hit hardest, particularly staple products for domestic consumption, producers need to be guaranteed the necessary financial resources to continue investing in production, especially for the procurement of inputs and labor. To this end, credit facilities at favorable interest rates could be promoted, as well as matching grant programs to encourage the adoption of new agricultural technologies. It is important to ensure that local, regional, and national wholesale markets continue to operate normally by safeguarding their liquidity and access to produce and workers, efforts that need to be coordinated with private sector food importers and distributors. In order to reduce losses along the chain, investment in staple food storage facilities will be needed, and supplying supermarkets, warehouses, and grocery stores needs to be made easier. Food banks should be encouraged and temporary support be provided to enable surplus produce to be absorbed by government welfare programs. E-commerce platforms could be launched to support supply chains with fewer middlemen among producers, neighborhood SMEs, and consumers.

In the medium term, support should be geared towards increasing the productivity, sanitation, and safety of agricultural production. According to the National Productivity Index, agriculture is one of the country's least productive activities.⁸⁵ In order to increase productivity, public goods will need to be made available in productive regions, including training and production technification services, agricultural outreach and research, water supply, and the shifting of production to help mitigate the environmental impact and make the sector more resilient to climate change. To increase access to international markets, it is vital to bolster agricultural health and safety by updating the legal and regulatory framework; improving health surveillance, diagnosis, control and inspection systems along the various links in agricultural chains; and promoting good agricultural, livestock breeding, and manufacturing practices to ensure safety and increase quality, as well as expand the markets for Dominican agricultural exports.

The crisis has shaken global value chains, opening windows of opportunity for the country. This could incentivize the creation of new value chains or a shift towards local chains and production (nearshoring) to prevent disruptions in the procurement of critical products such as medical and health supplies.⁸⁶ In this context, the Dominican Republic could leverage its proximity to the United States and access to North American and European markets to position itself as a value chain hub, for which purpose it would be wise to build up the resilience and response capacity of local supply chains. Similarly, the country has a chance to expand and diversify local medical supply production⁸⁷ by capitalizing on the dynamism the sector has shown in recent years. This will require a clear strategy and clearly defined priority sectors and export promotion and investment attraction goals. To this end, it will be essential to restructure the Centro de Exportación e Inversión (Exports and Investment Center or CEI-RD) as an agency devoted to promoting exports and attracting FDI, one that provides efficient, quality services, is proactive and modern, and focused on supporting Dominican and foreign companies, improving its communications systems, and providing clients with relevant commercial and market intelligence statistics. A stronger, empowered CEI-RD could promote partnerships and procurement programs between free-trade zones or other domestic and international anchor businesses and local vendors; design support programs for MSMEs to help them raise their quality standards and get certified, and launch a one-stop digital investment platform to reduce red tape and support new and existing investors alike in their business incorporation formalities and operating permit applications.

85 CNC (2019). National Competitiveness Index.

86 IDB (2020): *Responses to COVID-19 from a scientific, innovation, and production development perspective*.

87 In 2018, there were 33 free-trade zone businesses producing medical and pharmaceutical supplies, exporting US\$1.571 billion worth of products, i.e., 26% of all exports from the free-trade zone. Most of these were destined for the United States. CNZF (2018): Statistical Report on the Medical Materials and Instruments Sector.



The reduced size of the domestic market and low savings rate make it imperative to attract bigger and better foreign investment flows to enable the Dominican Republic to diversify its range of exportable goods and services and create linkages with the domestic productive sector. Foreign Direct Investment (FDI) could make an important contribution in this regard not only through the creation of new production capacity per se, but also through the development of local linkages, technology training and transfer processes, and the development of knowledge networks, provided there is a strategy in place for attracting investments in production development that are linked to global value chains.

Achieving increasingly far-reaching internationalization requires a systemic approach to improving the business climate, attracting investment, and promoting exports. This means making regulatory, institutional, and operational changes to the current foreign trade, business climate, and investment attraction model, all of which would require a decisive push at the highest level in order to bring forth a new wave of comprehensive reforms, including proactive and selective production development policies, and to take advantage of the range of exportable goods and services, and attract quality investments. Institutions will need to be coordinated based on a clear roadmap of skills and help work towards a vision of the Dominican Republic that is consistent with its National Development Strategy.

To achieve greater competitiveness, infrastructure bottlenecks will need to be overcome. Increasing Dominican involvement in high-value-added production and global supply chains is contingent upon improving quality and reducing the cost of electricity, transportation, and logistics, sectors that are also facing new challenges as a result of the pandemic. As regards logistics and facilitating trade, short-term actions should be geared towards consolidating essential goods supply chains; ensuring the movement of merchandise with worker protection measures in place; making schedules more flexible; cutting tariffs; eliminating the toll system or streamlining it; modernizing border infrastructure, making intensive use of technology in monitoring and tracing, and simplifying and automating customs and border-crossing procedures and formalities in order to reduce logistics costs and times. In the medium term, the digitalization of processes and tasks should be accelerated in order to increase connectivity and interoperability among the various actors along logistics chains and import/export hubs, and to strengthen and regulate e-commerce processes and last-mile cargo concentration and distribution solutions, thus encouraging greater public-private collaboration and the use of cleaner modes of transportation. Lastly, it is imperative that statutory and regulatory reforms be consolidated in order to formalize road freight transport and make it more transparent, and thereby boost market competition and transparency, which includes implementing biosafety protocols for freight, vehicles, and drivers alike.

The challenges thrown up by COVID-19 in terms of urban mobility could provide an opportunity to make the public transport system cleaner, safer, and more efficient. The risk of infection must be minimized immediately through the constant disinfection of rolling stock, facilities, stops, and stations. Signs showing the direction of pedestrian traffic flows and social/physical distancing limits must be posted on platforms and at stations, using audiovisual aides and technology to ensure compliance with minimum distancing requirements. In the medium term, promoting remote work will reduce commuting, whilst encouraging active mobility (e.g., walking and cycling). Implementing flexible working hours at private companies, public institutions, and schools would help alleviate rush hour commuting at specific times in the morning or afternoon and reduce the risk of infection.⁸⁸ Public and private transport service operators will see a drop in their revenue and compensation schemes to ensure service continuity will need to be devised. Situations like this provide an opportunity for businesses to advance in the process of formalizing transport unions, and for vehicle renewal schemes to promote a shift towards the use of cleaner technology in mass transport. In this vein, using the OMSA bus fleet on non-operational routes and introducing electronic payment tools (interoperability) to eliminate cash transactions on OMSA routes, the subway, and the Santo Domingo cable car would help reduce congestion, pollution, travel times, and costs for users.

The other requirement for the transformation of production is to have abundant bilingual, computer-savvy human capital. Therefore, the process of enhancing the quality of education and broadening the supply of and access to professional technical training and apprenticeships needs to be ongoing. To promote innovation-driven training, it would be advisable to reform the scholarship system to take into account good international practices, and to do so on the basis of forecasts of the needs of strategic

⁸⁸ The staggered schedules that will come into effect on May 20 could be extended to include night shifts in some sectors (urban or last-mile logistics) from June 1, once the curfew has been lifted.



sectors. A pilot program offering scholarships for programming bootcamps and promoting computer skills would also be an option.

To preserve the productive structure, MSMEs need to be assured financing and liquidity in the midst of a recessionary environment. Despite monetary easing, many MSMEs may lose access to credit. Therefore, in the short term, it would be advisable to develop measures aimed at expanding credit coverage, such as financing facilities and credit guarantee funds for MSMEs, and increases in concessional loan facilities, including debt restructuring and support for specific economic sectors to prevent viable businesses from going under. Structuring trust funds to implement such programs would be another way to offset the inherent risk involved.

Many MSMEs will have trouble digitalizing their operations to be able to remain operational during the health crisis and the reactivation period. Specific supplementary programs to support digitalization aimed at boosting the resilience and competitiveness of the productive sector will be crucial in the medium term. Given the Dominican Republic's digital divide,⁸⁹ interventions need to focus on ways of reducing connectivity and equipment costs for MSMEs by encouraging the adoption of technology through loans, subsidies, and the co-financing of software licenses and digital applications and platforms, as well as hardware and tech support services. Current initiatives in these categories should be expanded and leveraged in coordination with the *República Digital* (Digital Republic) program and institutions working in the area of productivity and employment. Developing an innovation ecosystem requires the right institutions, so it is useful to agree on and implement a National Innovation Strategy and to adopt reforms to improve the business climate, whilst taking into account the suggestions made during the public-private dialogue.

Support services for SMEs will have to take a more proactive role. The Vice Ministry for MSME Development could adopt best international practices for policy design, promoting export culture and internationalization, accessing data and statistics, market research, and business opportunities analysis, thereby strengthening the range of services provided by MSME development centers. Current digital extension mechanisms (e.g., ICT advisors, digital ambassadors, the digital productive linkage program, and the digital literacy program for MSMEs) need to be broadened to support businesses in the digitalization process by co-financing digital transformation strategies, expert consulting, and large-scale digital skills development. These processes require an updated legal and regulatory framework, as well as cybersecurity infrastructure that the government can help develop as a public good.⁹⁰ The implementation of a national cybersecurity strategy must be consolidated by improving the institutional capacity of the National Cybersecurity Center (Centro Nacional de Ciberseguridad)—especially its incident response team—and the cyber-protection of critical infrastructure with the help of operators and regulators, and by raising awareness of cybersecurity issues among the private sector and society at large.

It will be crucial to design and implement mechanisms to support the scaling-up of innovative businesses, ones that respond to the new prevailing conditions. Initially, public funds will need to be provided for this, then supplementary sources of financing sought in partnership with the private sector. Innovation and entrepreneurship ecosystems must be encouraged by securing the operation of innovation incubators and accelerators and fostering collaboration between the participants in these communities to discuss challenges and solutions and provide mutual assistance.⁹¹

SOCIAL SECTOR

Recent economic growth brought improvements in poverty, inequality, and other social indicators. From 2014 on, labor market indicators began to improve. Open unemployment fell from 8.5% of the economically active population (EAP) to 6.2% in 2019, and total informality from 58% of the EAP to 55% in the same period. Furthermore, the female employment rate increased from 42% to 47%. From 2017

89 Although 71% of the population own a cell phone, only 14% own a computer, 40% use a computer, and 75% use the Internet on a more or less regular basis. These disparities become significantly wider depending on where people live and their level of education or socioeconomic standing. ENHOGAR (2018)

90 IDB (2020): *Responses to COVID-19 from a scientific, innovation, and production development perspective*.

91 Ibid.



on, this positive performance helped drive up workers' real earnings, which had remained unchanged since 2005.⁹² Similarly, there was a sharp decline in the overall poverty rate, from 34.8% in 2014 to 22.8% in 2018, while extreme poverty fell from 7.7% to 2.9%. Inequality, measured by the Gini coefficient, dropped by 1.6 percentage points after 2014, reaching 43.9 in 2018.⁹³

Social safety nets are characterized by gaps in coverage and design flaws. The targeted social intervention program *Progresando con Solidaridad* ("Progress through Solidarity" or PROSOLI) provides conditional cash transfers, socio-educational support, and liaison with State programs and services. Before the crisis, PROSOLI helped around 800,000 families with transfers averaging about US\$25, though there were high levels of wastage and undercoverage rates.⁹⁴ In April 2020, the temporary program *Quédate en Casa* ("Stay at Home" or QEC) added another 760,000 new beneficiary households and increased transfers to around US\$92. As for social security, only 78% of Dominicans are enrolled in the Seguro Familiar de Salud (SFS) family health insurance program, most of them (53%) through their employer or thanks to public subsidies (45%); the 22% who are unregistered correspond to non-salaried or self-employed workers, who make up 37% of the working population.⁹⁵ There is no unemployment insurance, which adds to the vulnerability of non-poor groups. Formal workers only receive severance pay if their employment contract is terminated by the employer without cause. The COVID-19 crisis made it necessary to create a temporary cash transfer program for formal workers furloughed as a result of the interruption of commercial activity nationwide. This Humanitarian Assistance Fund for Workers (Fondo de Asistencia Solidaria a Empleados or FASE) will be in place from April 1 to June 30, and is being expanded to increase coverage among workers, currently reaching about 30% of formal employees. On May 17, a new initiative to help the self-employed, the *Pa' Ti* ("For You") program, will issue temporary cash transfers of US\$92 to workers owing money on loans from the formal financial system and not eligible for any other assistance programs.

Even though the capacity of the healthcare system has been reinforced to deal with the epidemic,⁹⁶ in the future, greater effort will be required in order to bridge gaps in the access to healthcare services, and their efficiency and quality. At around 2% of GDP, the share of public spending earmarked for healthcare is low, and its allocation has lacked efficiency, as it is based on a strategy of cure rather than prevention. The primary care system has proved insufficient, with gaps in coverage with respect to primary care units, and shortages of supplies, equipment, and human resources. The secondary level needs investment to improve the infrastructure and equipment at local and larger hospitals, which require significant investment due to their age.

Any strategy for the recovery and preservation of employment must be based on three pillars. In general, recovering from the economic crisis unleashed by the health crisis will require a coordinated strategy comprising strategic sectors that will be the engines for kickstarting the economic recovery; training to develop employment skills that match the needs of sectors where there is growth potential; re-skilling or retraining the labor force in sectors that have sustained sharp slumps in demand; and policies to preserve and create formal jobs, as well as labor and social security policies to achieve the inclusive incorporation of the most vulnerable (such as women, young people, and those with disabilities) into the economy.

Improving the targeting and design of PROSOLI. The temporary expansion of the PROSOLI program through the *Quédate en Casa* program has helped reduce undercoverage, but in the post-pandemic period, consideration must be given to the need to certify beneficiaries and to designing a new strategy for purging those households receiving benefits but not part of the target population. At the same time, beneficiaries could be classified based on the quality of life index (QLI), whereby greater resources would be allocated to poorer households to ensure they obtain a larger share of the basic family food basket. However, greater efforts must be made in order to ensure the poorest are documented, which would facilitate their enrollment in PROSOLI.⁹⁷

92 Own calculations based on data ILO and the Ministry of the Economy, Planning and Development (MEPYD) data.

93 Social Indicators System (SISDOM) 2017 and own calculations based on the National Labor Force Survey (ENFT) and Continuous National Labor Force Survey (ENCFT) of the Central Bank of the Dominican Republic (BCRD).

94 In 2014, 43% of the underserved were non-poor and 56% were poor. SCL/CDR calculations by based on the ENFT.

95 CNSS (2019): October 2019 statistical bulletin.

96 Strengthening laboratory capacity and epidemiological surveillance, publishing protocols, and outfitting 146 healthcare centers and 8 isolation facilities to treat COVID-19 cases, hiring doctors and nurses, etc.

97 It is estimated that 7% of the population in the poorest quintile are not recorded in the civil registry. ENHOGAR (2018)



Expanding the social protection available to the vulnerable population in the informal sector who are not enrolled in the PROSOLI program or have no access to social security, and finding ways to connect them to sources of employment income and formal employment. Greater effort should be made to identify and enroll vulnerable self-employed workers in the *Pa' Ti* program by using big data and artificial intelligence tools based, for instance, on: an analysis of electricity, water, or phone bills; mass text messaging of potential applicants; and the use of collaborative economy platforms. For the purposes of this effort, it is also essential to cross-reference information with the Social Security Treasury and the Single Beneficiary System (Sistema Único de Beneficiarios or SIUBEN). Once enrolled, beneficiaries will receive *Pa' Ti* transfers, and plans to connect them with training and formal employment opportunities could be devised.

The return to work in the post-isolation stage will require the guarantee of a health measures protocol to reduce the risk of infection in the workplace and at training venues. Until a COVID-19 vaccine becomes available, remote work and training will need to be encouraged. For onsite work, it is important to ensure compliance with biosafety protocols, in addition to testing employees and taking temperature checks.

Economic and labor measures will need to be developed to enable those who have lost their source of income to return to work, along with work and health measures to ensure a return to work that does not result in the spread of COVID-19. Formal and informal workers who have lost their job or source of income will require different approaches to deal with their situation. It is possible that even after receiving the formal employment subsidy through the FASE, many workers may lose their job, so it is crucial to activate labor intermediation mechanisms to help them, or to explore the possibility of creating job programs to minimize formal job losses. Other measures could be considered, such as work-sharing programs or reducing work hours to ensure people keep their job during the economic crisis. Moreover, many informal workers will lose their source of employment, so it is important to consider measures to preserve human capital, such as temporary employment programs, and job training and placement programs. These programs should be linked to economic sectors where there is demand in spite of the crisis, as well as programs that can help workers find employment and get trained once the social isolation measures are lifted. Informal workers enrolled in the PROSOLI program can take advantage of available training programs; other eligible informal workers can get specific support and be referred to training opportunities. This could help mitigate the negative impact on labor productivity and promote the re-skilling of workers who remain inactive for long periods.⁹⁸

These training policies should be framed within a national strategy to create specialized human resources and provide infrastructure for the digital economy. The education system needs to promote training tailored to existing and emerging productive clusters or linkages (e.g., tourism, the orange economy, etc.) by broadening the coordination between training centers, colleges, and businesses, and establishing quality standards and sector- or industry-specific certification requirements. Furthermore, leveraging the collaborative economy could be a way to create temporary sources of income that would later support those workers in their search for formal employment. Lastly, it would be wise to strengthen and expand the scope of the Ministry of Labor's job bank (known as *Empléate Ya!*) in order to reduce the cost of seeking employment among the young and vulnerable, and also reduce periods of unemployment.

Social assistance expenditures will also need to be rationalized and improved by enhancing interinstitutional coordination and prioritizing programs that complement PROSOLI, based on a life-cycle approach. Specific support for vulnerable persons directly affected by the epidemic should be considered.⁹⁹ An additional, cross-cutting option is to continue working towards making SIUBEN the only targeted system for all social programs, so as to ensure that support is better targeted in future crises and provide greater intersectoral coordination and interoperability. Similarly, it is imperative that social security coverage be expanded to include informal workers, possibly by unifying programs, in an effort to reduce the prevailing heterogeneity and distortions. Furthermore, an unemployment insurance model needs to be devised to fulfill the requirements of Act 87-01, which created the Social Security system.

98 IDB (2020): *Políticas sociales en respuesta al coronavirus* (in Spanish).

99 Those who have recovered from COVID-19 and have health sequelae, or the relatives of COVID-19 casualties. IDB (2020): *Políticas sociales en respuesta al coronavirus* (in Spanish).



In order to ensure a robust health system in the future, the range of services provided needs to be bolstered, with a particular emphasis on prevention, coverage, and quality. The budget earmarked for primary care and health promotion and prevention needs to be increased. The funding of hospital services should be geared toward greater efficiency and transparency. Equally important is the effective implementation of the integrated healthcare services network model with a focus on primary care supported by e-health services. The minimum quality standards and guidelines for healthcare facilities also need to be revised. Skill development should be encouraged among healthcare professionals and service quality monitoring and assessment mechanisms put in place, and there should be a push towards enacting a Healthcare Career Act.



EL SALVADOR

JUAN JOSÉ BARRIOS AND JULIA ESCOBAR

CONTEXT

El Salvador's structural issues have manifested themselves in decades of persistently low growth and the shock of the pandemic has been exacerbated by the fact that there is little room for a policy of containment due to the weaknesses of the economy and the fiscal position. Steps were taken to prevent the spread of the virus even before any cases were reported, including the closure of educational facilities across the country; compulsory quarantine at home or at containment and holding centers; the suspension of non-essential economic activity in order to deal with the emergency, in both the public and private sectors; and the partial then complete closure of the border to incoming travelers. So far, these measures have helped contain the disease and given the authorities time to arrange for and ensure that enough tests, beds, and ventilators are available to prevent the collapse of the healthcare system. However, these measures will significantly alter the reality of the country in the medium and long term, at both a macro-fiscal and household level.

The economy is expected to fall sharply in 2020 as a result of the health crisis. Due to the slowdown in domestic economic activity and the impact of the external shock (caused primarily by the downturn in U.S. growth), a 5.4% contraction in GDP is expected (according to IMF estimates),¹⁰⁰ which could reach as high as 6.7% according to our estimates.¹⁰¹ The eventual outcome at the end of the period will depend primarily on the duration of the external shock, when the economic recovery begins, and how well the government responds to the health issue.

The management of the health crisis has allowed the health system to cope with the spread of the disease. Since March 18, when the first confirmed case was reported, the number of cases has doubled each week. By mid-May, 23 people had died, 416 had recovered, and 771 cases remained active. The number of RT-PCR tests carried out has increased to over 2,000 a day, with a total of 51,142 tests performed to date (i.e., 788 per 100,000 inhabitants).¹⁰² By May 15, 2020, a total of 1,210 people in the country had tested positive for COVID-19, i.e., 19 cases per 100,000 inhabitants, which is higher than in Guatemala and Costa Rica, but lower than Panama, Honduras, and the Dominican Republic.

