Food and Agriculture Organization of the United Nations

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ECLAC

Food systems and COVID-19 in Latin America and the Caribbean:
Financing measures to overcome the crisis

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1. Editorial

The measures taken to prevent the spread of COVID-19 have fulfilled their first mandate, which is to prevent deaths, but have also left millions of people without sources of income. In order to prevent people from breaking out of confinement, national governments have come to the aid of their population with contingency public policies that have had a significant impact on public budgets.

Although it may seem obvious, it is not superfluous to say that health measures and economic and financial measures go hand in hand. Consequently, recovery will require an unprecedented financial effort by countries to achieve a level of welfare close to the pre-pandemic level. We cannot fail to mention that this is a crossroads unparalleled in recent history, presenting an opportunity to (re)build a more sustainable and resilient planet. **Recovery with transformation.**

This process will require financing of short-, medium-, and long-term measures for countries, individuals, and companies. Countries will have to draw on their experiences, their human capital and the creativity of our own kind to seek new forms of financing to help them overcome one of the greatest challenges in modern history.

To that end, this edition of the bulletin makes available to its users a summary of the main financing sources and objectives that are being implemented and discussed at the global and regional level.

2. Key messages

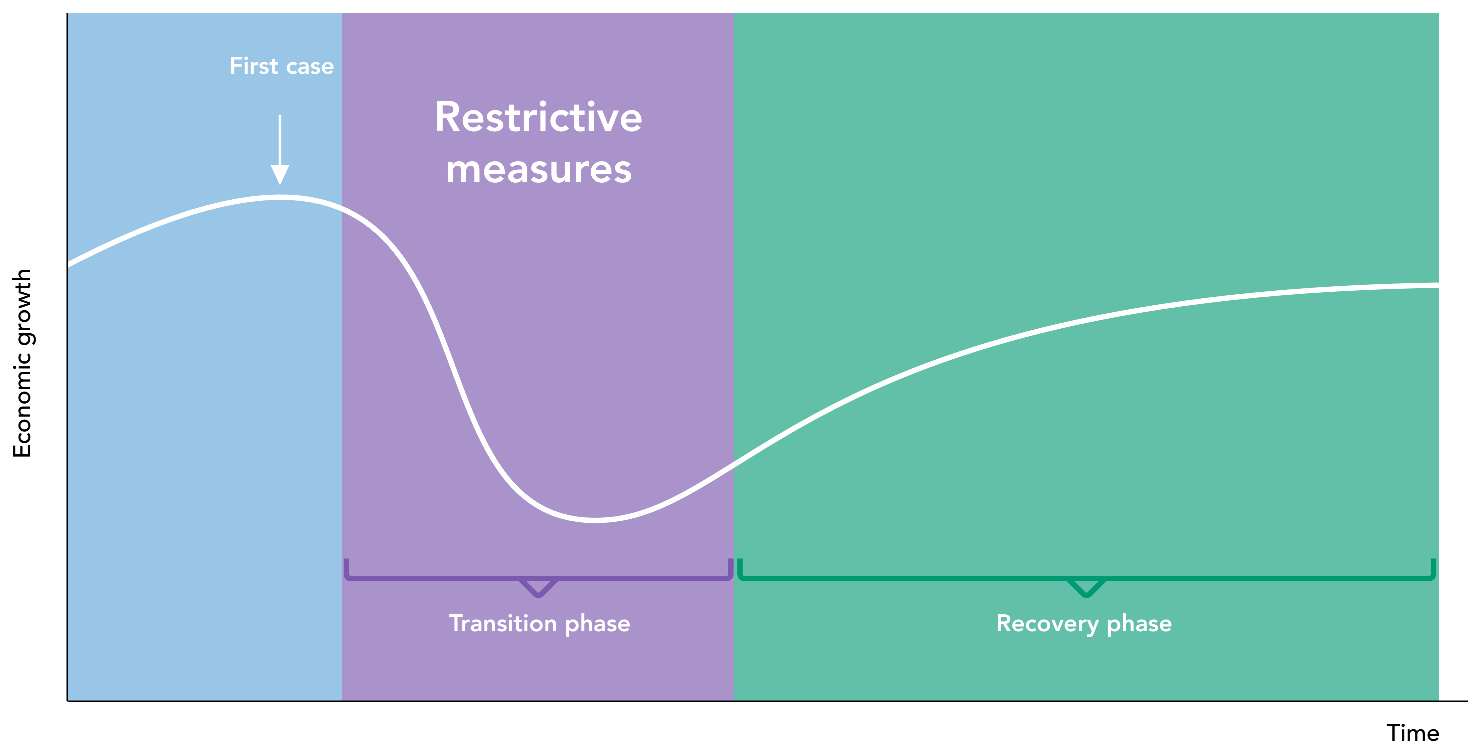
- Restrictions on free movement and economic and social policies are not independent.
- Financing policies exist for the economic and social impact in the short term (transition phase) and the long term (recovery and transformation phase).
- Short-term measures should focus on progressively redistributing losses and with intergenerational equity, avoiding productive breaks that may hinder the revival of growth along the way.
- In the transition phase, efforts should be made to ensure that the Gross Domestic Product (GDP) of countries in the region falls as little as possible to be better prepared for the recovery and transformation phase.
- During the transition phase, it is essential to focus on sectors that are vital for the economy and the country and generate employment. In this sense, the agrifood sector has not stopped operating. It has been the least affected by the crisis and continues to be important in generating employment in the region.
- The primary objective of the recovery phase is to reach employment and demand levels close to pre-pandemic levels.
- The crisis has been presented as the appropriate scenario to discuss the possibility to rebuild and transform, an opportunity to link COVID-19 recovery plans with integrated climate solutions to make the world more resilient and sustainable in the long term.
- It is estimated that the short- and long-term measures will increase the fiscal deficit on average by 13 percent in relation to GDP.
- Countries must seek ways to expand tax revenues, cut unproductive spending and seek new forms of financing to cover the debt assumed as a result of the crisis.

3. Financing phases

The physical distancing measures implemented to stop the spread of the virus have had a major economic and social impact; so, countries have begun to discuss, plan or adopt their dismantling.

The stage of loosening restrictions on the movement of people will be gradual, with a sequential return of economic sectors. This period we are currently experiencing is called the transition phase. The next phase, of economic recovery, will take place when the pandemic is considered to be overcome. This phase, which has not yet begun, could last for years.

Figure 1/ Diagram of the evolution of economic growth and its phases during the COVID-19 crisis.



Source: FAO, based on the description of IADB (2020).

How governments address both phases will have important implications for recovery, fostering or hindering economic performance, social cohesion and political stability. Short-term measures should focus on progressively redistributing losses and with intergenerational equity, avoiding productive breaks that may hamper the revival of growth along the way (IADB, 2020).

3.1. Transition phase: short-term measures

The transition phase begins with the first restrictive sanitary measure implemented in the country and ends with the lifting of all measures related to physical distancing, such as quarantines, trade restrictions and border closures, among others.

The decisions that a country takes to contain the virus must go hand in hand with the economic policies that try to mitigate the economic and social consequences of the decline in activity. Therefore, restrictions on free movement and support and recovery policies are not independent. Moreover, these measures must seek to avoid a breakdown in the productive framework and prevent a major financial crisis (IADB, 2020a).

In the transition phase, efforts should be made to ensure that the GDP of countries in the region falls as little as possible. International Monetary Fund (IMF, 2020) forecasts indicate that the output of the region's economies could fall by up to 10 percent during the pandemic.

It is thus necessary to safeguard government expenditure and domestic debt during the transition phase. The measures implemented during this period must be guided by political pragmatism. Therefore, mitigation policies must be rapid and transitory (IADB, 2020a).