After two months, El Salvador's lockdown measures remain in place. On May 18, President Bukele announced that the restrictions were to be gradually lifted, starting June 6. The plan includes elements and recommendations from renowned business schools, and while the timetable for the measures to reactivate the economy has yet to be announced, several government sources have stated that it will take into account both sectoral and geographical factors in the timing of the reopening. New restrictions on movement have been introduced until the next steps and the strategy to be followed have been defined, which according to the Executive are to remain in effect until the first week of June.¹⁰³

The government and private enterprise have commenced a dialog with a view to a gradual reopening from the first week of June. The Legislative Assembly held a series of discussions with the National Association of Private Enterprise (ANEP) with the aim of jointly defining the plans for the reopening, taking into account not only their own proposals but also those of various research centers and academics. These proposals were incorporated into a Resumption of Work Act.¹⁰⁴ However, the Executive has announced it will veto this initiative and is currently holding talks with other representatives of the business sector (apart from the ANEP) to define measures for reactivating the economy. Spearheaded

100 *World Economic Outlook* (April 2020)

101 Estimated using a Computable General Equilibrium (CGE) model with the following assumptions: (1) a 5.9% fall in U.S. growth, (2) a 17% drop in remittances, and (3) oil at US\$16 per barrel.

102 See: *Situación Nacional del COVID-19 El Salvador* (in Spanish).

103 It was ordered that people could only go outside on specific days according to their national ID number; public transport was canceled, and a larger number of economic activities were restricted (Executive Decree 22 of May 6, 2020).

104 On May 18, 2020, the Special Temporary Law for Comprehensive Healthcare and the Resumption of Work in the Context of the COVID-19 Pandemic (DL: 645) was passed. The bill has yet to receive presidential assent, and the President has announced that he will veto it because it does not meet the guidelines of the Executive.



by the Executive, this new proposal will also draw on the analyses of research centers and academics to define the stages, protocols, and timeframes that are ultimately approved. Both the Executive and the Legislature have stressed the need to adopt a sectoral approach in the reopening plan and to ensure a comprehensive balance between economic and health considerations.

From an epidemiological standpoint, the options for reopening will depend on the evolution of the R0 and how successful the country is in expanding the capacity of its healthcare system. Various scenarios on how COVID-19 might evolve have been modeled, based on an epidemiological model for El Salvador developed by the COVID-19 Observatory.¹⁰⁵ Based on estimates at May 1, 2020, and taking into account the evolution of cases and current isolation measures, one month thirteen days after the first case of infection was reported the most likely scenarios are thought to be between (1) a reproduction rate (R0) of 1.5 with moderate isolation measures, in which case after 90 days there would be 966 people infected (with 511 hospitalized, 71 of them in ICU); and (2) an R0 of 2.5 with moderate isolation, and after 60 days 5,175 people infected (with 1,965 hospitalized and 167 in ICU). Under these scenarios, the capacity of the system would not be overwhelmed;¹⁰⁶ however, in a higher infection rate scenario (R0 of 4)—which is unlikely according to experts—the number of people infected would reach 62,710 (with 16,926 hospitalized and 1,089 in ICU), and require greater installed capacity in the health system, even considering the current expansion efforts of the government.¹⁰⁷ At the time of publication of this report, the country is still in the expansion phase of the disease, and the debate regarding how long social/physical distancing measures should be kept in place versus the need to reactivate the economy dominates the political landscape.¹⁰⁸

Some aspects of the management of the crisis could be improved, in terms of both the economy and health. Various local and regional studies have put forward recommendations for achieving a balance between the health concerns and the economic ones (e.g., job losses and business closures).¹⁰⁹ Furthermore, the following aspects of these studies need to be considered:

- In the health sphere, various local experts have stated the need to take advantage of the time available to prepare the inputs and requirements of the health system to deal with a sudden increase in hospitalizations. This requires the processing of as many RT-PCR tests as possible in order to identify those who are infected and those who are immune. Priority should be given to workers in essential sectors (health, food, security, and transport, among others). This would enable the identification of cases of infection, cases of people with symptoms who initially tested negative, cases with epidemiological links, people who have been neither exposed nor are infected, and those who are immune. This in turn will facilitate the creation of an “immunity identification” program to allow workers to return to work at companies subject to health controls, rather than paralyzing the economy indefinitely.
- In the economic sphere, an effective communications strategy needs to be developed to build trust in how funds are used among all political actors, and to enable the effective management of the funding needed to combat the pandemic. This would require setting out and publicizing the criteria for selecting and targeting vulnerable beneficiaries, as well as constant monitoring of how the incentives aimed at the private sector, healthcare, and informal workers are administered. Lastly, it is important to focus on realistic fiscal targets that strike a balance between sustainability and future growth in El Salvador.

105 See: [COVID-19 Observatory El Salvador](#) (in Spanish)

106 The health system comprising the Salvadoran Social Security Institute (ISSS) and the Ministry of Health hospital network has 6,557 regular hospital beds and 238 intensive care unit (ICU) beds.

107 The government is currently building a new hospital to handle COVID-19 cases, which will increase the number of public hospital beds by 1,000 and ICU beds by 300. This construction project is currently 33% complete.

108 According to surveys conducted among micro-enterprises, the maximum amount of time small traders would keep their businesses shut before deciding whether or not to close down permanently is one month. Business Survey *Impacto de la ampliación de medidas de emergencia por el COVID-19 en la economía de la MIPYME* [Impact on the Economy of MSMEs of the Expansion of COVID-19 Emergency Measures] (2020).

109 Taken from the following documents: (1) *Modelos Matemáticos datos y perspectivas* [Mathematical Models: Data and Perspectives], COVID-19 Observatory (2020) and (2) *Ten Weeks to Crush the Curve*, Harvey and Fineberg (2020).



RECOVERY IN THE MEDIUM TERM

MACRO-FISCAL CONTEXT

INITIAL CONDITIONS: ADJUSTMENTS AND REFORMS BROUGHT ABOUT NO IMPROVEMENT IN THE DYNAMICS OF DEBT AND GROWTH

El Salvador has limited fiscal space, a chronic problem of low growth, and a high cost of public debt.

The country's growth has been weak even when the situation abroad was good, in the last five years averaging 2.4%. Its weak economic performance has kept it in the lower-middle income bracket for thirty years.¹¹⁰ The country had started gradually improving its primary fiscal balance over the last ten years, achieving primary surpluses for the last three years in a row.¹¹¹ This was achieved through a combination of tax collection efforts and spending control, in accordance with the provisions of the 2016 Fiscal Responsibility Act. Nevertheless, the country still has a high level of public debt (69.9% of GDP in 2019) and a rising financing cost (which in 2019 represented 3.7% of GDP). This situation, combined with the low dynamics of economic growth, has limited its ability to respond to external shocks owing to the limited fiscal space.

POST-PANDEMIC STRATEGY CONSIDERATIONS: WITH NO FISCAL SPACE, SERVICING THE DEBT WILL IMPACT LEVELS OF PUBLIC AND PRIVATE INVESTMENT

The authorities have taken action and arranged funds to provide temporary relief to households and businesses affected by lockdown measures. For this purpose, an initial package of measures¹¹² was drawn up to provide cash transfers to vulnerable households, defer the payment of basic utilities; defer the payment of taxes and special levies by hard-hit sectors; and transfer resources to the municipalities. Recently a second package of measures was approved, aimed at safeguarding jobs in the most affected sectors of the economy.¹¹³ The entire economic relief package adds up to US\$3 billion, which represents 11.5% of GDP¹¹⁴ (see Appendix 1). Part of the government's response was made possible through financing from the IMF and the issuance of CETES, LETES, and bridge loans, though additional funds will need to be obtained on the international market and from multilateral banks.

The financial and health cost of containing the pandemic will worsen the fiscal position. The fall in tax revenues caused by the slowdown in economic activity and the increase in spending in response to the pandemic will push the fiscal balance towards a considerable deficit in 2020, estimated at -8.7% of GDP,¹¹⁵ though this could be even higher given the recent increases in the response package and higher budgetary requirements. The authorities have announced that they will be borrowing US\$3 billion (11.5% of GDP) to tackle the pandemic and its aftermath for the national economy, which would raise the debt to over 85% of GDP, moving it away from the planned target of reaching 60% by 2030, as provided for in the Fiscal Responsibility Act. It is also important to note that the increase in debt will have a negative impact on the levels of public investment over the next five years.

Short-term measures for managing public resources are recommended in order to avoid a greater impact on post-pandemic fiscal outcomes. In the short term, the IMF made three main recommendations to the authorities during the epidemic.¹¹⁶ Firstly, that it is key that all the economic relief measures are designed to be temporary. Secondly, priority should be given to providing liquidity support to businesses through loans aimed at satisfying working capital needs rather than covering costs. Thirdly, existing budget items should ideally be reallocated to avoid increasing aggregate spending.

110 The World Bank divides the world's economies into four per capita income groups: high, upper-middle, lower-middle, and low. In 1987, El Salvador ranked alongside 18 other LAC economies in the lower-middle income group, 14 of which have since moved up to the upper-middle income group, while El Salvador remains a lower-middle income economy.

111 In 2017, the primary balance (including pensions) was 0.7% of GDP and in 2018 it was 0.9% (MH, 2019).

112 The Executive was authorized to issue US\$2 billion worth of negotiable instruments (Legislative Decree 608 of March 26, 2020).

113 The Executive was authorized to issue US\$1 billion worth (Legislative Decree 640 of May 5, 2020).

114 7.4% of GDP above the average amount of funds requested by LAC countries. See blog: [Política y gestión fiscal durante la pandemia y la post-pandemia en LAC](#) [Fiscal Policy and Management During and After the Pandemic]. IDB (2020)

115 Revised Article IV of the IMF (2020).

116 See: *Public Policy to Tackle Covid-19: Recommendations for Latin America and the Caribbean*. IDB (2020).



In the medium term, once the immediate effects of the pandemic have been brought under control, it will be necessary to consider fiscal measures to reduce the debt. The IMF proposals for El Salvador that would result in a fiscal tightening of 2.5% of GDP over the next 3 years (see Appendix 2) should be considered, including: (1) bolstering tax collection by speeding up the implementation of e-invoicing, mechanisms to modernize tax administration, and the introduction of specific new taxes and a property tax; and (2) curbing consumption expenditure. Given that the post-COVID debt level is expected to exceed 85% of GDP, greater effort will be required to reduce the debt to 60% of GDP by 2030 as required under the fiscal rule. According to estimates based on our own debt sustainability analysis, given the high cost of financing and the modest economic growth, a primary adjustment of between 4.6 and 5.2% of GDP is needed to reduce the debt burden to 70% of GDP. Therefore, additional measures beyond the adjustment proposed by the IMF should be considered, including: (1) the possibility of increasing VAT in the medium term, (2) exploring debt restructuring options, and (3) pursuing an agenda of structural reforms conducive to higher growth.

SOCIAL SECTOR

INITIAL CONDITIONS: A LESS POOR AND UNEQUAL COUNTRY THAN ITS NEIGHBORS, THOUGH ONE WITH A STAGNANT AND VULNERABLE MIDDLE CLASS

El Salvador has the second lowest Gini in Latin America (behind Uruguay) and has achieved a significant reduction in poverty over the last 20 years. In the period 2000–2018, the Gini index fell from 0.54 to 0.41, whereas in the region the decrease was from 0.55 to 0.48. Similarly, in 2000 the richest decile was four times as rich as the poorest 40 percent, but by 2018 the figure was 1.9 times as rich. Moreover, social indicators reflect a steady decline in poverty over the same period. Extreme poverty in El Salvador has fallen by half, from 27% to 13.4%, while overall poverty in the country as a whole dropped from 46% to 28%. As a result, poverty levels in El Salvador for both general and extreme poverty are similar to the regional average, the country achieving a faster rate of poverty reduction than the Latin American average. It is important to note that this was achieved despite the fact that El Salvador's rate of GDP growth has remained consistently below that of its regional peers.

There has been no change in terms of its consolidated middle class, despite an increase in income. Though median monthly household income rose from \$274 to \$500 between 1999 and 2018, the proportion of the population classified as middle class remained between 17% and 21%. This growth in income has not been sufficient to close the gap with Latin American countries, where the middle class account for an average of 32% of the population. The same period saw a considerable increase in the vulnerable population, defined as non-poor households with incomes in the \$5 to \$12.4 a day range. This group went from being one third of the total population of the country to almost half, one that is exposed to a multitude of risks, such as changes in the price of the market basket of consumer goods, economic recessions, and external shocks. These households also constitute the income group most likely to emigrate and that which receives the largest share of remittances from abroad (Duryea and Robles, 2016).

The Salvadoran economy has been marked by a high degree of informality in employment. Fewer than 30% of workers are covered by social security, so they have no right to sick leave, limited access to health benefits, and no back-up funds (such as a savings account) when times get tough.¹¹⁷ Consequently, it is the sector most jeopardized by social/physical distancing measures.

POST-PANDEMIC STRATEGY CONSIDERATIONS: EMPLOYMENT, INCOME, AND INEQUALITY - IMPACT ON SPECIFIC SECTORS AND CLASSES

Consumption is expected to contract due to the fall in remittances and lower household incomes caused by the lockdown and quarantine. Remittances have shrunk by 17 percent, in contrast to the 4.3 percent rise projected in January this year. Meanwhile, a survey carried out by the IDB (2020) found that many Latin Americans have lost their jobs due to the lockdown measures (Bottan, Hoffmann, and Vera-Cossio, unpublished), something that has far more serious implications for the vulnerable.¹¹⁸ It is important to note that the social impact could be partially offset by providing temporary assistance with

117 *Distanciamiento social, informalidad y el problema de la desigualdad* (in Spanish). IDB (2020)

118 *From Lockdown to Reopening*. IDB (2020)



income and jobs, as long as such support schemes are well targeted. The targeting of assistance will help reduce the uneven impact of the crisis on the lowest deciles of household income, and to harness the narrow fiscal space available in this context.

Poverty could increase by between 8 and 10 percentage points and lead to a deterioration in the rates of inequality. According to our own estimates (2020), which are intended to simulate the impact of the recession and the measures taken, an additional 600,000 people will earn a daily income of less than \$5. The consolidated middle class, comprised of individuals with incomes ranging from \$12.5 to \$62 a day, will shrink from 22.5% of the population to 16.8%. The shock would also cause the Gini coefficient to increase from 40 to 42. It is important to highlight interventions such as cash transfers to households, given that a transfer of US\$300 has the potential to decrease the negative impact on the middle class.

POVERTY, FOOD SECURITY, AND SOCIAL PROTECTION PROGRAMS: THE NEED FOR REGISTRATION

The food supply must be guaranteed, especially among the most vulnerable population. Forty-nine percent of Salvadoran households suffer from some form of food insecurity, most of them in rural areas. Furthermore, the country has a record of being a net importer¹¹⁹ of food from other countries in the region, primarily Guatemala, Nicaragua, Honduras, Mexico, and the United States, which has resulted in a growing dependence on food imports.¹²⁰ Given that the importance of the primary sector to the economy is low compared to its main regional partners,¹²¹ this increases the chances of a potential shortage of staple foods. In order to guarantee the food supply for the population, particularly those in a state of poverty and vulnerability, the measures to expedite the distribution of essential goods should continue and a survey of prices be conducted of the products included in the market basket. Similarly, the stock of such products needs to be verified.

El Salvador has no system of population registration that would enable its social protection system to deal with the impact of the crisis at the household level more effectively. In the wake of the food price crisis, it became abundantly clear that countries with the installed capacity to reach needy households were able to protect their populations effectively (Johannsen, Tejerina, and Glassman, 2009). Since then, there have been many documented examples in which the existence of a register of the poor and vulnerable proved valuable in all manner of emergencies.¹²² In El Salvador, such a system could be used to achieve fiscal savings (Tornarolli, 2017) and to protect the population in the kind of emergency currently unfolding. In 2010, a Single Registry of Participants (the RUP) was launched for the purpose of keeping a register of all the households and individuals in precarious urban settlements (or AUPs); however, only 145 AUPs have been identified in five of the country's departments.

As far as education is concerned, El Salvador shows significant inequalities in schooling among the various social classes, a situation that is likely to worsen in the wake of the measures taken to deal with the pandemic (e.g., the closing of schools and switch to online learning). Of all seven-year-olds starting primary school, a total of 60% of the poorest can read (compared to 87% of the richest), while the rate of preschool attendance among the poorest is below 40% and over 80% among the richest.¹²³ Despite efforts to ensure educational continuity during the crisis, the country has a limited capacity to adapt to online teaching approaches. Currently, only 14% of households (i.e., 29% of the population) have Internet access and a computer (as opposed to 30% in Central America and the Dominican Republic overall), and of the population aged 10 years or older who are students, only 61% use computers or other devices to connect to the Internet (44.8% using cell phones).¹²⁴ In a post-COVID-19 context, it will be necessary to ensure social/physical distancing, access to handwashing facilities, and compliance with strict hygiene standards in any plan to reopen schools, so as to ensure that students and teachers can arrive at school in a healthy condition and stay that way. But it will also be important to gauge the scale

119 In 2017, food exports accounted for 2.7% of GDP and imports 5.7%, resulting in a trade deficit of -2.9%. FAOSTAT (2018).

120 In 2017, the Cereal Import Dependency Ratio stood at 39.4% (FAO, 2017), while over half (52%) of the total volume of food consumed in the country was imported. *Dependencia Alimentaria en El Salvador* [Food Dependency in El Salvador]. Superintendency of Competition (2018).

121 The agriculture, forestry, and fisheries sector accounts for 4.9% of GDP, whereas in Guatemala, Honduras, and Nicaragua it averages 12.4% (World Development Indicators).

122 *Study on Shock-Responsive Social Protection in Latin America and the Caribbean: Ecuador case study*.

123 Encuesta de Hogares de Propósitos Múltiples. DIGESTYC (2017)

124 Encuesta de Hogares de Propósitos Múltiples. DIGESTYC (2018)



of the education gap and to try to implement strategies for broadening access to education that incorporate digital initiatives.

In 2017, 10.1% of El Salvador's population had no access to health services (rising to 14.9% among the poor) (STP, 2018). The country has been facing a significant rise in Chronic Noncommunicable Diseases (NCDs) that complicate a patient's clinical picture and increase the likelihood of their dying from COVID-19. Given the ongoing concern regarding improving the quality of health services and access to them, there is a need to improve the planning and consolidation of support services, such as emergency services, and the procurement of supplies, medicines, and specialized human resources. The resumption of economic activity will need to be accompanied by the introduction of new health and safety measures, as well as new patterns of behavior in the workplace, at schools, and on public transport in order to prevent any further outbreaks. The Ministry of Health's digital transformation efforts will also need to be intensified by adopting monitoring systems that allow for a rapid response.¹²⁵

PRODUCTIVE SECTOR

INITIAL CONDITIONS: LOWEST PRIVATE INVESTMENT IN THE REGION

The country's productive sector is characterized by a high prevalence of low-productivity firms that produce low-complexity goods and which are hampered by low levels of public and private investment alike. El Salvador's productive framework can be divided into two sectors: one characterized by low productivity that employs three-quarters of the workers with relatively low levels of education; and another with higher productivity that in fact delivers a similar product to the first with three times fewer employees, though with a higher level of education. Meanwhile, there is little diversification in the range of exportable products and a dearth of well-developed complex product networks. This is hampered by low levels of both public and private investment,¹²⁶ which has curbed growth and business development.

CONSIDERATIONS FOR A POST-PANDEMIC STRATEGY: THE RECOVERY PLAN IS A JOINT EFFORT BETWEEN THE GOVERNMENT AND THE PRIVATE SECTOR

Formal employment could fall by as much as 23.9%, so measures to minimize the effects on employment, protect economic activity, and safeguard the life and health of workers are crucial. The scale of the impact that the pandemic has had on the productive framework and employment is not yet known, but several business surveys that monitor the perception of economic activity and confidence in the sector have reported a sudden drop in their March 2020 indicators.¹²⁷ This development could have a direct effect on employment. An estimated 8.6% reduction in formal employment is expected in the short term, which could reach as high as 23.9% if the downturn is prolonged.¹²⁸ The business sector has proposed a series of measures that are being coordinated with the government. An Employment Protection Act¹²⁹ was recently passed which incorporates many of these proposals.

In addition to the measures already announced, it would be wise to look at others that would help protect and create jobs, and to improve the solvency of firms, especially MSMEs, as well as safeguard the presence of foreign companies. In order to protect workers and their health, flexible working hours could be considered so as to avoid overcrowding, along with less burdensome social security contribution requirements. It is also vital that the liquidity of small and medium-sized enterprises be protected and programs for financing productive development be considered. Mechanisms for financing and guaranteeing foreign trade should also be explored, and financing options and incentives for the purchase of goods and services be looked into, with preference given to domestic and local firms, so long as any price distortions are kept to a minimum. In addition to protecting the liquidity of businesses, it would be good to consider providing support for process reengineering, so that companies can adapt their

125 *Del confinamiento a la reapertura* (in Spanish). IDB (2020)

126 Over the last decade, the country's average total investment has amounted to around 16% of GDP, whereas in the region comprised of Central America (including Panama) and the Dominican Republic the figure is 22.8% of GDP.

127 See: *Actividad económica y confianza de empresarios y consumidores registran brusca caída en marzo 2020*. Fundación Salvadoreña para el Desarrollo Económico y Social, FUSADES (2020).

128 See: *¿Cómo impactará la COVID-19 al empleo?: Posibles escenarios para América Latina y el Caribe* IDB (2020) (in Spanish)

129 Passed by the Legislative Assembly on May 5, 2020, this Act: (1) creates a subsidy program for MSME employees, (2) provides for early vacation leave for individual employees, and (3) provides for online working capital loans for companies at a maximum interest rate of 3%.



operations to the “new normal,” provided they create jobs (or retain their original employees, as the case may be). This could be tied in with the provision of payrolls subsidies for a certain period of time, as well as in-plant training packages consistent with the new normal.

Boosting investment growth after the pandemic will be crucial, for which strategic planning, institutional factors, and the business climate will have to improve. One of the factors behind the low level of total investment in El Salvador is its lag in terms of levels of FDI. El Salvador’s stock of FDI has remained virtually unchanged since 2011, reaching 37.5% in 2018, in contrast to comparable countries where the stock of FDI is higher and has shown a positive evolution since 2011. Numerous institutional deficiencies and major areas for improvement of the business environment have persisted in the country for decades. The post pandemic strategy should aim to reduce the high level of dispersion of responsibilities and institutional overlap, as this deters investment and impacts international rankings. Moreover, the investment attraction agency PROESA needs to be strengthened on an institutional level, by implementing a new structure and providing it with sufficient resources to meet the requirements of foreign investors. The possibility of implementing a Digital One-Stop Investment Desk should also be explored, a tool that would reduce the discretionary power of those responsible for providing public services, improve the efficiency of procedures, and effectively reduce the amount of red tape involved. Lastly, in order to bring about a transition towards attracting sectors with greater added value, it is important to ensure that the supply of technical skills matches those demanded by foreign companies by improving coordination with the education sector.



APPENDIX

COST OF THE ECONOMIC RELIEF PACKAGE

Measurement	Million US\$	Percentage of GDP
Cash transfers to households	450	1.7
Loss of tax revenue	950	3.7
Transfers to municipalities	600	2.3
Total - Package I	2000	7.7
Working capital loan program	360	1.4
Subsidy for MSME employees	140	0.5
Program of funding for the informal sector	100	0.4
Strengthening of the budget	400	1.5
VAT refund on exports	100	0.4
Delayed payments of suppliers	300	1.2
Total – Package II	1000	3.8

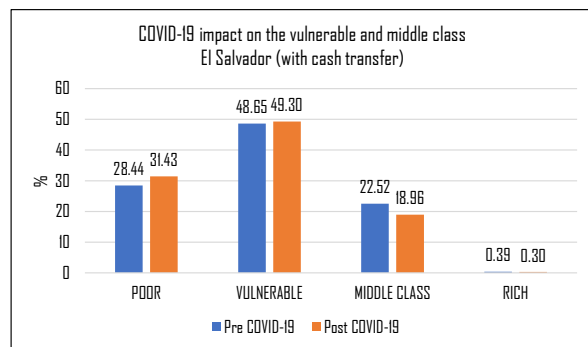
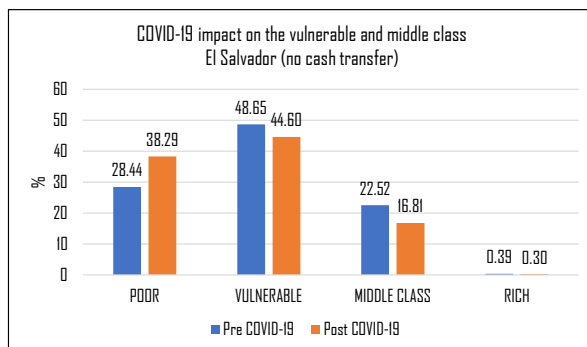
Source: Ministry of Finance Report on FERRE Costs and STIFEL Report (2020)

MEDIUM-TERM FISCAL MEASURES

Measurement	2021	2022	2023	Total
Electronic invoicing	0.1	0.2	0.2	0.5
Other tax administration measures	0.1	0.1	0.1	0.3
Government measures	0.2	0.3	0.3	0.8
Tax revenue				0.8
Property tax			0.3	0.6
Special taxes			0.1	0.2
Current expenditure				0.9
Goods and services	0.2	0.2		0.4
Payroll	0.2	0.2	0.1	0.5
Additional measures	0.4	0.8	0.5	1.7
All measures	0.6	1.1	0.8	2.5

Source: IMF Article IV (April 2020)

EFFECTS OF COVID-19 ON THE MIDDLE CLASS AND POVERTY



Source: IDB, 2020.



GUATEMALA

JORDI PRAT AND GISELE TEIXEIRA

CONTEXT

Official coronavirus data and containment measures. By May 27, more than 56 days after its first confirmed case, the Guatemalan government had reported 3,954 cases of coronavirus and 63 deaths. To tackle this pandemic and reduce the spread of infection in the country, the government responded swiftly and vigorously to the health crisis by establishing social/physical distancing rules, implementing health measures, bolstering the health and social protection system—particularly with regard to the most vulnerable sectors of the population—, and providing support to help businesses maintain the necessary liquidity to be able to continue operating.

TABLE 1. MEASURES ADOPTED TO CONTAIN THE CORONAVIRUS

Social/physical distancing measures	Health measures	Measures to support households
<ul style="list-style-type: none"> ✓ closure of schools, non-essential businesses, and national borders ✓ cancellation of public events ✓ incentives for remote working ✓ national curfew 	<ul style="list-style-type: none"> ✓ hygiene recommendations ✓ equipping of healthcare centers and recruitment of health personnel ✓ expanded capacity to process coronavirus tests ✓ limits on the stockpiling of supplies 	<ul style="list-style-type: none"> ✓ maintenance of water, cable, electricity, telephone, and Internet services ✓ money transfers ✓ temporary unemployment benefit for those who have lost their jobs ✓ deferment of payment of school fees, taxes, and loan repayments
Support measures for businesses	Fiscal measures	Monetary measures
<ul style="list-style-type: none"> ✓ deferment of tax and social security contribution payments and loan repayments ✓ liquidity support fund 	<ul style="list-style-type: none"> ✓ additional budget ✓ import tax exemption for coronavirus care products ✓ strengthening of the cash transfer system ✓ streamlining of government procurement 	<ul style="list-style-type: none"> ✓ temporary relaxation of provisions of the regulations on credit risk management ✓ reduction in the leading monetary policy interest rate

Short-term economic impact. As a result of the global shock to demand and aggregate supply brought about by the social/physical distancing measures adopted to contain the spread of the coronavirus, the International Monetary Fund (IMF) has forecast a 2% contraction in Guatemala’s economic activity in 2020, with a drop of 5.9% for the United States and 7.5% in the Euro Zone. The performance of its trading partners coupled with a reduction in remittances are major factors in explaining the country’s 2020 downturn.

The COVID-19 crisis is bringing about a reduction in consumption, exports, and tourism-related activities. A slump in demand among Guatemala’s main trading partners will have a significant impact on remittances, exports of primary products and manufactured goods, and tourism-related activities. However, the drop in oil prices and lower demand for imported products will offset the negative impact on the country’s balance of payments.



EASING OF RESTRICTIONS ON MOVEMENT

Guatemala should increase its diagnostic testing capacity and employ epidemiological intelligence to achieve an effective reactivation of the economy. Implementing an effective strategy to mitigate the spread of the coronavirus is key to achieving a dynamic recovery. Of all the countries in the region, Guatemala performs the lowest number of tests per capita, with the Ministry of Health carrying out around 4 per 10,000 inhabitants, far below the level recommended in order to be able to make any headway towards a return to normality. Given this low figure, the Ministry of Health could focus on epidemiological intelligence by tracing all the contacts of those testing positive.

However, the poor standard of human capital and the resulting informality hampers the potential for economic recovery. One component of the economic recovery strategy aimed at increasing income potential is to improve the quality of human capital and promote processes of formalization. The level of labor informality, which in Guatemala amounts to nearly 70% of the economically active population (EAP), means that large sectors of the population are excluded from the social security system. Furthermore, in the first income quintile, the proportion of households with no formal workers stands at 95%. Some of these households are beneficiaries of existing programs that already have issues with coverage and targeting.

CHALLENGES AND OPPORTUNITIES IN THE PROCESS OF MEDIUM-TERM ECONOMIC RECOVERY

The COVID-19 crisis represents an opportunity to forge a new social contract. The health emergency provides an opportunity to launch a discussion on a strategy to overcome Guatemala's high levels of poverty and inequality. At the very least, this should address (i) improving the effectiveness of public social spending; (ii) improving fiscal governance; (iii) pushing reforms to reduce informality; (iv) improving education and its relevance; (v) strengthening violence prevention and law enforcement; (vi) improving the labor market for women and young people; (vii) promoting a digital economy agenda; and (viii) improving institutional, health, and social protection schemes.

MACRO-FISCAL CONTEXT

Guatemala has a strong macroeconomic framework. At the end of 2019, Guatemala was enjoying a stable macroeconomic performance, low inflation (4% per year), among the lowest levels of public debt in the region (25% of GDP), and a moderate and sustained fiscal deficit (2.3% of GDP). Moreover, its international reserves tripled over the last 10 years (to US\$15.3 billion at the end of March 2020). However, some of the private income that underpins economic activity comes from remittances, which exceeded 13% of GDP in 2019, while in the same year total exports accounted for 18% of GDP.

Nevertheless, the country's low tax burden limits its capacity to implement public social spending. Guatemala collects the lowest tax revenues as a percentage of GDP of any country in the region (10% in 2019), and this has been declining in recent years. Public spending was just 12.6% of GDP in 2019, while capital spending reached 2.6% in the same year, among the lowest in the LAC region. Institutional and regulatory weaknesses in the management of public finances persist, as does the lack of transparency in its implementation.

The post-COVID-19 fiscal agenda constitutes an opportunity to improve collection and the quality of spending. The return to a sustainable fiscal path should include measures aimed at improving the effectiveness of public spending and the administration of the tax and customs system, as well as transparency and accountability, and reducing the regressive nature of the tax system and increasing collection. At the same time, the government should take action to curb inefficiencies in public spending, both technical and in terms of allocation, leveraging technology to facilitate interaction with the public.



In the medium term, the coronavirus pandemic may help close the development gap. A greater social awareness has become apparent of the importance of having a universal social protection system to ensure the effectiveness of coronavirus containment measures in this first phase of the pandemic. Thus, it would seem that the social and political conditions for promoting structural change in Guatemala's health, education, and social protection systems are now in place. A comprehensive strategy needs to be devised to ensure the long-term sustainability of fiscal policies and macroeconomic stability so as to boost the dynamism of the economy.

SOCIAL SECTOR

Guatemala's economic growth has not been strong enough to reduce poverty and inequality. The country has exhibited modest but sustained growth in GDP in recent years, although per capita income has not shown any substantial improvement¹³⁰ and poverty and inequality remain at high levels. Among the causes of these lags are low levels of public and private investment,¹³¹ limited human capital with poor health¹³² and low levels of schooling,¹³³ a weak institutional environment, and a lack of opportunities to generate income. The poverty rates for rural and indigenous populations, which accounted for 40% and 35% of the total population, respectively, reached 76% and 79% in 2014, higher than the national average (59.3%).

In order to generate positive incentives for long-term productivity and thus help reduce poverty, the provision of funds to informal workers should be temporary, though could be extended for a set period of time contingent upon their activity being registered with Guatemala's tax authority, the Superintendencia de Administración Tributaria, and on job training. In the medium term, it is recommended that cash transfers to the vulnerable populations identified prior to the outbreak of the pandemic be maintained, and that a shift be encouraged from an unconditional cash transfer program for workers in the informal sector to one that is conditional upon training. Guatemala has a Technical Institute for Training and Productivity that could play an important role in professional training.

Improving the quality of the labor supply is crucial to strengthening the capacity to generate income and reduce poverty. In the short term, innovative and "temporary" forms of subsidies and unemployment insurance could be pursued, with retraining for workers and support for the temporary relocation of underutilized and temporarily inactive labor (for a limited period). Furthermore, existing transfer programs should have guidelines for increased formalization in order to expand the databases of beneficiaries and make aid conditional upon their opening a bank account and taking action to formalize their employment situation. In addition, training programs should be promoted in key upskilling/reskilling sectors, with a focus on higher value-added activities.

The crisis would appear to offer an ideal opportunity to capitalize on increased social awareness and boost spending on basic infrastructure, health, and education in the medium term. The temporary increase in social spending to tackle the pandemic could be partly rechanneled to fill development gaps in basic infrastructure, health, and education in the post-crisis period. This could include targeting vulnerable populations such as those in rural areas, indigenous people, women, and the young.

By reforming the structure of the health system, Guatemala could expand coverage and improve outcomes. A harmonized healthcare system, which fulfills the function of protecting the population from random outbreaks of disease, has a positive impact on both the health of the population and on productivity. Guatemala's current health system is characterized by high levels of fragmentation among public institutions, and by a private sector that operates quite independently and with minimal regulation,

130 Per capita GDP grew by an average of 1.3% between 2010 and 2018, in the latter year totaling 14% of GDP in the Latin American and the Caribbean region and 7% in the United States.

131 Investment went from an average level of 20% of GDP in the preceding decade to less than 15% of GDP between 2013 and 2019. Due to a lack of fiscal resources and inefficiencies in their application, public investment fell from 1.9% of GDP in 2013 to 1.5% in 2019.

132 In 2016, the maternal mortality rate was 88 per 100,000 births, compared to 67 per 100,000 in the LAC region. For children under five, the rate is almost twice that for the region, i.e., 28 per 1,000 children compared to 16 for Latin America and the Caribbean. With regard to chronic malnutrition, half of all children under five years of age do not receive sufficient nutrients, compared to 16 percent for the region.

133 The net enrolment rate in pre-primary reached 51% in 2019, while in the same year the rate for primary schools was 77%. The secondary school graduation rate is the lowest (48%) in Latin America (77%) and barely a quarter of young people of secondary school age are enrolled at this level (24% in 2015).



despite interacting with the public health system at various levels. In the public sphere, the principal players are the Public Ministry of Health and Social Welfare (the MSPAS), which is responsible for both the governance and delivery of services, and the Guatemalan Institute of Social Security (the IGSS), a social security system for health that covers workers in the formal sector. Members of the armed forces are covered by their own service, Sanidad Militar. Despite the low level of private health insurance coverage, the private sector comprises many different entities, including both for-profit and not-for-profit suppliers such as NGOs and faith-based organizations, as well as traditional and alternative forms of medicine.

By strengthening the social protection system, Guatemala would have an opportunity to reduce the incidence of poverty and inequality. A permanent system of social protection in Guatemala would foster a reduction in poverty and inequality, which would mean that when someone loses their source of income, they would enjoy some form of social protection against falling almost immediately into poverty. This mechanism requires that a system of registering and tracking beneficiaries be maintained in order to minimize spending waste and ensure policy effectiveness. Currently, 33% of the employed population (EP) are under some form of formal contract and only 22% are covered by the IGSS.

PRODUCTIVE SECTOR

Guatemala's private sector is characterized by a high degree of informality and high concentration of services. Economic activity is composed of trade and services (66%), industry (24%), and agriculture (10%). The EAP is growing faster than the economy's capacity to create formal jobs and is being absorbed by the informal sector, where workers have no access to the social safety net. As at the global level, the sectors with the highest risk of worker displacement are commerce, hotel and restaurant services, and real estate, administration, and business activities. These sectors are labor-intensive, often low-wage and low-skill.

A dynamic and robust MSME sector is key to promoting inclusive growth post COVID-19. MSMEs are a key driver of inclusive growth in Guatemala, where they should be helped to modernize and become part of the fourth industrial revolution. MSMEs make up around 90% of the country's companies and employ around 60% of the EP. They face numerous obstacles to their growth, one of the most important of which is gaining access to credit. In Guatemala, a Capital Protection Fund (US\$30 million) and Working Capital Fund (US\$350 million) have been authorized, which will provide loans to individual merchants, professionals, businesses, and credit unions at preferential rates.

The COVID-19 crisis provides an opportunity for Guatemala to expand its role in global value chains. For example, Guatemala's pharmaceutical industry generates approximately 68,000 direct and indirect jobs and is one of the few industries that has managed to withstand the crisis, operating at 70% capacity. One of the challenges they have faced is finding raw materials, which are imported from the United States, Europe, and China, places that are working almost exclusively to guarantee their own domestic supply. Their role as suppliers of multiple inputs to companies around the world also affects the regional value chain in Latin America, creating an opportunity for the development of local markets for these products. Any changes in these global value chains represent opportunities for the countries of the region that should be proactively pursued.

Guatemala could implement an investment promotion strategy to improve human capital and infrastructure. This strategy should focus on creating the kind of workforce skills sought by the companies it seeks to attract, for which market intelligence will be key to the development of new industrial hubs and the expansion of public-private infrastructure ventures. This expansion in investment would generate direct and indirect jobs, as well as provide incentives to boost private investment. Furthermore, strengthening the institutional environment and PRONACOM as an agency for attracting investment, reducing bureaucratic procedures, and furthering the digitalization of processes to facilitate productive activity all serve to leverage internal and external capital investment.



HAITI

JENNIFER LINARES AND BOAZ ANGLADE¹³⁴

CONTEXT

Haiti was one of the last countries in the Latin America and Caribbean (LAC) region to report its first COVID-19 cases (on March 19). Soon after, the government of Haiti announced a series of health and social/physical distancing measures and the creation of a multisectoral commission (CMGP-COVID-19) responsible for the strategic planning and transparent management of resources for the COVID-19 response. The government also announced a series of fiscal, monetary, and social protection measures to mitigate the impact of the COVID-19 crisis on the economy. These measures include a three-month moratorium on income taxes for businesses and individuals, the transfer of food and cash to 1.5 million vulnerable families, a reduction in interest rates on the three central bank bonds, a reduction of the reserve coefficients of commercial banks, a three-month moratorium on commercial bank loans, the elimination of fees related to transfers made through the Haitian interbank payment system (SPIH), and subsidies to teachers and the transport sector.¹³⁵ The International Monetary Fund (IMF) estimates that new spending due to the measures announced as of April 2020 will cost approximately 1.6% of GDP.^{136,137}

The COVID-19 crisis is expected to take a heavy toll on an already weakened Haitian economy. The IMF projects that COVID-19 and the series of episodes of social unrest registered at the beginning of the fiscal year will result in a GDP contraction of 4% in FY2020.¹³⁸ This context will likely exacerbate levels of poverty, unemployment, and food insecurity in Haiti.¹³⁹ While the mitigation stage of the pandemic still has some weeks to go,¹⁴⁰ this dire context calls for a strategy to be put in place for the post-COVID-19 recovery period. The present document lays out a number of considerations for this strategy.

POST COVID-19 RECOVERY CONSIDERATIONS

MACRO-FISCAL CONTEXT

The COVID-19 crisis is unlike any other Haiti has experienced before, given that during the period of containment of the virus the government cannot resort to traditional countercyclical measures to stimulate demand, because doing so would come into direct conflict with mobility and social/physical distancing measures. It is recommendable to follow the guidelines of the CMGP-COVID-19 commission and the Ministry of Public Health and Population (MSPP) when deciding the appropriate time to relax mobility restrictions. As discussed in the introductory chapter, once these measures are lifted, fiscal policy should consist of two stages: the first stage should be expansive in nature in order to hasten the recovery of production, employment, and household and private sector incomes. The second stage

134 With inputs from Ana Arias, Paolo De Salvo, Nicola Magri, Marie Evane Tamagnan, Kawala Jean, Geraud Albaret, and Alexandre Bagolle.

135 For more details on the measures, please see our [briefing on the impact of COVID-19 and the measures undertaken by the governments of the region](#).

136 In April, the government had spent 714.5 million gourdes in COVID-19 related expenditures.

137 As of May 5, Haiti had secured funding from different international donors, including a US\$111.6 million loan from the IMF under its Rapid Credit Facility (RCF) and a total of US\$108.7 million in grants from multilateral and bilateral donors.

138 The fiscal year in Haiti runs from October 1 to September 30.

139 In terms of food insecurity, an April 2020 World Food Programme report indicates that one out of every three Haitians are acutely food insecure.

140 Based on scenarios presented by Cornell University and Oxford University, the CMGP-COVID-19 had initially expected the pandemic to peak in Haiti at the end of May or in June 2020, depending on the degree of mitigation; however, on May 20 President Moïse announced that the peak would come sometime between late May and mid-July, and therefore extended the current state of emergency until July 20.



should consist of ensuring fiscal sustainability and some structural changes in spending and revenue collection.