At this stage, all strategic considerations that could play a decisive role in the sequential reactivation plans should be scheduled and evaluated. For example, it is essential to estimate the participation of each sector in production and employment.

The agrifood sector, mainly export-related, has not ceased operations. It has been the least affected by the crisis and continues to be important in generating employment in the region. At a time when all sectors of the economy show an average decline of 22 percent in trade, the agrifood sector has grown by 5 percent (FAO and ECLAC, 2020a). This positive figure is due, in part, to the measures implemented by national governments to ensure that supply chains do not grind to a halt.

Governments must, therefore, do everything possible to support businesses to stay afloat. This is especially relevant for micro, small and medium-sized enterprises in the region, which account for 2 out of every 3 jobs (Dini and Stumpo, 2018). The compensatory policies implemented by governments should seek to cushion losses and increase liquidity in this sector, through programmes of cash transfers and soft loans to both consumers and businesses (FAO and ECLAC, 2020b).

Measures to encourage consumption

- Provide preferential access to financial instruments such as credit or loans to consumers who may have been affected by the crisis.
- Offer unemployment insurance with extended payment periods.
- Establish lines of credit with preferential interest from private banks.
- Promote e-commerce to reduce transaction costs.

Measures to support businesses

- Make the payment of current loans more flexible or reschedule them.
- Provide soft loans with grace periods of at least three months.
- Create e-commerce platforms that enable to trade goods and services.
- Encourage productive investment with one-time subsidies that are limited to an objective fact, which can be the number of workers or volume of sales.
- Make sure to lower the cost of financing for banks, and pass on this lower cost to the companies.
- Provide funding to banks, albeit conditional on an increase in their placements.

3.2. Medium- and long-term economic recovery

The economic recovery phase can be fully implemented only when the pandemic is brought under control, either by treatment or an efficient vaccine against COVID-19, and will last for months or years.

The primary objective of this phase is to recover pre-pandemic employment and demand levels. To this end, national governments will surely seek to generate jobs through public investment (in infrastructure and public goods) and by implementing expansionary monetary policies, in order to lower interest rates to encourage investment and increase GDP.

Although contingent and necessary, these kinds of policy measures do not point to transformations allowing us to face future crises, allowing us to face future crises and adopt long-term view. **Today, we have a historic opportunity to redefine the role of the state and social security, and to design more resilient and sustainable development strategies.** For this reason, progress in this area, which is fundamental to the fulfilment of the 2030 Agenda, is partly conditioned by the strategies adopted to reactivate economic activity.

It is critical to avoid unsustainable growth dynamics and safeguard long-term macroeconomic stability while gradually and strategically restoring market mechanisms to support efficient reallocation of productive inputs.

The reality is that there will be more poor people in the world after the crisis. At this stage, it will be essential to invest in human capital, intensifying the use of technology in economic development. Future development policies will have to deal with resource scarcity, so the region's ability to attract foreign direct investment, for example, in renewable energy or computer-related services, will be of vital importance.

In this regard, the United Nations (UN, 2020a) has raised the opportunity to link COVID-19 recovery plans with integrated climate solutions, focusing on four pillars of investment that countries should make.

Intensify the deployment of renewable energy and energy efficiency

- Help countries achieve energy self-sufficiency.
- Their investment and operating costs are lower and lower.
- Moving to a fully renewable energy matrix will create 35 million new jobs by 2050.
- This matrix will require less capital investment than the one based on fossil fuels (savings of USD 283 billion).
- Energy-efficient technologies could save USD eight billion by 2030.

Ensure clean air and better health through electric mobility

- Transport is responsible for about half of the air pollution in the region's cities.
- A scenario of 100 percent electrification of transport in the region by 2050 would reduce total energy demand by nearly two billion barrels of oil.
- The electrification of road transport throughout the region would save – by reducing fuel and operating costs – USD 369 billion annually by 2050.
- It would also help reduce air pollutants in urban areas, thus avoiding USD 30 billion in annual health costs.
- With 100 percent penetration of electrified transport in Buenos Aires, Santiago, San José, Mexico City and Cali, more than 435 000 premature deaths could be avoided by 2050.
- It would lead to the creation of more than 5.3 million new jobs.