During the first stage, the government should consider expanding capital expenditures, in lieu of current expenditures, as the former are easier to reverse during the second stage. As Haiti has little room to increase spending,¹⁴¹ the government should continue to work on securing international funding¹⁴² and restructuring part of the spending to focus it on priority projects with rapid gains (especially those with a higher social and economic impact) and on social safety nets.¹⁴³ In addition, the government should strive to optimize infrastructure portfolios in order to improve the efficiency of spending and avoid cost overruns and project delays. The Public Investment Management Index developed by the IMF assesses the quality and efficiency of the investment process across four project stages: project appraisal, selection, implementation, and evaluation. Table 1 shows Haiti's score in these four different stages compared to those of other Caribbean countries and low-income countries in Latin America. While Haiti ranks low in all stages compared to the others, it scores lowest in the first two, i.e., project appraisal and selection. In order to improve in these aspects, investment projects should be subject to greater scrutiny of their financial and economic feasibility and sustainability, and a more detailed assessment of their social and economic value. Furthermore, appraisal standards should have some form of independent check in place in order to avoid subjective bias in the evaluation. (Dabla-Norris et al., 2012).

TABLE 1: PUBLIC INVESTMENT MANAGEMENT INDEX, 2015

Country	Appraisal	Selection	Implementation	Evaluation	Total
Barbados	0.50	2.00	0.93	1.33	1.19
Belize	0.00	0.80	0.27	0.00	0.27
Bolivia	2.83	2.00	2.93	2.00	2.44
Haiti	0.00	1.20	1.73	1.33	1.07
Jamaica	1.83	2.40	1.33	1.33	1.72
Trinidad and Tobago	0.00	2.40	1.33	0.67	1.10
LAC sample average	1.58	2.16	2.00	1.60	1.83
World average	1.33	1.60	2.00	1.33	1.57

Source: IDB (2019) based on Dabla-Norris et al. (2012)

Note: Values range from 0 (least efficient) to 4 (most efficient)

Given the limited fiscal space, the government could also promote expenditure-switching policies across the various government agencies. This implies resorting to purchasing more local goods (e.g., agricultural products for social protection programs) rather than foreign-produced ones. This approach would not only reduce the pressure on the current account deficit, which is projected to widen during the COVID-19 crisis, but also support domestic activities and local employment.

During the second stage, several structural fiscal challenges could be tackled in order to help position the country on the path of sustainability. This stage would require: i) raising revenues to finance the increase in spending in the previous stage and longer-term policy goals, and ii) achieving greater spending efficiency.

141 Haiti's projected primary deficit for FY2020 is 6.1% of GDP and has been rapidly increasing since FY2017 (when it was 0.7% of GDP). Similarly, domestic debt has been increasing in recent years, bringing total public debt for FY2019 to 47.7% of GDP.

142 A key way to secure recovery funds is by successfully completing a Staff Monitored Program with the IMF. According to IMF Country Report No. 20/123, Haiti is "expected to undertake discussions for a six-month SMP arrangement in the coming weeks with the goal of advancing after that to a comprehensive upper credit tranche-quality economic reform program."

143 For details of the challenges associated with safety nets, see Social Sector below.



In terms of revenue collection, tax exemptions should be revised, as these total around 61% of all income tax collected.¹⁴⁴ There is also room for improvement in terms of the progressivity of income taxation: as discussed in IMF's 2019 selected issues report on inequality, the top rate of 30% applies to incomes that are over 2,000 percent higher than Haiti's per-capita GDP.¹⁴⁵ Furthermore, the tax administration system should be modernized and technology should be implemented to address the high levels of contraband recorded over the land border with the Dominican Republic.¹⁴⁶ In terms of spending, given that the generalized fuel subsidy represents direct fiscal losses of about 4.6% of GDP, the option of reform needs to be considered. The government could look at the possibility of targeting the subsidy so that it only benefits vulnerable individuals and sectors, rather than higher-income consumers, especially considering that oil prices are expected to remain low in the medium term.¹⁴⁷ However, any attempt to restructure the fuel subsidy should be preceded by compensatory social programs and a clear communication strategy.¹⁴⁸ Finally, budgeting should transition from an incremental approach to a results-based one, as public spending may not be efficiently allocated due to the lack of any kind of system to monitor results using performance indicators.

MONETARY AND FINANCIAL CONSIDERATIONS

The Central Bank of Haiti (BRH) should consider maintaining flexibility regarding deposit requirements and interest rates in order to support liquidity in the system and domestic investment during the recovery period. It will be of special importance to ensure that financial institutions that serve businesses in the informal sector and in rural areas (such as savings banks and *caisses populaires*) adopt lower interest rates. The government should also consider regulating microfinance institutions (MFIs), as these are not currently supervised. Monetary financing should continue to be limited in order to avoid inflationary pressures. In the recovery period, the monetary framework should be strengthened, especially by reinforcing the autonomy of the BRH in order to support future expectations on price stability.

PRODUCTIVE SECTOR

Over the past two years, Haitian firms have been impacted by frequent social unrest that often resulted in the shutdown of economic activities for several weeks. In 2019, many private businesses were forced to close or reduce their capacity as a result of the ongoing sociopolitical crisis. The uncertain political environment coupled with weaknesses in the process of starting a business, dealing with construction permits, and registering property have created an unfavorable business climate, which has resulted in consistently low rankings in the World Bank's *Doing Business* report (in 2020, Haiti ranked 179th out of 190 countries).

In addition, various weaknesses in the private sector make it even more vulnerable to economic shocks, including a heavy dependence on imported—notably intermediate—goods needed for production; high levels of informality, especially among micro-, small, and medium-sized, enterprises; and a lack of diversification of export goods and export markets. In terms of composition, the two largest sectors of the Haitian economy are trade and hospitality (28% of GDP) and agriculture (25% of GDP). Manufacturing is also a key sector of the economy, as it accounts for 8% of GDP and represents an important source of formal employment in the country.

The ensuing paragraphs discuss some of the suggestions for reactivating these three sectors. The discussion will focus on these as they represent the largest share of the economy. However, the government should consider all sectors when designing its recovery strategy. It is essential to hold sectoral roundtables with different business groups in order to design specific strategies to reactivate each economic sector and better respond to the specific needs of Haitian firms. Both large enterprises

144 According to the World Bank's *Better Spending, Better Services: A Review of Public Finances in Haiti* (2016). Most of these exemptions are granted by virtue of the 2002 investment code that provides tax exemptions for 15 years to companies in free-trade zones and 5- to 10-year exemptions for specific investment projects deemed desirable from a development perspective.

145 IMF Selected Issues Country Report No. 20/122.

146 According to a 2018 CSIS study, only about 14% of Dominican exports entering Haiti over the land border are reported in Haitian national accounts. The remainder are believed to enter as contraband.

147 WTI crude oil futures up to 2025 are currently selling at less than the average historical price over the last 5 years (as of May 5, 2020).

148 As proposed by the IMF in their Request for Disbursement under the Rapid Credit Facility and Article IV documents.



and small and medium-sized enterprises (SMEs) should be included in these roundtables in order to ensure that the dialogue and resulting agreements reflect the needs of firms of all sizes.

TRADE AND HOSPITALITY (TOURISM)

Once the pandemic is mitigated, many commercial firms (notably SMEs) will need support to reboot their operations. This could be supported by channeling funds through financial institutions via the provision of credit for trade activities and by giving preference to SMEs in government procurement. To support stores and restaurants during the recovery phase, investing in campaigns to restore consumer confidence and purchasing habits could also be an option.¹⁴⁹ As for the tourism sector, according to INCAE Business School, the tourism industry will take longer to recover compared to other industries because tourists will decide to travel only when it is safe to do so. Therefore, in the short term the tourism sector should focus on promoting domestic tourism, especially consolidated destinations that are already accessible and known to the population. In Haiti's case, the country's rich historical legacy makes cultural tourism an option worth pursuing. Furthermore, investment in market intelligence is vital in order to identify potential customers.

FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) in Haiti has remained stagnant for the last 15 years,¹⁵⁰ save for exceptional peaks due to the attraction of single large players, such as SAE-A, Hansae, Digicel, and Decameron. Furthermore, while these investments have created jobs and resulted in an influx of foreign currency, multinationals do not appear to have either formed linkages with local business, procured their services, or purchased their products. As a result, little technology and know-how is transferred to the Haitian economy. Most foreign companies import the goods and services they need from abroad, and Haiti is unable to maximize the impact of inbound FDI partly due to the lack of an integrated industrial policy to leverage its presence.¹⁵¹

While global trade flows are currently decreasing due to the pandemic,¹⁵² Haiti could start looking at ways to improve its efforts to attract future FDI, an essential first step in this being to empower and enhance the role of the Centre de Facilitation des Investissements (CFI) as the country's promotional and facilitation agency. In addition, based on the experiences of countries such as Jordan and Lesotho, the country could consider finding a way for well-established investors to gradually acquire some form of title to the sheds and land where they operate, though leased sheds could enable potential investors to invest more quickly.

AGRICULTURE

The pandemic could potentially have a significant effect on agricultural production and the demand for agricultural products in Haiti. These effects cannot be underestimated, as the agricultural sector represents more than 20% of Haiti's GDP. In the short term, two objectives should be prioritized:

- **Maintaining the flow of trade of agricultural products**, as Haiti's food supply relies heavily on imports. A disruption in agricultural trade flows could constitute an additional dangerous threat to the country's already fragile food security.
- **Stimulating national production**. Technical and financial support in the form of grants, credit, and/or crop insurance should be provided to farmers in order to support their productive capacity and improve their productivity.

149 ILO Enterprises Brief: Interventions to support enterprises during the COVID-19 pandemic and recovery (April 2020).

150 FDI averaged the equivalent of 1.7% of GDP between 2005 and 2019.

151 Porter, 2017.

152 According to the UNCTAD, the COVID-19 outbreak could cause global FDI to shrink by 5%-15%.



In the medium term, a more comprehensive agenda for agricultural development should be implemented to improve agricultural productivity in the country, facilitating the complementarity between public and private investments. This development agenda should be designed around key investment pillars, including: (i) animal and plant health; (ii) agricultural infrastructure (with a particular emphasis on watershed management and climate-smart irrigation schemes); (iii) applied agricultural and fishery research; (iv) technology transfer for small-scale farmers and fishers, and (v) agricultural extension for small-scale farmers and fishers (with a particular focus on climate-smart agriculture and post-harvest loss reduction).

At the same time, in coordination with the private sector, attention should be given to fostering investments to support agribusinesses focused on agro-industrial transformation and innovation, as well as companies that encourage the development of business partnerships. In doing so, such a strategy would facilitate access to credit, basic inputs, and productive investment capital for agricultural producers. In particular, through agribusiness and value-chain financing initiatives, small and medium-sized producers can benefit from the catalytic role played by anchor companies, since these can facilitate the introduction of technologies, modernization of the producers' practices, financing of their production, and linkage to other markets. Finally, it is vital to invest in improving connectivity to markets in order to reduce food waste, and thus any loss of revenue for the farmers.

MANUFACTURING

The manufacturing sector is a key provider of formal employment and essential for Haitian exports. It is, however, poorly diversified and dependent on textiles and primarily the U.S. market. Given the increased demand for personal protection equipment, including face masks, and hygiene products, Haitian manufacturing could consider temporarily shifting part of its efforts to the production of these goods.¹⁵³ The sector could also consider diversifying its export markets and maximizing its trade relationship with countries less affected by the COVID-19 crisis, notably Taiwan, and reviewing its trade agreements in order to identify opportunities to maximize trade with countries to which it already has preferential access.

SOCIAL SECTOR

Haiti is the poorest country in the Western Hemisphere. An estimated 59% of the population lives below the national poverty line, while 24% live in extreme poverty. Furthermore, Haiti ranked 169th out of 189 countries in the 2019 Human Development Index Report. Though Haiti registered gains in terms of human development over the last decade, the outcome is much lower when adjusted for education and health factors.¹⁵⁴ Social spending is less than 4% of GDP and is one of the lowest in the LAC region.¹⁵⁵ The COVID-19 pandemic will undoubtedly push even more Haitian households into deeper hardship. Therefore, social safety nets should be put in place to provide quick relief to the vulnerable population. In addition, a recovery strategy for education and health is needed to prevent any deterioration in Haiti's human capital that could further deepen inequalities within the population.

FOOD SECURITY AND SOCIAL PROTECTION

According to the World Food Programme (WFP), one in three Haitians were acutely food insecure before COVID-19 became a pandemic.¹⁵⁶ This was especially the case in the lower Northwestern region of the country and in the urban commune of Cité Soleil. Disruptions in food supply chains due to the global pandemic, coupled with violent conflict, inflation, and the currency depreciation registered over the past few months¹⁵⁷ could increase the severity of food insecurity and malnutrition in the months to come. As discussed in the previous section, maintaining the flow of trade of agricultural products and stimulating

153 Several factories have already been producing face masks, especially at the request of the Prime Minister.

154 In fact, Haiti ranks fifth (out of 148) in the world in terms of HDI losses when these inequalities are controlled for.

155 According to IMF Selected Issues Country Report No. 20/122.

156 World Food Programme. 2020 - *Global Report on Food Crises*.

157 The Haitian gourde depreciated by 13.2% against the U.S. dollar from January to May 2020.



local production are essential to mitigate food insecurity. In addition, cash and food transfers to the vulnerable could provide further relief from food insecurity.

In April 2020, the Haitian government announced that 1.5 million households would receive an unconditional cash transfer equivalent to US\$30 as part of the measures to mitigate the impact of the pandemic. However, the implementation of this measure has been hampered by issues such as the lack of an accurate, comprehensive list of beneficiaries and their phone numbers, target beneficiaries having a sim card from a mobile operator not linked to the mobile payment system,¹⁵⁸ and the fact that a number of beneficiaries had no active mobile wallet, among others.¹⁵⁹ These challenges must be tackled to ensure that the funds reach these households, especially considering that most of them are unable to obtain income from their labor, as they work in informal jobs that depend on social interactions.¹⁶⁰

For the recovery period and for transfers in the longer term—whether cash or in-kind—the following recommendations are worth consideration: (i) the Information System (SIMAST) of the Ministère des affaires sociales et du travail (MAST) should be expanded and updated so as to provide a comprehensive database that can be consulted to enable beneficiaries to be targeted quickly; (ii) a clear and reliable distribution or payment method needs to be identified, one that is suited to specific types of benefits, beneficiaries, and locations (e.g., mobile payments may work in the city, but in remote areas cash would need to be distributed through local credit unions); and (iii) the role of the various actors involved in each step of the intervention, from the definition of the benefits to their deployment (which in the case of Haiti must rely on a variety of actors, including financial operators and NGOs) should be clearly articulated. Finally, it will be important to adopt and implement the National Policy for Social Protection and Social Promotion that the MAST has been preparing, starting with the establishment of a structure to lead it and mobilize further interventions, particularly in response to shocks.

EDUCATION

Given that Haitian schools remain closed due to COVID-19 and the loss of the first trimester of the school year due to *peyi-lok*, a strategy is needed to ensure the rapid resumption of classroom activities once the government (in coordination with the CMGP-COVID-19 commission) determines it is safe to do so. This strategy should contemplate a reorganization of the school calendar or curricular prioritization and accelerated learning programs. Furthermore, the reopening of schools should be in accordance with the following key principles: (i) ensuring social/physical distancing, e.g., by double shifting; (ii) disinfecting and maintaining schools clean; (iii) guaranteed access to health services; and (iv) ensuring access to hand-washing facilities. Given the significant loss of learning opportunities this school year, many students will not only be lagging behind but may also be at higher risk of dropping out due to the breakdown of their connection to school, as well as to economic hardship and food insecurity. Educational continuity activities such as distance-learning should be maintained after schools reopen, in order to provide content for children who may not be able to reenter the school system immediately and to attract students back to school. Actions aimed at encouraging children to return to school (such as providing school supplies, tuition waivers, and school meals) could be considered, particularly for the most vulnerable populations.

HEALTH

Haiti ranks poorly (100th out of 195 countries) in the Global Health Security Index, a composite index¹⁶¹ that assesses countries' capabilities to prevent and mitigate epidemics and pandemics. Haiti ranks especially low in the indicators related to rapid response and mitigation of the spread of an epidemic. This is reflected in the countries' repeated failure to mitigate epidemics, such as the cholera epidemic in 2010. In the short term, public investment in healthcare systems and protocols and water and sanitation

158 Only one of the two mobile carriers (Digicel) is connected to the mobile payment system.

159 The government also needs to determine how to reach out to vulnerable households with no mobile phones.

160 Informality levels among the poor exceed 98% in all 10 departments of Haiti.

161 Developed by the Johns Hopkins Center for Health Security, the Nuclear Threat Initiative and The Economist Intelligence Unit.



services—especially in rural areas¹⁶²—are essential to protect the population and minimize the risks of future epidemics (or a COVID-19 relapse).

As Haiti’s healthcare system relies heavily on non-governmental and private actors to provide services, the government is faced with the challenge of coordinating the sector—and its many stakeholders—and of putting into place mechanisms to mobilize private providers in order to increase the availability of beds and specialized services. Doing so would benefit the country not only in times of epidemics, but also whenever a major natural disaster occurs. To this end, developing the capacity to activate a “control room” during epidemics should be a priority, one with clear powers to mobilize public and nonpublic actors alike.

A solid cash transfer program would also underpin health expenditures for the most vulnerable, as evidence shows that these not only support spending on food, but also on health and hygiene, and significantly reduce inequality.¹⁶³ A healthy population will be key to the recovery process, especially to ensure that the most vulnerable are not disproportionately affected by this pandemic in the long run.

Additional Resources

IDB and Haiti:

[Link to the 2017–2021 Country Strategy: http://www.iadb.org/document.cfm?id=EZSHARE-1232983971-18](http://www.iadb.org/document.cfm?id=EZSHARE-1232983971-18)

¹⁶² According to the IMF, only 11 percent of the rural population having access to electricity as compared to 63 percent in urban areas, and 16 percent having access to improved sanitation facilities versus 48 percent in the cities.

¹⁶³ IMF Selected Issues Country Report No. 20/122.



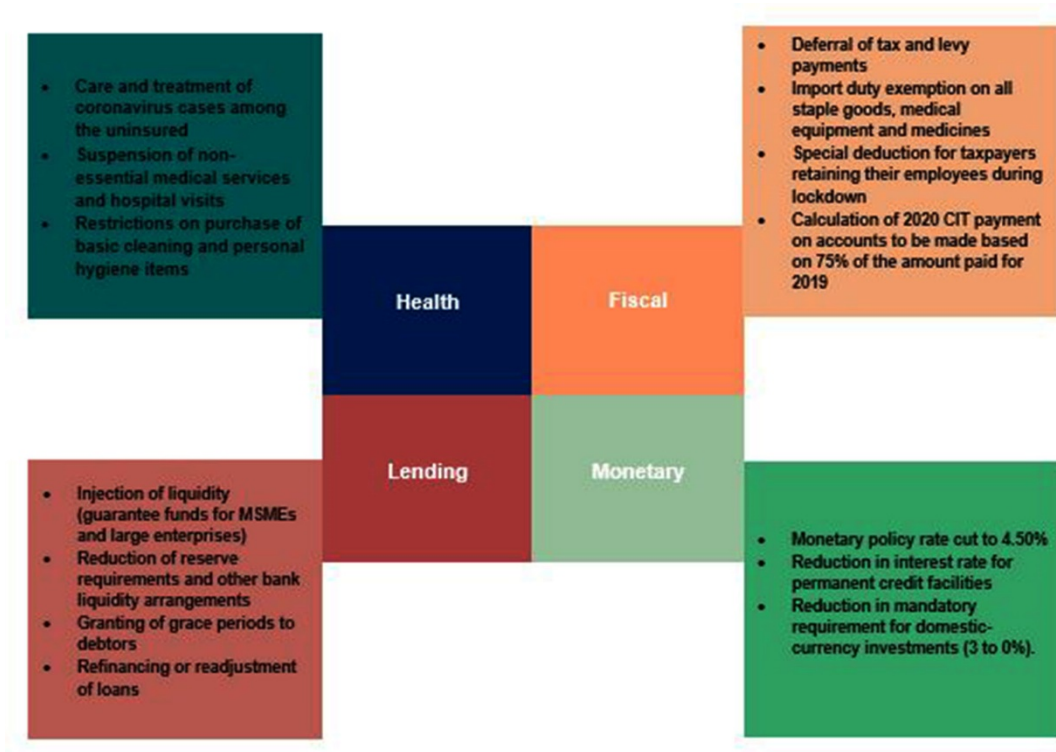
HONDURAS

JORDI PRAT AND ROSMERY ZELAYA

CONTEXT

In mid-March, the government introduced a series of social/physical distancing measures. By May 27, there were 4,401 reported positive cases and 188 deaths. At that time, Honduras had a death rate of 4.3 percent, one of the highest in the continent. In its efforts to tackle the severity of the crisis, the government has taken action in four key areas: monetary policy, fiscal policy, lending, and health.

TABLE 1. CORONAVIRUS CONTAINMENT MEASURES



The COVID-19 crisis has entailed a deterioration in growth prospects. The Honduran economy had been slowing down since 2018 and continued to grow at 2.7% a year in 2019 (having been 3.7% in 2018), an effect of the volatility of the price of raw materials—primarily coffee—coupled with less dynamic trade and a contraction in foreign direct investment. Although before the crisis the IMF had predicted an upturn in 2020, its current forecast is of a 3.3% drop in GDP, a direct effect of social/physical distancing measures and the fall in both domestic demand (due to lower remittances as a result of the downturn in the U.S. economy) and external demand (due to the contraction of economic activity among the country's trading partners).

Honduras is one of the countries most vulnerable to viral diseases in the region. In 2019, the country had one of the highest dengue mortality rates in Latin America (or rather the LAC region) with 1.6 deaths per 1,000 inhabitants, higher than other Central American countries such as Guatemala (1.3), El Salvador (0.5), and Nicaragua (0.2). Meanwhile, Honduras had 112,708 cases of dengue (including 180 deaths), fewer than Nicaragua with 186,173 cases (30 deaths) but more than Guatemala (with 50,432 cases and 66 deaths) and El Salvador (27,470 cases and 14 deaths). In early 2020, Paraguay and Honduras were at the forefront of the dengue outbreak, especially Honduras, which has recorded over 3,200 cases and at least three deaths so far this year. It should be noted that Latin America is particularly vulnerable to the transmission of these diseases (Pan American Health Organization [PAHO], 2011).



EASING OF RESTRICTIONS ON MOVEMENT

The measures implemented as part of the economic reactivation and recovery plan should involve a **threefold approach**. This would comprise: (a) a strategy of intelligent opening up of the economy, (b) gradual publicly managed health and sanitation measures, and (c) effective protection of existing jobs and the generation of new ones. The strategy for opening up the economy calls for measures to gradually and safely reopen productive sectors, with an emphasis on those that have a high impact on employment and the capacity to implement biosafety protocols based on the automation of equipment, traceability, the monitoring and safety of goods and people, and the modernization of entry and exit points. With respect to health measures, ongoing diagnostic and antibody testing should be implemented and expanded, key areas of public life should be managed, and testing should be prioritized in the sectors that are opening up. Lastly, effective job protection means implementing policy measures to protect employment and maintain the business framework in the immediate and short term, particularly those that depend on foreign investment, such as the textile-maquila sector, which generates some 150,000 jobs across the country.¹⁶⁴ At the same time, it is important to take advantage of the opportunities that a post COVID world might create. A productive strategy should be developed to generate new jobs and provide relevant skills to the workforce, and to attract investment and diversify the productive structure in accordance with the traditional activities of the region or those with a potential for development.

In response to the COVID-19 health crisis, the IDB has fast-tracked the approval and implementation of emergency projects in four areas: health, measures to safeguard the incomes of those populations vulnerable to the shock, measures to protect the employment and productivity of SMEs, and fiscal policies in response to the crisis. The Bank has restructured its portfolio to bolster the country's health response and been in discussions aimed at creating and implementing a liquidity guarantee fund. IDB Invest, the private arm of the IDB Group, is committed to supporting the country's economic recovery through the Trade Finance Facilitation Program aimed at promoting development and economic growth by expanding the sources of financing available to importers and exporters.

ECONOMIC RECOVERY IN THE MEDIUM TERM

MACRO-FISCAL CONTEXT

The COVID-19 crisis will trigger a rise in the deficit in 2020, which will need to be reversed once it is over. As a result of the COVID-19 emergency, a forecast NFPS deficit of 1.0% of GDP in 2020 is now expected to reach 4% due to the crisis. The authorities have announced an increase in spending on health and social welfare for households, and also reallocated certain items of the budget. The safety valve provided by the Fiscal Responsibility Act (which will have to be used in 2020, given that an NFPS deficit in excess of the 1% of GDP rule is expected) stipulates that enforcement of the fiscal rule must resume from 2022 onwards; thus, the NFPS deficit is expected to decrease from 2021 onwards.

The post-COVID-19 agenda constitutes an opportunity to move forward with comprehensive tax reform. The return to a sustainable fiscal path should include measures aimed at improving the effectiveness of public spending and the administration of the tax and customs system, as well as transparency and accountability, and reducing the regressive nature of the tax system.¹⁶⁵ At the same time, the government should take action to curb inefficiencies in public spending, both technical and in

¹⁶⁴ <http://www.prohonduras.hn/index.php/espanol/por-que-honduras/perfil-de-pais>

¹⁶⁵ The IDB study *Recaudar para crecer* found the Honduran tax system to be regressive from the first to the fifth quintile of household income. The study shows that income tax in Honduras by type is slightly regressive, as the lowest income quintile bears a higher tax burden than the highest income quintile, which can be explained by the numerous exemptions. All other taxes show a quite marked degree of regressivity.



terms of allocation, leveraging technology to facilitate the interaction between the government and the public.

SOCIAL SECTOR

Poverty and inequality have remained at high levels for the past 20 years. Estimates by the country's National Institute of Statistics (INE) show that the percentage of poor households went from 63.7% in 2001 to 61.9% in 2018, a marginal decrease of 2 percentage points, while the number of poor households increased from 786,529 to 1,306,514. The slow decline in the poverty rate makes Honduras one of the poorest countries in the LAC region,¹⁶⁶ which can be explained by a combination of low per capita growth of just over 1% per year and a "slight" distribution effect, with the Gini falling from 0.56 to 0.53.

High levels of informality and low levels of education limit opportunities for better employment. Between 2001 and 2018, the low level of education limited job demand among businesses. This has generated a high level of informality, which measured as the proportion of salaried workers not covered by the social security system stands at 64%, whereas among non-salaried workers the figure reaches 82%, one of the highest in the region. Thus the most labor-intensive sectors, such as agriculture and services, have the highest rates of informality (85% and 81%, respectively) and lowest labor productivity, which results in low incomes for those workers.

The COVID-19 crisis represents an opportunity to forge a new social contract. The health emergency provides an opportunity to launch a discussion on a strategy to overcome Honduras's high levels of poverty and inequality. At the very least, this should address: (i) improving the effectiveness of public social spending; (ii) improving fiscal governance; (iii) pushing reforms to reduce informality; (iv) improving education and its relevance; (v) strengthening violence prevention and law enforcement; (vi) improving the labor market for women and young people; (vii) promoting a digital economy agenda; (viii) improving institutional, health, and social welfare schemes.

The strengthening of the health system needs to become firmly established as a medium-term strategy. The temporary increase in health provision brought about by the crisis has opened up the possibility of discussing the kind of healthcare system that Honduras should have in the future. For example, it would seem advisable to change the focus of the Honduran system to one of prevention, rather than the traditional curative approach to public health. Along these lines, successful models such as the decentralized management model could be expanded with a view to extending coverage.

Improving the quality of the labor supply is crucial to strengthening the capacity to generate income and reduce poverty. In the short term, innovative and "temporary" forms of subsidies and unemployment insurance could be pursued, with retraining for workers and support for the temporary relocation of underutilized and temporarily inactive labor (for a limited period). Furthermore, existing transfer programs should have guidelines for increased formalization in order to expand the databases of beneficiaries and make aid conditional upon opening a bank account and taking action to formalize their employment situation. In addition, it is vital that training programs be promoted in key upskilling/reskilling sectors, with a focus on higher value-added activities.

PRODUCTIVE SECTOR

The strong economic performance of recent years has not brought with it any improvement in the productive structure. The trend had been underpinned by an increase in factors of production, a sound macroeconomic framework, and a high degree of trade openness, as well as a favorable external climate and positive dynamics from its main trading partner, the United States. However, the strong macroeconomic results have not been reflected in any significant structural changes, such as an increase in potential growth, or in a shift of the workforce towards better quality jobs. Factor productivity has remained relatively stagnant, accounting for only 5% of the growth observed over the last twenty years, compared to the 50% attributable to physical capital accumulation and 45% to labor. It is worth noting

¹⁶⁶ In March 2019, a technical committee set about revising and updating the monetary poverty measure. According to preliminary results based on the new measurement, the percentage of poor households in 2018 was 42%, almost 20 percentage points below the 61.9% of the old poverty measure.



that between 2011 and 2019 the homicide rate per 100,000 inhabitants dropped significantly, from 86.5 to 43.6, though the country still ranks among the most violent in the world.

The post-COVID world offers new opportunities for Honduras. The crisis has laid bare the need to diversify global value chains, so Honduras could take advantage of this new reality to expand its stake in existing ones or into new sectors with a vision of integration and long-term strategic planning, while reducing brokerage schemes that have a negative impact on small producers. The limited access in this sector to private bank credit needs to be examined, which is why alternative ways of making financing available need to be identified, such as through the strengthening of savings and microfinance cooperatives, which offer better coverage and facilities for small local producers.

At the same time, the government could take on the role of a catalyst for productivity, with process improvements that should be matched by infrastructure, particularly since the country lags far behind in roads, border posts, and broadband. The expansion of broadband infrastructure should also be supported, as should digitalization, improving the business environment by reducing red tape so as to facilitate contact between the public and businesses. Actions such as those outlined in the logistics PBL agreed with the IDB are key, which in its first phase includes a citizens' portal and in its subsequent phases includes the integration of national and international business processes that would streamline and boost trade.

Looking to the medium term, the country could consider diversifying its productive structure geographically. As a starting point, the publication *Honduras: A Territorial Approach to Development* (2019) proposes a Spatial Economic Strategy (SES) for a geographically specific expansion of the historical T-shaped pattern of development that Honduras has shown. A crucial element is to optimize the investment strategy by employing a spatial approach to attracting FDI based on the SES, which would make it possible to seize opportunities available across Honduras, turning it into a tool to support planning and investment so as to further the development of the country from the perspective of geospatial analysis. The territorial approach proposed creates a network of primary and secondary hubs (development hubs) connected by corridors.

Lastly, this is an opportunity to implement a comprehensive investment promotion strategy. This could focus on attracting higher value-added companies to the new value chains. Doing so would require a comprehensive response to changes in the productive structure, including improving the quality of the workforce. In this way, the strategy could generate a virtuous circle to transform the labor force, through training programs provided through public-private partnerships, and reinforce the mechanisms for funding enterprises (MSMEs and large enterprises, conditional upon their providing training). This strategy should focus on creating the kind of workforce skills sought by the companies it seeks to attract, for which market intelligence will be key to the development of new industrial hubs and the expansion of public-private infrastructure ventures.



MEXICO

AGUSTÍN FILIPPO AND ANA KAREN DIAZ

CONTEXT

Mexico recorded its first case of COVID-19 on February 27. By May 13, the number of confirmed cases there totaled 38,324, with 3,926 deaths. Most of the confirmed deaths involved people with at least one of the following chronic conditions: diabetes, high blood pressure, obesity, chronic kidney failure, or COPD, among others. The high prevalence of these diseases among the population is a risk factor that is at odds with the relatively young average age of the population. The fatality rate (deaths from COVID-19/persons with COVID-19) is 10.5 per 100 cases. Mexico is currently passing through the most intense phase of increased infections; however, given the marked disparities that exist in terms of the intensity of transmission of the pandemic—with some cities already beginning to see or close to seeing a drop in the number of infections and some municipalities yet to report a single confirmed case—the country has announced a gradual program to resume economic and social activities.

On the economic front, in the first quarter of 2020, GDP fell by 1.6% (compared to the previous quarter). Though bad (compared to the 0.1% drop in the fourth quarter of 2019), this downturn in activity is going to get worse as the crisis unfolds, with a much sharper fall expected in the second quarter of 2020. In March, just over 100,000 formal jobs were lost, while in April, with the distancing measures now in place, another 555,000 were lost. Compared to April 2019, formal employment was down 2.2%, substantially more than the worst monthly drop recorded during the 2007–2009 financial crisis, when it fell by 0.4% in April 2009.

RESTRICTIONS ON MOVEMENT AND REOPENING

Following the first confirmed case of COVID-19 infection on February 27, Phase 1 of controlling the virus began, with testing restricted to those with symptoms and links to countries where the disease was already well advanced. On March 23, when the country moved into Phase 2 of its efforts to control the outbreak, it had had two confirmed COVID-19 deaths, after which a health emergency was declared on March 30. During this phase, a partial social/physical distancing program was introduced, to last until May 30, which included the suspension of classes and activities at government offices, the suspension of mass gatherings, and the cessation of non-essential activities. On April 21, Phase 3 of the disease control effort was announced, the rate of infection having risen to a peak of new cases each day between May 6 and 8. On May 13, a plan for reopening was announced, to come into effect gradually as each municipality in the country moves beyond the safety thresholds for the disease.

Both the health emergency and the reopening plan were announced by the country's General Health Council (GHC). Headed by the Secretary of Health, the council reports to the President of the Republic and includes members from the Secretariats of State (Finance, Education, the Economy, Communications and Transport, Public Administration, and Public Education, among others), as well as the directors of public health institutions (the Mexican Institute of Social Security, the Social Security and Services Institute for Public Employees, and the National System for Integral Family Development), the presidents of the National Academy of Medicine and National Academy of Surgery, and the rector of the National Autonomous University of Mexico (UNAM). There are four main aspects to the announced reopening measures:



- A broadening of the list of key activities, to include construction, mining, and the manufacture of transport-related equipment (including the automotive, railway, naval, and aeronautical sub-sectors).¹⁶⁷
- The easing of restrictions on work and school activities from May 18 in municipalities with no cases of infection and whose neighboring municipalities are also free from infection. (See Fig. 1: COVID-free municipalities)
- Requiring all companies to implement mandatory health measures in the workplace, under the supervision of the relevant state authorities.¹⁶⁸
- From June 1, 2020, the introduction of a mechanism for the gradual reopening of economic, educational, and social activities. The Secretariat of Health will employ a weekly traffic-light system in which each color (red, orange, yellow, and green) will signal the level of reopening authorized for the municipalities of each state, based on the level of risk of infection achieved.

FIGURE 1. DISTRIBUTION OF COVID-19 CASES AND NEIGHBORING MUNICIPALITIES



Source: Government of Mexico. Available at: <https://coronavirus.gob.mx/fHDMMap/munN.php>
Accessed on May 14, 2020.

HEALTH AND SOCIAL CONSIDERATIONS

HEALTH. As awareness of the disease and its control increases, it is becoming clear that Mexico's capacity for testing and diagnosis is lacking. Mexico carries out 0.02 tests per 1,000 inhabitants, compared to 0.4 in Argentina, 0.10 in Korea, 0.16 in Uruguay, and 0.29 in Chile.¹⁶⁹ Between the Mexican Institute of Social Security (IMSS), the ISSSTE, the Secretariat of Health, Pemex (the national petroleum company), the Secretariat of National Defense (SEDENA), and the Secretariat of the Environment and Natural Resources (SEMAR), the country has 60,600 beds and 5,523 ventilators available for dealing with the outbreak. By May 12, 34% of regular hospital beds were occupied and 28% of ventilator beds.¹⁷⁰ The disease is concentrated in five urban areas: Valle de México (Mexico City and Mexico State, in the center of the country), Cancún (Quintana Roo, in the southeast), Villahermosa (Tabasco, in the southeast), Culiacán (Sinaloa, in the north), and Tijuana (Baja California, in the north). One of the areas with the

¹⁶⁷ These sectors were hit by what amounted to a near total shutdown, which in some cases, e.g., in the construction sector, coincided with a downward trend that had been going on for some time (in the first quarter of 2020, construction fell by 8.2% compared to the same quarter the previous year, over three times the drop recorded in the economy as a whole).

¹⁶⁸ The measures include health regulations for plant employees, remote working arrangements, and specific health monitoring and management protocols for each type of business (classified by size and sector).

¹⁶⁹ Daily tests, three-day average. Source: Ourworldindata.com.

¹⁷⁰ SARI surveillance network (SARInet)



highest number of cases, Mexico City, has 70% of its regular hospital beds occupied, as well as 57% of its ventilator beds.

The government launched a plan for recovery and rehabilitation that added 26 hospitals capable of providing care for coronavirus patients in different states of the country (770 intensive care beds and 570 regular beds). Hospitals (including private and even military and naval ones) are adapting their normal practices to cope with the pandemic, ensuring that their intensive care units do not become overwhelmed. These measures will make it possible to expand the system's capacity and flexibility to deal with national emergencies, in many cases permanently.

Measures were also taken to help redress the country's chronic shortage of health workers. Mexico should have 3.4 doctors per 1,000 inhabitants, when in fact it has no more than 1.6, who are also poorly distributed throughout the country.¹⁷¹ On March 24, the National Institute of Health for Welfare (INSABI) launched a call for proposals to strengthen public hospitals through the recruitment of doctors specializing in intensive care, emergency medicine, internal medicine, pneumology, infectious diseases, and anesthesiology. Furthermore, intensive care and inhalation therapy nurses are to be targeted. The goal is to hire 45,000 doctors from two different pools: recent graduates and retired doctors capable of returning to the workforce.¹⁷² Similarly, in order to reduce the shortage of staff in the public health system, medical students who have already completed their training were sent back to work in public hospitals where there were no cases of COVID-19.

Other developments will help increase capacity in the healthcare system. Mexico's National Council for Science and Technology (CONACYT) has launched over 35 R&D projects with short-, medium- and long-term goals aimed at tackling the consequences of epidemics and managing the health issues surrounding them. These initiatives cover a wide range of topics, among them the design of data science and AI tools; the production of hand sanitizer gel for public hospitals; the design and manufacture of ventilators for critically ill patients; the development of sensors and diagnostic kits; and participation in clinical trials of certain drugs to determine their effectiveness. Innovation in health management is also evident in the public sector, with Mexico City developing an online monitoring system¹⁷³ to enable the public to monitor the saturation of public hospitals in real time.

The recovery of private sector activity and investment will depend on the ability to offer more accurate predictions as to the spread of infection (particularly to avoid major outbreaks that could threaten the hospital system). To achieve targeted distancing measures and reduce the enormous social and economic cost of a total lockdown, mass testing of specific groups will be required (e.g., of health workers, or local enclaves, such as specific plants or towns, to enable the reopening of industries or tourism), before gradually expanding this to include as many people as possible, starting with those areas where the disease is most widespread.

The current pandemic may prove to be a turning point for the provision of healthcare in Mexico, bringing with it an increase in wellbeing and a strengthening of the country's human capital. There is no doubt that both the public and the government will play a role in improving the health system, with greater coverage and quality at health centers, more widespread use of technology, and a renewed focus on the population's hygiene and dietary habits.

SOCIAL AND EMPLOYMENT CONSIDERATIONS. The crisis will have an enormous social impact. A substantial impoverishment of the middle classes is expected, particularly its most vulnerable segments. Estimates based on simulation exercises (with no increase in transfer payments or other policies to cushion the blow to personal income) suggest a very significant increase in poverty, ranging from 36% (i.e., from 52 million to 71 million people) to 99% (i.e., 34 million to 66 million), according to the CONEVAL and IDB methodologies, respectively (see Fig. 2). Recent estimates calculated and published by CONEVAL are consistent with these projections (a 16% increase in income poverty, with the number of people who are poor based on their income rising from 61 million to 71 million).

171 Extrapolating the numbers to reflect 125 million inhabitants, the implicit deficit in these figures is 200,000 doctors.

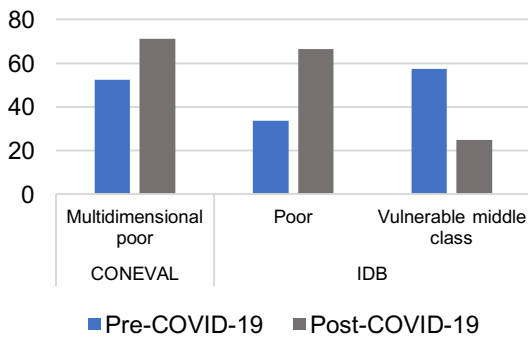
172 They will not be treating patients with COVID-19.

173 See: <https://hospitales.covid19.cdmx.gob.mx/public/hospitales/EstatusHospitales.xhtml>

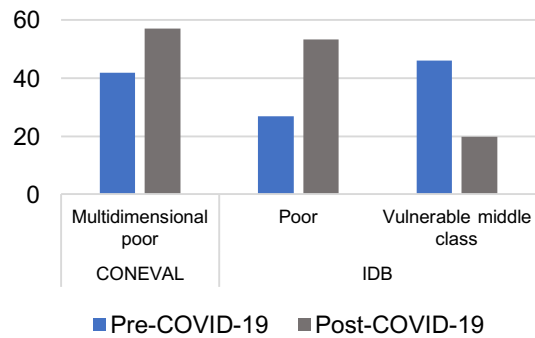


FIGURE 2. SIMULATIONS OF IMPACT ON POVERTY

MEXICO: MILLION PEOPLE



MEXICO: % OF POPULATION



Notes: A simulation was performed of the impact of a reduction in people's income on the measures of poverty and income distribution. The calculations assume a 30% drop in income between April and December for the poor and the vulnerable middle class (all those between 0 income at the bottom up to the 73rd percentile of the population), and evaluate the impact on poverty and the size of the middle class. The CONEVAL Methodology (used to calculate multidimensional poverty): poverty is defined as a person's being subject to some form of social deprivation (education gap, lack of access to health services, lack of access to social security, inadequate housing space, lack of basic utilities, and insufficient income to be able to afford the goods and services needed to satisfy dietary and non-dietary needs): US\$8.5 (PPP 2011) and US\$5.5 (PPP 2011) per person per day for urban and rural populations respectively. Social deprivation is assumed to persist despite the crisis and what is affected is per capita income. The IDB methodology is based on income poverty calculations with standardized thresholds for international comparison. The thresholds used are as follows: poor means people with a per capita income below US\$5 (PPP 2011), and vulnerable middle class means people with a daily per capita income between US\$5 (PPP 2011) and US\$12.4 (PPP 2011). Source: Own estimates using CONEVAL (2008 and 2018) data based on the 2018 Statistical Model for the Continuity of the Socioeconomic Conditions Module of the National Survey of Household Income and Expenditure (2018 MEC of the MCS-ENIGH).

Mexico's social programs reach approximately 22 million people. So far, there has been no mention of any expansion of this system in policy announcements.¹⁷⁴ The labor market is in crisis. The IDB estimates a fall of 4.1% in the number of formal jobs if the pandemic results in a short-term crisis, and up to 14.4% in the event of a prolonged recession. According to the IMSS, cumulative job losses in March and April amounted to 3.3%, with the unemployment rate expected to increase significantly. The economy's ability to recover will determine the speed with which key areas of the labor market return to normal in the future, but this is expected to take a long time. As a point of reference, after the 2008–2009 global crisis, it took until 2016 for the unemployment rate to return to its pre-crisis level, and many of the variables related to the quality of employment far longer.

The economic policy initiatives taken include a number of tax measures, e.g., the filing of personal tax returns has been postponed for two months. However, the main focus in this respect has been on maintaining the level of tax collection or, to the extent possible, preventing it from falling at least. Ultimately, most policy measures aimed at supporting employment and businesses will involve providing some form of loans. The Mexican government has introduced lending programs that benefit one million micro- and small enterprises (offering loans of less than US\$1,000). This will help companies withstand the crisis somewhat and provide a certain degree of protection for the income of their owners and employees. The loans for formal businesses are intended for companies that had no cuts in the number of formal jobs they provided until April and are not conditional upon their maintaining jobs in subsequent months. Through regulatory measures, a six-month reprieve on bank loan repayments was granted. Furthermore, the Bank of Mexico extended credit facilities (up to an amount equal to 3% of GDP) so that commercial banks can continue lending to businesses.

Without question, these new poor and newly unemployed have but a limited safety net. While economic policy has safeguarded this, it has failed to broaden its constituent instruments. At the same time, proposals have been put forward by academia, NGOs, and the private sector to extend a net spread through a series of channels that include new transfer programs, tax deferrals for companies, and the

¹⁷⁴ A 0.3 percent increase in medical coverage has been approved and early cash transfer payments have been made, for example, under the old-age pension scheme.



partial subsidization of wages and salary costs, as well as the implementation of unemployment insurance.

MACRO-FISCAL CONTEXT

In April 2020, the national budget was amended to reflect the new economic and fiscal situation, including an expansion of items associated with the pandemic equal to 0.4% of GDP. The main aim of this budget effort is to preserve social and infrastructure spending at pre-crisis levels in the face of a sharp decline in public revenue. To this end, a reduction in public salaries and current expenditure was authorized, along with the use of government savings. The fiscal deficit will grow by approximately 3 GDP points with respect to the original budget and net government debt by 7 GDP points.¹⁷⁵ The Ministry of Finance has repeatedly stated that one of its goals is to be able to respond swiftly and disburse funds in the short term. Within the framework of the type of response announced, that capacity revolves around public works that can be executed quickly, such as the city improvement plan (covering 50 cities) or ongoing infrastructure projects—such as the Santa Lucía Airport in Mexico State and even the construction of the Mayan Train project, contracts for three stretches of which have already been awarded, with others set to be put out to tender soon—. Though the tax relief package is relatively austere (with the government receiving more criticism than praise for it), the authorities find themselves faced with a dilemma from which there is no easy way out: the threat of a slump in economic activity, business closures, and massive job losses on the one hand (all of which could perhaps be avoided with more expansive policies), and, on the other, of fiscal deterioration that could lead to a fragile financial situation.

In order to finance greater public benefits, Mexico will need to introduce fiscal reform whilst authorizing increases in spending if it is to ensure credibility in the time consistency of its policies (and avoid a rapid surge in debt). On the revenue side, such reform should include increased tax collection and, as far as possible, greater fiscal equity. In specific cases, collection efficiency could be increased, but the reform will need to go further and extend VAT to all goods and services, whilst protecting lower-income groups. Another important issue is the taxing of digital businesses, which will become increasingly important. Lastly, Mexico has room to increase the revenue collected on assets, whilst taking measures to protect certain vulnerable sectors and implement deferrals for those members of the middle class who find themselves out of a job.

On the expenditure side, it will be paramount to revise the fiscal rule in order to better define its basis of accounting, impose debt anchors, and further clarify escape clauses. For this to work, the structures that undergird fiscal discipline will need to be reinforced, such as the Fiscal Council (an issue that was already being addressed), improved fiscal risk management, and a robust medium-term expenditure framework.

As for fiscal federalism, reforms will be necessary at various levels. At the local level, recommended policies include improving the administration of the property tax by updating and purging tax registers and physical records (e.g., the land registry), and introducing mechanisms to capture increases in value gains for the purpose of financing infrastructure (e.g., a betterment levy). At the state level, states should start collecting road tax (something only 13 states currently do) and other taxes, such as environmental levies. As regards intergovernmental financing, the entire transfer system needs a thorough overhaul in order to simplify it and make it more transparent.

PRODUCTIVE SECTOR

Mexico's economy is open and integrated to the world market. Its exports account for 37% of GDP, with about 80% of these destined for the United States.¹⁷⁶ Prior to the crisis, its current account balance was

175 The projected fiscal deficit for 2020 is 4.4% of GDP; net debt is projected at 52.7% of GDP. Given the many fiscal uncertainties, these figures are subject to change. Moreover, the peso has depreciated by 25%, the debt-to-GDP ratio is increasing, and foreign debt costs are on the rise.

176 In 2020, the exports-to-GDP ratio will rise due to a valuation effect resulting from the depreciation of the peso, though this is expected to be offset by a reduction in the volume of exports as a result of the crisis. In 2018, Mexican goods exports to the United States totaled US\$358 billion.



already increasing gradually as the country's economy went into downturn. The oil trade balance is negative, services balance almost zero, and the non-oil goods balance is in surplus.

The crisis will affect Mexico's trade in services, as this is dependent upon the movement of people, which has been interrupted by the pandemic. In particular, Mexico is a major international tourism hub. The size of this sector and its importance to the economy are both considerable, more so than in Central America and the Dominican Republic, less so than in Belize, though a greater proportion of its visitors are non-residents. Tourism has virtually come to a standstill, with drops in occupancy rates of 90% or more in the main destinations (such as the states of Guerrero, Baja California Sur, and Quintana Roo).¹⁷⁷ Permanent changes in demand are also likely, such as a move away from mass tourism solutions (resorts) and fewer non-resident visitors, factors that will have a strong impact on the country and require new business models. In short, the sector will see major readjustments, and the job losses will take time to be reabsorbed into better-performing niches within the industry (or other industries, for that matter).

The recovery of tourism will depend on multi-sector policies to guarantee hygiene and safety conditions at tourist destinations. This will require more intensive health measures (and greater testing and diagnostic capacity) than those implemented so far, with the private sector assuming at least some of the responsibility for this.

As regards the goods trade, and as part of a process of profound international integration, the country will have a major role to play in medium- and high-technology value chains, such as cars, aeronautics, and electronics. The Mexican economy is firmly integrated into that of the United States (see Fig. 3). It receives a considerable volume of remittances (2.5% of GDP) and is a net exporter of manufactured goods and food.¹⁷⁸ The auto industry accounts for 35% of manufacturing exports (Mexico is the world's fifth largest exporter of cars).¹⁷⁹ The woes of this industry and manufacturing production in Mexico began in February as a result of a shortage of parts from Asia, and intensified with the health emergency and the closure of plants that has gone on for some two months now (i.e., since mid-March). Consequently, car exports fell by 90%, from 285,000 units in April 2019 to 28,000 units in April this year.

Mexico is faced with a complex international scenario. The crisis is creating many challenges for emerging economies that are either integrated or seeking to integrate into the world. Protectionism and nationalism are on the rise. There is talk of a retreat from globalization (perhaps, in part, the acceleration of a trend that had already begun). Moreover, there are geopolitical threats that could alter world trade. It will be natural for Mexico to carry on with a strategy of trade openness and market diversification. In this regard, it would be wise for it to leverage existing trade agreements with Europe, Asia, and Latin America more effectively, as well as to foster and coordinate the implementation of the Agreement between the United States of America, the United Mexican States, and Canada (USMCA) with an emphasis on supply chains and investment. Effective from July 1, the USMCA replaces the North American Free Trade Agreement (NAFTA). It would also be sensible to capitalize on areas of opportunity in the export sector and increase the contribution of Mexican goods to value chains. This is not only desirable, but something that will be a requirement in certain industries if they are to continue to reap the benefits of the preferential tariffs provided under the Agreement (the rule of origin for essential automotive sector inputs, e.g., engines, will be ramped up from 62.5% to 75% as a result of the shift from NAFTA to USMCA). In this regard, preliminary studies funded by the IDB have found that in one case alone, namely the casting process for some automotive molds, the use of Mexican inputs along the production chain could potentially increase by US\$25 billion. In sum, across-the-board protectionism is not the right trade policy for economies seeking to recover from the crisis. The best solution seems to lie in focusing on preferential treatments for some strategic goods or services (such as greater inventory stockpiling or diversification of sources of imported parts, as well as increased local content).

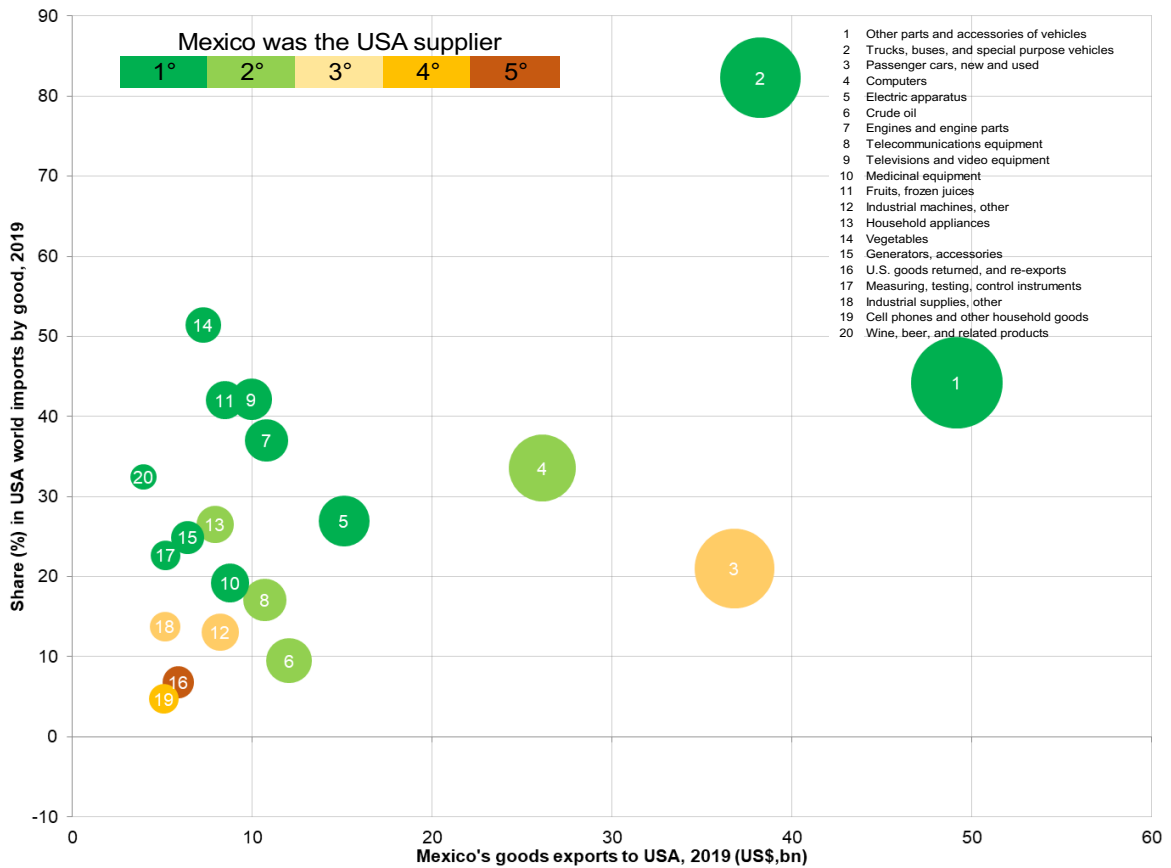
177 Hotels have been made available in every state of the country, to both stranded tourists unable to return home (due to their countries' closing their borders) and suspected cases of COVID-19 who are under stay-at-home orders. Those exhibiting respiratory symptoms must go into preventive self-isolation (except those who require assistance).

178 Mexico is a net importer of medical products and equipment, though is a strong exporter in some segments of these industries.

179 A total of 12 companies have more than 20 plants in 15 of Mexico's 32 states.



FIGURE 3. TOP 20 EXPORTS (BY PRODUCT GROUP) FROM MEXICO TO THE UNITED STATES IN 2019



These 20 product groups account for 79% of all goods exports from Mexico to the United States. The size of each circle represents the share of that group in total goods exports from Mexico to the United States. For instance, in the case of group 1, the share is 14%.

Source: Authors' own elaboration based on U.S. International Trade Data.

Though the international context is uncertain, changes in the international division of labor offer opportunities for Mexico. Global value chains are transforming by becoming more resilient, albeit at the expense of efficiency and biosafety (e.g., in efforts to diversify the origin of parts and components). Moreover, the trade wars between the United States and China have increased uncertainty among investors in the Asian giant. Although international trade was in fact already more regional than global to a large extent (with some pockets of attraction around the major economies of each continent), this trend is likely to increase in the future. For Mexico, this means focusing on greater productive and commercial integration into the United States and Canada.

The capacity to boost this integration broadly depends on continued efforts to build a reliable platform for domestic and foreign investment. The soundness of fiscal and monetary institutions and the ratification of the USMCA are positive contributions to this platform. In contrast, the political tensions created by the political turnaround embodied by the current administration are a source of uncertainty.¹⁸⁰ Furthermore, the country must reinforce specific production capacities through regulatory changes and policy interventions to inject more dynamism and flexibility into industries.

In the future, certain factors will be key to making these advantages a reality and ensuring their benefits are felt across the country: (1) adjustments to a new business climate, as mentioned above, (2) the ongoing need to develop human capital with the skills required by the industry, coupled with (3) the need

¹⁸⁰ The energy sector is a particular case in point. Ongoing adjustments to the institutionalism of the sector resulting from the government's national sovereignty strategy—itsself a key element of the public policies of the current administration—are still a feature. In particular, the extent of private-sector involvement and the relationship to public investment, as well as the types of contracts, have yet to be defined.



to bolster the strategy for priority sectors, (4) the shortage of accredited local suppliers, and (5) creating the right conditions to enable a larger portion of the country's territory to connect to international value chains. One important issue in terms of investment location decision-making is the lack of any kind of institution that serves as a single point of contact for potential investors, something that could put Chinese and South East Asian businesses looking to invest in North America off choosing Mexico as an investment option.

In order for Mexico to take advantage of the opportunities available to it, it must keep the spread of the virus in its territory in check. The national reopening plan states that health measures will be necessary for the reopening of plants, along with suitable safety conditions in general for all workers. Another fundamental aspect of the reactivation is its compatibility with the plans of the United States and Canada. The gradual opening up of Mexican industries will have to take place in coordination with both these countries, as it would be much more profitable to reopen industry segments where there is expected to be solid demand. The announced reopening plan reflects these types of priorities and includes among its considerations the imminent reactivation of transport materials manufacturing. This means that not only will car production resume, but also that of the activities of nearly 1,500 auto parts manufacturers and their respective supply and service chains, provided they comply with the social/physical distancing and worker safety protocols required by federal authorities. For strategic sectors such as the auto industry, it will also be vital for governments and industries to work closely on the transition to stricter rules of origin under the new USMCA (firms located in Mexico that are interested in doing so can apply to extend the deadline for complying with these).



NICARAGUA

ANDRÉ MARTÍNEZ AND FADEL UGARTE

CONTEXT

There have been 759 confirmed cases of COVID-19 in Nicaragua, 35 of which had resulted in death as at May 26. The Nicaraguan economy will be affected by the worldwide shock in economic activity due to the pandemic, as some of the country's sources of growth are tied to external dynamics. The global health and economic crisis could slow down four of the engines that drive Nicaragua's economic activity:¹⁸¹

1. **Exports**, due to the collapse in sales of Nicaraguan products in the main end markets as a result of the reduction in disposable incomes and the drop in the prices of various commodities caused by the worldwide contraction in demand;¹⁸²
2. **Remittances**, as a result of the weakening of the world's labor markets, such as those of the United States and Costa Rica (the main sources of remittances to Nicaragua), which has led workers—including Nicaraguans—in those countries to experience a decline in work and income opportunities and, therefore, in their ability to send money to their families back home;
3. **Tourism**, due to the travel restrictions being implemented and the drop in international flights sparked by government measures aimed at mitigating the spread of the disease between countries, as well as the fear among travelers, which results in fewer visitors; and
4. **Foreign Direct Investment**, in a highly volatile and uncertain climate, one that could lead to investment projects worldwide being deferred and suspended due to the widespread feeling of risk aversion.

In light of the shock caused by the COVID-19 pandemic, the International Monetary Fund estimates that world economic activity will contract by 3.0% in 2020,¹⁸³ while Nicaragua's GDP could fall by between 4.3% (according to the World Bank)¹⁸⁴ and 6.0% (according to the IMF).

Disease containment measures, such as the suspension of non-essential activities and social/physical distancing, as well as the cancellation of mass events or closure of recreational facilities and centers¹⁸⁵ have yet to be implemented. However, some businesses (e.g., restaurants, bars, gyms, and clubs) have opted to close their doors temporarily and international airlines have suspended flights to Nicaragua.¹⁸⁶ Similarly, as at May 6, no fiscal or monetary measures had been announced.

181 In contrast, the drop in international oil and derivatives prices could be a boon to Nicaragua, as it is a net importer.

182 However, some of the goods exported by Nicaragua could stand to benefit due to an increase in their prices, such as gold (perhaps deemed a safe option by investors around the world), which accounted for 21.5% of goods exports in 2019, excluding those linked to the free-trade zone, according to data from the Centro de Trámites para las Exportaciones (CETREX, Exports Processing Center). The price of gold rose by 12.4% between the end of 2019 and May 6, 2020 (opening price), according to data from [Trading Economics](#). Other products, such as coffee and beef—which are Nicaragua's other two main exports, with a 19.8% and 22.8% share in 2019—have suffered reductions of 16.9% and 29.3%, respectively, during the same period.

183 Estimates from the [World Economic Outlook \(WEO\)](#), April 2020 update.

184 Published in the semiannual report for Latin America and the Caribbean, [The Economy in the Time of COVID-19](#).

185 To date, Nicaragua has applied various measures to prevent the spread of COVID-19, such as disease control checkpoints at land, air, and sea ports of entry; the implementation of epidemiological surveillance protocols nationwide; and preventive quarantine requirements for nationals and foreign visitors for a period of 14 days from their date of arrival in the country. In addition, a public awareness campaign was launched to inform the public on the measures to prevent the spread of COVID-19, according to the [Ministry of Health communique](#) [in Spanish] of April 24. However, no order has yet been given to suspend classes at public and private schools, nor has there been any ban on foreigners entering the country, which are preventive measures adopted by most countries in the region according to Report No. 20, *Central America and the Dominican Republic United Against the Coronavirus (COVID-19)*, published by the Central American Integration System (CAIS) on April 15, 2020.

186 According to a communique issued by the U.S. Embassy in Nicaragua regarding the suspension of services until May 2 at the earliest by seven of the eight international airlines operating in the country. Furthermore, on May 6 the Empresa Administradora de Aeropuertos Internacionales (EAAI, International Airport Administrator) posted on its website that there were no international arrivals scheduled for Augusto C. Sandino Airport.



MEDIUM-TERM RECOVERY

MACRO-FISCAL CONTEXT

According to Article IV of the IMF, public sector debt reached 51.0% of GDP in 2019, a 6.8-point hike compared to 2017. This increase was mainly the combined result of the 2018 and 2019 contractions in GDP and the public deficits of 4.1% and 2.0% of GDP, respectively, in the same years. The fiscal consolidation of 2019 was possible thanks to a tax reform that enabled an increase in public revenue, while spending—primarily capital expenditure—has been subject to various adjustments since 2017. Before the impact of the pandemic was known, the IMF had forecast a slight increase in the public deficit in 2020 compared to 2019.¹⁸⁷ Nevertheless, considering that the slump in economic activity may prove to be more pronounced than what was estimated a few months ago, public revenue could end up being lower than projected at the beginning of the year, and the public deficit greater than the WEO forecast of April 2020.

While there is uncertainty as to how the pandemic will evolve in the country, if the disease spreads further, the public policy response will need to include the short-term priority goals of protecting lives and treating COVID-19 patients, and measures aimed at protecting the vulnerable and any workers and businesses negatively affected by the crisis (Levy, 2020) and (IDB (a), 2020).

However, once the pandemic is over, fiscal policy will first need to focus on aiding the economic recovery,¹⁸⁸ then on making adjustments to ensure a sustainable debt trajectory, i.e., that a balance is struck between public revenue and public spending that avoids any further rise in public liabilities. This would make it possible, as far as public spending is concerned, to retarget public policy and subsidies, and to reassess other expenses where there may be room for savings and greater efficiency, as is the case throughout the region according to some (Pineda, Pessino, and Rasteletti, 2020, and Izquierdo, Pessino, and Vuletin, 2020). In particular, as suggested by the IMF in its latest Article IV Consultation (2020) for Nicaragua, efforts should be made to cut back on public sector current expenditures (purchase of goods and services, subsidies and transfers to state-owned companies) and strengthen the *Red de Protección Social* (Social Protection Network) program. Priority should also be given to high-impact projects that would bring about economic growth through specific plans to stimulate productive sectors—particularly in the primary sector—in light of the country's focus on the production of meat and dairy products, as well as other agricultural products it sells in the region. This could be coupled with the public investments the country has already been prioritizing recently (e.g., roads, ports, and broadband) and social development (e.g., energy, water and sanitation, education, and healthcare). In this sense, Ardanaz and Izquierdo (2017) suggest that any process aimed at consolidating expenditure must protect investment in order to maintain long-term economic growth and improve people's living conditions. Strengthening public investment management would be a good way to improve capital expenditure efficiency. Moreover, there needs to be absolute clarity on which of the probable support measures put in place during the pandemic are temporary, so that those meant just for during the crisis do not create permanent fiscal pressures (Barreix, Garcimartin, and Verdi, 2020).

As for public revenue, it would be advisable to look at reviewing and strengthening this by analyzing fiscal expenditures and the nominal rates of the different taxes. While the reform of 2019 did cut back on some exemptions—mainly for VAT—, there are a number of areas of opportunity in terms of introducing fiscal policy measures to maximize collection through the design of fairer taxes with fewer differentiated treatments,¹⁸⁹ as well as a more streamlined system that would be easier for the fiscal authority to implement and for taxpayers to comply with. Similarly, strengthening the tax administration system in order to improve enforcement capabilities and thereby minimize tax evasion and avoidance would, in turn, bolster public finances. In the process of revising taxes, it will be important to seek a balance between three particular elements, as well as a move towards international best practices (OECD, 2020): firstly, making them more efficient, i.e., taxes need to minimize distorting the decisions of economic agents (*vis-à-vis* investment, employment, and consumption), whilst deterring behaviors that create negative externalities for society, such as those affecting public health and the environment; secondly,

¹⁸⁷ Estimates from the *World Economic Outlook (WEO)*, October 2019 edition.

¹⁸⁸ A rapid and sustained economic recovery is in the interest of public finances, as it would strengthen public revenue and contribute to a balanced budget in the medium term.

¹⁸⁹ For an analysis of VAT, see the [Article IV Consultation](#) document published by the IMF in 2017.



making sure they are fair in the sense that people and businesses finance government actions according to their ability to pay, i.e., wealthier higher-earning taxpayers should pay the highest rates (vertical fairness), while two similarly situated people contribute equally (horizontal fairness); and lastly, ensuring that the government collects enough to finance public spending, which means making tax systems simpler and eliminating opportunities for avoidance and evasion.¹⁹⁰

As underscored by Pineda, Pessino, and Rasteletti (2020), the post-pandemic period will also provide an opportunity to explore ways to strengthen public financial management in order to be able to deal with future shocks and make room for countercyclical policies, as well as to leverage new technologies to enable the development of tax and social intelligence to reduce evasion and maximize social-program targeting.

PRIVATE SECTOR

Nicaragua's GDP grew at an average real annual rate of 5.1% between 2010 and 2017, among the highest in the region. Being a small, open economy, this dynamic was boosted by external foreign financing and investment flows, exports, remittances, and tourism. While growth enabled an improvement in the country's social and economic conditions, Nicaragua still faces development gaps that will need to be closed if it is to guarantee its people a sustained increase in their quality of life. By way of example, Nicaragua's GDP per worker (a productivity indicator) in 2019 was one third the Latin American average.¹⁹¹

During the health and economic crisis that the country may come to endure, two objectives will need to be pursued: protecting employment and avoiding business closures, as suggested by several organizations and authors, including the World Bank (2020) and Levy (2020). Success in achieving these goals will make it possible to minimize the economic, labor, and social costs of the potential crisis, and to facilitate the country's economic recovery. In this sense, preserving formal employment and businesses must be a priority from an economic and social standpoint, due to their higher productivity and the fact that workers enjoy social security protection (IDB (a), 2020). This would enable the country to focus on its structural challenges once the health emergency is over, from a more favorable starting point in terms of operational businesses, employment, and labor relations, all of which must be maintained because their destruction would mean a loss of investment, knowledge, relationships, value chains, and work skills that would take time to rebuild and result in a more protracted recovery.

The country should take advantage of advances in trade, e.g., by further modernizing its main border posts and resuming its efforts to attract FDI. Therefore, it is vital to develop sectoral programs and projects to drive the productive sector, especially those that promote the region's export products and ones with export potential. To this end, the country needs to create opportunities for public-private convergence to enable the development of initiatives with a sustainable, institutionalism-based focus.

As pointed out by Castañeda (2020), this crisis is quite unique in nature. Countercyclical fiscal policies to boost aggregate demand through widespread transfers and infrastructure projects to foster economic recovery may not work this time. The economy's "hibernation" process also implies a supply shock. This time, it is not a matter of installed capacity waiting for demand to be reactivated. The prolonged paralysis of activities could jeopardize the viability of the businesses in question, so support must be aimed at keeping them afloat. Consequently, both Levy (2020) and Castañeda (2020) state that fiscal and financial

¹⁹⁰ In some cases, these criteria can be met simultaneously, e.g., through a progressive property tax, which results in few distortions of behavior, is fair (in that those who own properties with better features pay more), and has collection potential, as is the case in some Latin American countries (OECD, 2020). Nevertheless, in the case of some other taxes it is impossible to satisfy all three at the same time, e.g., generalized VAT, which has significant collection potential but makes consumption more expensive and affects poorer households disproportionately, as they devote a larger share of their income to consumption compared to more affluent households. In any event, expenditure policy can be used to compensate the poorest, as is the case with personalized VAT. See (Barreix, Garcimartin, and Verdi, 2020).

¹⁹¹ According to [World Bank](#) data, Nicaragua's GDP per worker was \$10,605 in 2019, whereas the average for Latin America and the Caribbean was \$32,105, expressed in Purchasing Power Parity dollars (at 2011 constant international prices 2011).



support must target formal businesses and be conditional upon no workers losing their jobs. While this policy is designed for Mexico, it would be wise to use it as a benchmark in other contexts.¹⁹²

Moreover, other types of structural measures that serve a double purpose could also be considered, i.e., ones that contribute to the post-pandemic economic recovery while boosting long-term growth. Some of these have to do with increasing competitiveness in the economy by providing better infrastructure, addressing bottlenecks in technology and in terms of labor force skills, and taking action to restore business confidence (IMF, 2020). Additional measures that would help in this process are the creation of fast-track procedures for business openings and closures (IDB (b), 2020); incentives and policies aimed at increasing financing in the productive sector, particularly for new enterprises and micro-, small, and medium-sized enterprises (ECLAC, 2020)¹⁹³ through development bank guarantee or strengthening funds, taking into account the fact that the country already has initiatives such as Act No. 663 (the Mutual Guarantees System for Micro-, Small, and Medium-Sized Enterprises Act) and a microfinancing-based credit system with nationwide scope and coverage; encouraging the incorporation of more complex, diverse, higher added-value processes into the productive chain among businesses in the country's free-trade zone and training workers accordingly; and allowing fast-track deductions for investments made by the private sector for a certain period of time. Lastly, it would be wise to continue to close the digital divide so that the country can enjoy the benefits of the fourth industrial revolution. All of this, coupled with easier access for vulnerable groups to this type of service and modified academic curricula and training plans focused on the productive use of new technologies, would boost competitiveness, productivity, equality, and the country's standard of living.¹⁹⁴

SOCIAL SECTOR

The poverty rate reached 24.9% of the population in 2016, a 4.7 percentage-point drop compared to 2014. The middle class grew from 12.3% in 2007 to 21.1% in 2017; however, the share of the population living in vulnerable conditions¹⁹⁵ now stands at 43.2%. As for inequality, the Gini fell from 0.37 to 0.33 between 2009 and 2016 according to official figures from the National Institute of Development Information (Instituto Nacional de Información de Desarrollo, INIDE). Though Nicaragua is one of the least unequal countries in Central America,¹⁹⁶ there are differences in the access to services among households, those with higher incomes having greater access.¹⁹⁷ Despite the achievements of recent years in the fight against poverty and inequality, these efforts must continue if Nicaragua is to overcome the social aspects in which it lags behind its regional peers in Latin America and the Caribbean. For instance, Nicaragua's Human Development Index is the third lowest in the Latin America and the Caribbean (LAC) region, which points to social and economic areas of opportunity.¹⁹⁸

One fact that leaves the country particularly vulnerable should the pandemic spread is that, according to the IDB's Better Jobs Index, 83% of its workers are informal and, as such, have no social safety net akin to that of the formal sector. Therefore, measures need to be implemented to help families maintain a

192 Other measures have been put in place in the region, e.g., loans at preferential interest rates and with guarantees that support SMEs in particular, or loan deferments, all in an effort to inject greater liquidity to businesses (IDB (b), 2020). Meanwhile, there have also been measures introduced to enable businesses to continue operating, such as work-from-home regulations, subsidies, loans, or co-financing to help businesses invest in digital systems and the creation of platforms for SMEs to engage in e-trade and paperless invoicing, the latter also contributing to the revitalization and modernization of the economy in the long run.

193 According to the report *Mipymes en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento* ("SMEs in Latin America: A Fragile Performance and New Challenges for Development Policies," available only in Spanish) published by ECLAC, SMEs account for 99% of businesses and generate over 22% of GDP and 61% of jobs in the region.

194 Only those workers, students, and consumers with the right infrastructure and skills stand to benefit from the use of digital tools during the pandemic (OECD, 2020). For example, according to data published by [UNICEF \(2020\)](#), in Latin America and the Caribbean, 88% of students in the top quartile of schools in terms of academic performance have access to computer equipment, compared to 45% in the lowest.

195 With a daily income of between US\$5.5 and US\$13 (2011 PPP). World Bank [Equity Lab](#) for Latin America and the Caribbean.

196 According to 2018 data published by the [World Bank](#) (2014 for Nicaragua), Nicaragua's Gini is the second lowest in Central America, above only El Salvador's.

197 In 2014, 4 out of 10 households in the 1st quintile had access to domestic water at home (compared to 8 out of 10 in the 5th quintile) and 66.0% had electricity at home (compared to 92.1%). The primary education completion rate for young people aged 15-24 is 70.0% in the bottom quintile and 92.4% in the top. Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank), accessed on April 28, 2020.

198 For example, according to the statistical update to the 2018 Human Development Report, the proportion of children aged five or under in Nicaragua who are malnourished is 40% higher than the LAC average, while life expectancy at birth is over one year less. A Nicaraguan child is expected to complete 12.2 years of schooling, two years less than the regional average.



decent standard of living during this health crisis. In this regard, the relief effort should include existing social assistance programs that can be scaled up rapidly and expanded to reach larger segments of the population (ECLAC, 2020 and World Bank, 2020). On the logistics side, the question of whether such support should be provided in kind will need to be looked at, given the country's low rate of access to and use of banking services (only 30% of adults have a bank account)¹⁹⁹ and the fact that it already had food delivery programs that could be leveraged.²⁰⁰ Assisting this group, one that constitutes a majority of the population, will prevent a worsening of social conditions during this time that could lead to social setbacks that put the brakes on further social development. Moreover, during the possible health crisis, providing care for those already infected will need to be a priority, as well as guaranteeing adequate provision of the essential supplies needed for this.²⁰¹

In this regard, the post-pandemic stage presents the country with an opportunity to analyze the feasibility of implementing a cross-cutting social policy program like those implemented elsewhere,²⁰² which have proved to have positive impacts on human capital accumulation among the most poor. Conditional cash transfer programs would help create a form of livelihood assistance to enable the most vulnerable to provide themselves with the means to live,²⁰³ whilst supporting the development of human capital by being tied to child education, health, and/or nutrition outcomes. These programs can generate a social safety net that provides protection against future economic and social shocks. This should go hand in hand with efforts to increase the proportion of the labor force in the formal sector of the economy (OECD, 2020). In particular, Larrain (2020) proposes that governments should design policies to close the coverage gap in social security systems by promoting and creating high-quality jobs, investing in the quality of public healthcare systems, reviewing the progressivity of taxes, and opening credit facilities for SMEs, measures which, in combination, encourage a move into the formal sector. Additionally, in the medium term, a policy aimed at adapting and making school and training curricula more flexible could be looked at, with a view to gearing these towards both the skills demanded by the swift technological change of our times and Nicaragua's competitive advantages. This would enable the country to raise the level of education of its population and its labor productivity, while improving the standard of living of all Nicaraguans.

199 2017 *Global Findex Survey*.

200 The *Paquete Alimentario Solidario* (Food Care Package) provides families with a basket of staple foods to help with their nutritional needs. Similarly, the *Programa Integral de Nutrición Escolar* (Comprehensive School Nutrition Program) gives out meals to pre-school and elementary school children, as well as to students in localities with a low nutritional index.

201 In addition to exploring foreign procurement mechanisms, the private sector could serve as an important government ally in the provision of essential supplies to deal with the pandemic. In countries such as Spain, Colombia, and the United States, public/private joint ventures have been encouraged to harness idle production capacity temporarily and gear it towards the large-scale supply of healthcare consumables such as masks, gloves, disinfectant products, and so on. (BID (b), 2020).

202 These programs have been put in place in Argentina, Brazil, Colombia, Mexico, and Peru.

203 The *Amor para los Más Chiquitos y Chiquitas* (Love for the Tiniest Ones) program gives conditional cash transfers to parents in households living in extreme poverty. The sole condition for eligibility is attendance at educational reinforcement workshops. Between 2000 and 2003, another conditional cash transfer program, the *Red de Protección Social* (Social Protection Network)—was also in place.



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PANAMA

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CONTEXT

Panama reported its first case of COVID-19 on March 9, since which time it has implemented progressive containment measures²⁰⁴ that have prevented the overburdening of its healthcare system. By May 18, the country had had 9,726 positive cases and 279 deaths, the highest numbers in Central America. However, it is important to note that Panama has been one of the countries in Latin America with the highest number of tests per capita, ranking third behind Peru and Chile. Moreover, on March 19, the Gorgas Memorial Institute completed the sequencing of the virus, making Panama the first country in Central America and third in Latin America to carry out this type of COVID-19 research. This made it possible to identify the geographical origin of the virus and facilitate epidemiological tracing, and will enable vaccines to be adapted when these become available. Meanwhile, according to advisors at the Ministry of Health (Ministerio de Salud, MINSA), hospital capacity has remained below 60%. Furthermore, the effective reproduction number fell from 1.80 on April 3 to 1.15 on April 29, and subsequently to 1.01 on May 12.

According to the IMF's April forecast, Panama will experience negative growth in 2020 (of 2%), only to recover in 2021 (4%). The most affected commercial transmission channels are tourism, air transport, and copper exports, while construction—one of the key sectors as far as GDP is concerned—has suffered due to the lockdown measures. In contrast, the Panama Canal and the country's ports have so far not been significantly impacted.

To date, the economic response to the pandemic has focused largely on expanding the fiscal space by reaching out to international markets, multilateral organizations, and the Panama Savings Fund. The government has also been implementing a direct support plan for those affected,²⁰⁵ which consists of providing food packages and vouchers, and, more recently, allowing the use of ID cards for the same purpose. Additionally, other relief measures have been put in place, such as tax deferrals; a general reduction in electricity tariffs and three-month moratorium on service cuts; freezing rental payments and suspending eviction proceedings; as well as authorizing banks to use dynamic provisions to reach agreements with affected customers on payment installments. These agreements will be effective until the end of the year and will be exempt from fees, revaluations, and late charges.

OUTLOOK FOR ENDING THE LOCKDOWN

On May 11, the authorities released a six-stage (or six-block) roadmap for the resumption of economic activities. The first stage started on May 13. However, no dates have been announced for the subsequent stages. The activities allowed at each stage are as follows:

- **Stage 1.** E-commerce; mechanical and repair shops; technical services such as plumbing, maintenance, and electrical repairs; artisanal fishing; and industrial aquaculture.
- **Stage 2.** Construction of priority public infrastructure; non-metallic mining; industry; places of worship; parks; sports and social facilities up to 25% of their capacity.
- **Stage 3.** Retail and wholesale (non-essential); car dealerships; professional services; administrative services; and private-sector construction.

204 These include declaring a state of emergency, a full lockdown (people can go out for two hours certain days of the week, according to a schedule), dry law, the closing of businesses (except for essential services), the suspension of classes, border closures, restrictions on inter-provincial movement, and the mandatory use of face masks in the capital city. Panama has imposed some of the most severe lockdown measures of any country in the region.

205 It is important to note that one of the first measures approved was the temporary furloughing of employees. By May 10, a total of 170,562 people (affecting 8.9% of the country's working population) had been furloughed.



- **Stage 4.** Air transportation; hotels; and restaurants.
- **Stage 5.** Education; non-essential (recreational) transportation; sports leagues; bars; and entertainment venues.
- **Stage 6.** Concerts; fairs and carnivals; nightclubs; and all sectors of the economy with no health restrictions.

Together with the publication of this roadmap, the Ministry of Health established a number of guidelines and health standards for those businesses that are currently operating and those that will be, aimed at preventing and controlling the risk of COVID-19 transmission. Additionally, on April 25 (prior to the release of the roadmap), laundromats and cooperatives reopened, while hardware stores were allowed to resume online sales from May 6. The dry law was lifted, people were permitted to play individual sports during the time they are allowed outdoors and within a 1-km distance of their homes, and children were allowed outdoors accompanied by their caregivers in keeping with the timetable previously established for the lockdown. In contrast, the halt on construction was extended to May 25, while Copa Airlines announced that their activities would remain suspended until early June.

Despite these reopening measures, no date has been set for the lifting of the lockdown. According to official statements, like the economic reopening, the lifting of the lockdown will be a gradual process dependent upon the effective reproduction number (which must be less than 1) in each province, the observance of biosafety protocols, and the response capacity of the healthcare system, so as to avoid an uptick in cases that could overwhelm it. During this process, health authorities will continue to monitor hospital capacity, epidemiological indicators, and diagnostic capabilities. It was also suggested that in an initial stage lockdown-lifting measures could be reversed on a cyclical basis to avoid resurgence. However, any such reversal could be targeted.

In order to prepare the economy for reopening, in early May the authorities set up an economic and labor board (with the involvement of workers, businesses, and the government) that will be tasked with studying proposals for economic and labor measures. However, to date none have been announced.

RECOVERY STAGE

MACRO-FISCAL CONTEXT

Though Panama has seen notable economic successes in the last fifteen years and become, alongside Chile, the country with the highest per capita income in Latin America, its fiscal situation recently started to deteriorate due to the decline in growth rates and lower-than-expected tax revenues. In both 2018 and 2019, the deficit limits on the Non-Financial Public Sector (NFPS) had to be modified in order to comply with the Fiscal Social Responsibility Act. The new administration—which was inaugurated in July 2019—had to adjust last year's budget and approved the raising of the cap on the fiscal deficit to 3.5% of GDP, its eventually reaching 3.1%. The debt-to-GDP ratio rose from 39.4% in 2018 to 46.4% in 2019, though this sharp increase was due in part to a prefunding to amortize bonds due in January. After that, debt fell to 44.7% of GDP.

While Panama's economy is expected to shrink in 2020 for the first time in many years, overall, the country seems more resilient to the effects of the crisis than others in the region. The IMF forecasts a 2% decline over this year, followed by a 4% recovery in 2021. The fall in public revenue and expected increase in spending mean a considerable increase in the deficit and debt are likely in 2020. Nevertheless, the IMF itself predicts a swift return to the path of fiscal adjustment. The deficit is expected to fall to 2.5% of GDP next year, then, despite the initial severe debt shock, begin to narrow from 2021 on, largely due to remarkable expected economic growth (i.e., 5% in the medium term).

To date—aside from the support for health spending and the most vulnerable, and the deferment of some taxes—Panama's macroeconomic response to the COVID-19 pandemic has focused largely on raising funds on international markets and from multilateral organizations and the Panama Savings Fund. Those so far raised or in the process of being raised total some US\$4.571 billion, US\$2.5 billion of which correspond to a 36-year bond issued on March 26 at a rate of 4.5% interest, the first bond issued in the



region since the outbreak of the pandemic. The estimated deficit for 2020 according to the IMF (i.e., 6.25% of GDP) amounts to US\$4.05 billion. If the outstanding bond amortizations for the year are added to this and the remainder of the 2019 prefunding subtracted, the government of Panama only needs to come up with around US\$360 million for the rest of the year (i.e., 15% of its total needs), an amount, in principle, it should be able to obtain easily on the market.

Though Panama has no central bank to rely on, the funds it has already raised, its debt capacity, and the country's ample fiscal space in the medium term mean it has room to develop an expansionary fiscal policy in the short term. Nevertheless, there are two weaknesses to be taken into account. On the one hand, the foreign sector: the country's net debt is very high (the ratio of net foreign liabilities to GDP is close to 100%) and it depends on continued foreign investment. On the other, a notable institutional deficiency in public management, with its excessive centralization, control systems that slow down processes without creating greater efficiency, and limited technification and planning. So on the spending side, there are significant delays in execution, deficiencies in planning, poor generation of relevant information to support decision making, redundant manually controlled processes, and a public procurement system in need of an overhaul. As for revenue, issues include a high degree of tax delinquency, low level of technification, insufficient training of personnel, little opportunity for career development on the administrative side, and little coordination between the General Revenue Service, Customs, and the Social Security Fund, among others.

Therefore, the primary goal in the short term would be to boost infrastructure projects that better connect the country and has a greater social and economic impact. These could include the 2023 Logistics Strategy, the National Water Security Plan, the Logistics Infrastructure and Cargo Transportation Master Plan for the Inter-Oceanic Zone, agriculture-related infrastructure projects (transportation, cold chain, etc.), or public works in the health sector. A number of major works had already been budgeted for, so it would be wise to speed up their execution. Similarly, Panama recently passed a PPP law, so it would be important to hasten the regulatory and institutional framework, though the lesser capacity of the private sector for operations of this kind will need to be taken into account.

In the medium term, once the reactivation has been consolidated, it will be necessary to return to the path of fiscal consolidation and, particularly for Panama, to expand social spending (see the corresponding section). This will most likely require tax policy measures aimed at increasing revenue. There is a lot of scope for this, which, in turn, means it will be easier to expand spending at the tail end of the crisis. Tax revenue is approximately half the Latin American average and the difference is even greater in the case of ITBMS (VAT), excise taxes, and corporate income tax. Moreover, it is important to remember that the sustainability of the Social Security Fund (Caja del Seguro Social, CSS) needed underpinning even before the crisis. Any measures need to take into account the progressivity of the system, avoid hampering the recovery, and clearly distinguish between those that are temporary and those that are permanent. Some of the options worth exploring are: modifying the rates—at least temporarily—for taxes where there is clear room to do so; examining the rationale behind exemptions and special treatments and their distributive effects; applying VAT (and income tax where appropriate) to products sold online; strengthening property taxes on real estate, which would make the system more progressive and increase the revenue from public infrastructure projects, which has been very significant in Panama; strengthening the taxation of vehicles (particularly the number plate tax) and link it to emissions, and, in particular, of capital gains on personal income, which is low in Panama; introducing a solidarity surcharge for public officials earning over a certain amount, as their earnings will actually increase in real terms due to deflation (a 0.9% drop in the CPI in 2020 according to the IMF, on top of the 0.4% drop in 2019); introducing reforms to modernize the General Revenue Service; and reinforcing the fight against tax evasion and avoidance.

Besides these tax measures, Panama has a great deal of room to increase the transparency, efficiency, and streamlining of spending. Among other things, this would involve improving statistics and analytical capabilities for designing and evaluating public policy and the procurement system; improving execution; reinforcing the Fiscal Social Responsibility Act; and fostering the digitalization of the administration, which would also induce the private sector to follow suit.



PRODUCTIVE SECTOR

The COVID-19 crisis will affect practically every sector of the country, albeit in different ways, bringing with it a risk that their current problems will result in businesses disappearing. The goal as far as the private sector is concerned is to prevent this from happening as far as possible by helping companies successfully deal with the current issues.

Therefore, the priority in the short term is to help companies reduce their overheads, access financing, and perhaps even boost their revenue, if possible. In the medium term, businesses will need to invest in adapting to the new reality, and to foster greater competition in markets, which is important in the case of Panama.

The following are a number of measures that could be taken to relieve the situation for businesses. Firstly, from the point of view of financing, it would be worth considering: temporarily relaxing financial regulations in order to increase liquidity; expanding credit for SMEs through national banks—especially to cover overheads—either directly and/or by sharing the risk with private banks; guaranteeing interest for the public sector in loan restructuring; and opening special credit facilities for hard-hit sectors, such as tourism and the entertainment industry. In the medium term, in the financial sector it is important to boost the modernization of the banking industry, which, on the whole in Panama, offers a limited range of products, concentrates largely on mortgage, consumer, and commercial portfolios, and is geographically clustered in Panama City and the surrounding area. The current crisis has brought the limited capacity of the Panamanian banking system to serve MSMEs to the fore; it has neither the right financial products for these types of businesses nor the expertise needed for their analysis. Moreover, it is important to improve regulation and technification to enable the development of fintech industries in Panama. Lastly, the regulation of the financial sector itself needs to be revamped so as to minimize the risks of liquidity crises and the vulnerability of depositors.

Secondly, there is significant scope on the tax side to reduce overheads and increase the liquidity of businesses with measures that should focus largely on the most affected sectors. For instance, a temporary reduction in social security contributions could be considered, so long as this does not jeopardize the finances of the country's social security administration, the CSS. Similarly, certain fees and taxes that constitute an overhead for businesses could be deferred (i.e., those not linked to profits); tax benefits for expenses that businesses have to incur to comply with health protection measures could be granted; and given the shortcomings of the country's tax administration, a database of reliable taxpayers could be developed in order to expedite tax refunds.

An important step towards helping many small businesses in Panama to recover is to boost the digitalization of the private sector by increasing e-commerce, among other things, especially in the most hard-hit sectors, such as restaurants or retail, which would also require the streamlining of delivery and payment systems. It has already become clear in this crisis that more digitalized countries and businesses are displaying a greater response capacity in this new context, and Panama still lags way behind the more advanced countries of the region in this regard. To encourage digitalization, it is important to bridge the urban-rural digital divide and increase connectivity. Furthermore, it would be good for the government to take the lead in this type of support in coordination with the private sector itself. The experience of many countries in the region, such as Uruguay, shows that this leadership brings faster results when the private sector is involved.

One sector that will require special attention is agriculture. While there are support programs for the sector (especially in the western region), a broader and more comprehensive framework is required, given the need to guarantee food security, one made patent by the pandemic crisis. The weight of this sector in Panama's GDP has dwindled over the last few years (currently standing at barely 2%), but its share in employment is still quite large (14% of the total). Moreover, it is one of the main activities in the rural parts of several provinces and particularly in indigenous districts. However, despite its continued social relevance and the need to bolster food security, the sector is characterized by very low productivity. This, in turn, is a reflection of a series of issues hampering its development. Notable among these are the high atomization of production; the low level of associativity in the sector (which may require the revision or development of a legal framework to boost or encourage associativity); poorly defined property rights; scant technification and low level of scientific competence; policies that traditionally have not focused on modernizing the sector; and a lack of suitable transport infrastructure (though the country has already



set about modernizing border posts, including introducing biosafety protocols for the handling of cargo and movement of people), as well as storage and refrigeration facilities, which makes it difficult for Panamanian producers to access markets. Supply and financing issues in the agricultural sector can be a major obstacle for producers when it comes to overcoming the crisis. Therefore, policies are needed to help surmount these short-term issues, coupled with additional structural measures, especially with respect to the infrastructure and modernization of agriculture.

Lastly, in the medium term, it is also necessary to strengthen Panama's antitrust policy in order to improve consumer service, lower prices, increase competition, and foster growth. This implies, among other things, reinforcing the Consumer Protection and Antitrust Authority.

There are a number of business opportunities available to Panama in the post-COVID recovery stage, thanks to its being well placed to serve as a logistics hub for exporting agri-food and agroindustrial products. However, ensuring the country is able to successfully support exporters and attract foreign businesses focused on goods exports will require: 1) a clear business strategy, with the roles of the Ministry of Commerce and Industry and ProPanamá—an arm of the Ministry of Foreign Affairs—well-coordinated and their responsibilities well-defined, a strategy that will also need to be allocated greater resources; and 2) good customer service for investors and exporters, which means setting up one-stop service models to expedite, streamline, and digitalize procedures, whilst reducing bureaucracy.

SOCIAL SECTOR

Panama's economic success of recent years has not translated into social improvements at the rate one might expect. The poverty rate is relatively high given the country's income level, with stark differences between urban and rural populations, particularly in indigenous districts. As far as inequality is concerned, progress has been even more wanting. Panama remains one of the most unequal countries in the region. The reasons for this are rooted in sharp territorial disparities, low social expenditure, and the poor quality of its education system.

These deficiencies in the social sector have been brought to light during the COVID-19 crisis among those groups that are particularly vulnerable to the fall in income and rise in unemployment. It is therefore important to provide continued support to these groups for as long as the crisis lasts. In the medium term, more robust and effective social protection systems will need to be developed to enable not only the structural improvement of existing ones, but also the expansion of social spending, and ensure greater preparedness for future eventualities. In the case of Panama, the deficiencies are manifest in multiple spheres, from the implementation of aid initiatives during the lockdown stage to the problems in making distance learning and healthcare effective, particularly in remote areas. For social policy in Panama to be given a structural boost requires increased spending, which is currently half that of Chile or Uruguay and, unlike in these countries, has remained constant in GDP terms for the last ten years.

Possible measures aimed at strengthening social investment include, firstly, the development of databases and registers of potential beneficiaries, which would ensure these types of programs are better targeted and help prepare for the targeting of contingency plans in crisis situations like the one at hand. The mechanisms used by such programs to promptly deliver benefits in cash or kind will need to be improved, as will the systems used to monitor and evaluate them.

In the medium term, the possibility of creating an unemployment protection system could be explored, as there are countries with lower per capita incomes than Panama that do have unemployment insurance. The prospect of some businesses furloughing employees for the duration of the health crisis without providing them with any protection beyond the *Panamá Solidario* program has highlighted this vulnerability.

Pending education reforms should also be fast-tracked in the medium term, including a greater use of technological tools, the lack of which has become obvious thanks to the lockdown. The same goes for healthcare policy and drugs. Panama has seen major successes in this pandemic in terms of coordinating the various agencies tasked with healthcare, and this is something that needs to be consolidated in the future. Similarly, access to health services in rural communities and districts needs to be strengthened, a fact made evident by the difficulties in providing proper services during the pandemic.



APPENDIX

POLICY MEASURES IMPLEMENTED

Health Measures

- Lockdown measures: A state of emergency was declared on March 13 for an indefinite period, followed on March 25 by a quarantine and dry law, also with no end scheduled. People were permitted to go outside for two hours a day, three days a week (the days being dependent on your gender and the times on your national ID card number). This measure was subsequently modified to prohibit people from leaving their homes on weekends. Similarly, stores and companies were ordered to close temporarily (except for essential activities), classes were suspended, borders were closed, and travel between provinces was restricted.
- Measures to keep the healthcare system from being overwhelmed: In addition to purchasing supplies, a 100-bed modular hospital was built (including 20 intensive care beds) at a cost of US\$6.9 million to treat COVID-19 patients. Non-essential medical services and hospital visits were suspended. Health authorities were ordered to issue temporary licenses to practice in their specialist field to health professionals graduating this year. Digital apps were developed to provide the public with information on COVID-19, trace possible cases, and deliver negative test results remotely.
- Mandatory use of face masks: A number of municipalities, including the capital city, made the use of face masks mandatory.
- Resumption of some economic activities: Laundromats and cooperatives reopened on April 25; hardware stores were allowed to resume online sales from May 6. Businesses currently operating are required to begin the Ministry of Health's COVID-standards certification process.

Economic and Fiscal Measures

- Expansion of the fiscal space: The government approved a US\$2.5-billion international bond issue and solicited US\$1.421 billion in loans from multilateral organizations. It also approved the use of the Panama Savings Fund (US\$1.325 billion), together with a US\$2 billion budget restructuring.
- Relaxation of the Fiscal Responsibility Act. The Ministry of the Economy and Finance was authorized to adjust the fiscal rule, though the actual adjustment is yet to be determined and must be approved by the National Assembly.
- Tax deferral: The tax amnesty was extended through June 30 and the deadline for paying taxes extended by four months starting March 20 (except for those remitted by withholding agents). 2019 income tax payments due in March 2020 were deferred to May 30.
- Fast-tracking of special procurement processes: For up to US\$427 million worth of goods or services related to the health crisis during the state of emergency.
- Furloughing of employees: Subject to prior authorization, companies that shut down are not required to pay salaries and employees not required to work, though their employment contracts cannot be modified.
- Use of banking provisions: Banks are permitted to use dynamic provisions (US\$1.252 billion).
- Direct support for those hit financially: The authorities announced a plan worth an initial US\$50 million to be targeted at those in a situation of multidimensional poverty, vulnerable families, people living in hard-to-reach areas, and those in informal employment. This was later extended to include furloughed employees. Depending on the conditions, direct support consists of delivering food hampers, vouchers and, at a later date, digital coupons using personal IDs for purchases at supermarkets.
- Deferral of loan repayments: Banks can reach agreements on grace periods and repayment terms with affected clients as they see fit. Such loans will be considered "modified" and exempt from fees and revaluation. From April to June, banks will automatically grant affected clients loan repayment extensions and waive any late fees on them. From July to December, extensions will not be automatic, but instead renegotiated with clients.
- Deferral of utility payments for affected customers and overall reduction in electricity tariffs: Due dates for the payment of telephone, electricity, and water bills are deferred until July for financially hit customers. Moreover, from April to June, a 50% reduction in electricity tariffs for users consuming up to 300kWh and 30% for those consuming between 301kWh and 1000kWh was implemented. Lastly, the cutting-off of these services was prohibited for the duration of the state of emergency.
- Moratorium on evictions: This will remain in place for the duration of the state of emergency. Additionally, rent payments will be frozen for up to two months after the lifting of the state of emergency.



REGIONAL APPENDIX²⁰⁶

VIRUS SPREAD AND PUBLIC HEALTH SYSTEM READINESS

	Belize	Costa Rica	Dominican Republic	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Panama
Growth rate of daily new infections (3-day average)*	0.0	1.2	1.9	6.7	10.9	9.4	5.0	5.5	18.8	2.1
Number of cases per capita (per million)*	47.0	166.0	1065.2	188.5	88.0	24.5	241.8	337.5	3.9	2183.0
Fatality rate (deaths/total cases, %)*	11.1	1.0	3.7	1.9	1.9	7.3	5.7	10.5	32.0	2.9
Epidemic stage	Sporadic cases	Clusters	Community transmission	Clusters	Clusters	Clusters	Community transmission	Community transmission	Pending	Community transmission
Geographic extension of the virus		63/82	32/32	1/14	All regions		14/18	32/32		All regions
Current tests/1M pop*	2,623	3,614	4,625	7,890	403	132	572	1,211	0	10,892
Total tests*	1,043	18,388	50,108	51,142	7,200	1,502	5,653	155,932		46,898
Share of population (65+)	4.7	9.5	7.1	8.3	4.8	4.9	4.7	7.2	5.2	8.1
Hospital beds (per 1,000 people)	1.3	1.2	1.6	1.3	0.6	0.7	0.7	1.5	0.9	2.3
Nurses and midwives (per 1,000 people)	1.7	0.8	0.3	2.3	0.9	0.7	0.9	2.9	1.6	1.4
Physicians (per 1,000 people)	1.1	1.1	1.6	1.6	0.4	0.2	0.3	2.2	1.0	1.6
Task force in place	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

*Cutoff date: May 14, 2020

Source: World Bank WDI, John Hopkins, Worldometer, WHO, CID Gallup



MACROECONOMIC AND REAL SECTOR INDICATORS

	Belize	Costa Rica	Dominican Republic	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Panama
Expected growth 2020	-12.0	-3.3	-1.0	-5.4	-2.0	-4.0	-2.4	-6.6	-6.0	-2.0
Expected growth 2020 (pre-COVID-19)	2.1	2.5	5.2	2.3	3.5	1.2	3.5	1.3	-0.8	4.0
Expected primary fiscal deficit 2020 (post-COVID)	-1.4	-2.8	-1.4	-4.5	-2.6	-4.8	0.6	-0.4	-3.1	-4.2
Expected primary fiscal deficit 2020 (pre-COVID)	1.9	-1.6	-0.2	0.6	-0.9	-2.3	0.8	0.9	-2.4	-0.5
Expected fiscal deficit 2020 (post-COVID)	-5.2	-7.8	-4.4	-8.6	-4.4	-5.1	0.0	-4.2	-4.4	-6.2
Expected fiscal deficit 2020 (pre-COVID)	-1.1	-5.8	-2.7	-3.2	-2.4	-2.7	-0.1	-2.6	-3.6	-2.7
Change in goods exports(% , Y/Y)	3.4	9.8		-14.8				-1.6		
Commodity exports/total exports	16.3	8.5	5.2	5.2	8.0	1.3	18.7	6.7	20.7	4.2
Change in goods imports (% , Y/Y)	18.2	-11.6		-14.8				-1.6		
Public debt in 2019 (% GDP)	98.0	58.6	53.6	69.4	26.9	47.7	40.6	53.4	41.4	41.0
External public debt in 2019 (% GDP)	67.6	13.1	27.0	35.6	11.9	27.4	29.5	16.4	33.9	36.3
Exchange rate depreciation (annual diff., pp)*	0.0	-30.9	3.7	0.0	0.0	13.9	0.3	5.8	1.4	0.0
Exchange rate depreciation (Y/Y)*	0.0	-5.2	7.3	0.0	0.6	16.2	1.0	30.4	4.1	0.0
Exchange rate (diff. between pre- and post-COVID, pp)*	0.0	-3.8	0.9	0.0	0.0	9.2	-0.1	5.1	0.2	0.0
Exchange rate (diff. between pre- and post-COVID, %)*	0.0	-0.7	1.7	0.0	0.3	10.1	-0.5	25.7	0.6	0.0
Inflation rate in 2019	0.6	2.1	1.8	0.1	3.7	17.3	4.4	3.6	5.4	-0.4
FX reserves (% months of imports), 2019	3.0	5.5	4.3	4.1	8.3	4.8	4.3	4.5	5.3	1.9
FDI (2019, % GDP)	6.5	3.9	3.4	2.4	1.0	0.9	2.0	1.8	2.5	7.2
Remittances, % GDP	4.9	0.9	8.0	20.7	12.0	32.5	19.9	2.9	11.5	0.8
EMBI (difference between pre- and post-COVID) – bps*	381.0	402.6	341.1	523.9	163.9		441.2	367.3		156.5

SOCIAL SECTOR INDICATORS

	Belize	Costa Rica	Dominican Republic	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Panama
Poverty rate (National)		21.0	22.8	29.2	59.3	58.5	48.3	41.9	24.9	20.7
Poverty rate (\$5.50 a day)		10.9	13.8	25.7	48.8	78.4	50.3	23.0	34.8	12.7
Income inequality		48.0	43.7	38.6	48.3	41.1	52.1	45.4	46.2	49.2
Unemployment rate (% , 2019)	9.1	12.4	6.2	6.7			4.1	3.3	6.1	7.1
Share of informal workers		36.8	53.6	62.9	72.8	88.1	75.6	52.2	74.9	44.9
Share of self-employed	33.0	25.1	43.8	38.7	40.3	72.9	51.3	31.7	46.2	30.8
Public sector employees (%)		15.1	14.1	7.6	5.7		5.8	9.0	6.5	15.3
Share of employment in manufacturing sector	7.8	10.5	9.9	15.0	12.7	1.3	13.6	16.6	11.5	7.6
Share of employment in tourism	12.9	5.3	4.8	3.6	2.6	2.8	4.8	7.6	4.7	6.3

Note: Fiscal data are expressed for General Government level. For monetary and financial indicators, the cutoff date is April 27, 2020.

Source: World Bank WDI, IMF WEO April 2020 and October 2019, UNCTAD, Bloomberg; ILO, IDB SIMS, World Travel AND Tourism Council (WTTC)



VICE PRESIDENCY FOR COUNTRIES