Increase the resilience of ecosystems, food and rural livelihoods

- Currently, we can see a decrease in the yield of major crops (decrease in water availability and increase in extreme weather events).
- Human intervention in wildlife may have been the cause of the pandemic, so there is a need to incorporate biodiversity into production systems, thus increasing the capacity to control disease outbreaks.
- Nature-based solutions (NBS) are extremely cost-effective in helping ecosystems produce services for the economic development of local populations, enabling them to cope with the effects of climate change and disease (avoided loss estimated at USD 125 billion per year).

Make cities more resilient

- Urban sprawl on ecosystems has increased the capacity of COVID-19 to spread, given the lack of biological control over species.
- Improve connectivity between cities and habitats, such as nature trails, urban landscaping for social distancing, reforestation in cities.
- Creation of artificial wetlands for water and wastewater treatment.
- Permeable pavements to increase infiltration and reduce flooding and water loss.

FAO objectives proposed at the Regional Conference

The last Regional Conference of the Food and Agriculture Organization of the United Nations (FAO) was an official forum where Ministers of Agriculture and senior officials of the region's Member States met to discuss challenges and priority issues related to food and agriculture. It was noted that the COVID-19 pandemic has forced countries to modify their short and medium-term objectives associated with the sustainable use of natural resources, adaptation to climate change and disaster risk management (Regional Initiative 3).

1 Supporting small farmers to enable them to recover from multiple crises and build their resilience to future crises.

a. **Building back "better" and planning for disaster response, recovery and rehabilitation:** Economic recovery will benefit from a resilience-based approach, promoting policies to shift towards more sustainable productive systems that better cope with future risks and are based on multi-sectoral strategies, with a strong focus on innovation and inclusion. Therefore, the "building back better" narrative has to be a pillar of action in the next biennium, linking the reactivation, resilience and sustainability agendas.

b. **Preventing and mitigating health threats at the animal-human-plant-environment interface:** 60 percent of known infectious diseases in humans and 75 percent of emerging infectious diseases are naturally transmitted to humans by vertebrates (wild and domesticated). This emphasizes the need to work on biodiversity conservation and reduce pressure on natural ecosystems. It is also necessary to implement multidisciplinary strategies to prevent and mitigate health threats at the animal-human-plant-environment interfaces in alignment with the One Health approach.

2 Linking climate risk management with social protection against COVID-19

Social protection has proven to be crucial during the COVID-19 pandemic. It is, indeed, vital to ensure that populations and livelihoods are resilient during crises. This requires building social protection systems that adapt to climate change and allow to prepare for extreme weather and disasters.

3 Promoting transformational investment in green technologies and green jobs through facilitated access to finance

a. **Direct investment in areas that have high multipliers, positive environmental outcomes and improved livelihoods and resilience:** The COVID-19 crisis has emphasized the importance of good quality water availability for sustained local agricultural production, human and animal health and resilient livelihoods. Therefore, investments for post-pandemic recovery can focus on actions that enable better water management, new technologies for climate change adaptation and resilience, and improved management of food loss and waste. These are ways to improve smallholder livelihoods and local production of healthy and diverse food. Multi-risk analysis and climate change considerations must be incorporated into any public investment in agriculture and public and private financial mechanisms created for post-COVID-19 response and recovery. Failure to do so will result in increased risks of large-scale disruptions to food systems and livelihoods.

b. **Creating green jobs and diversifying local economies through nature conservation, restoration and monitoring:** Nature-based adaptation measures and investment in green infrastructure (both on land and at sea) can not only generate co-benefits in terms of reducing greenhouse gas emissions and increasing sustainable development alternatives, but also in terms of job creation and economic revival for communities. There is a need to reduce economic and environmental pressure on forests, marine ecosystems and fisheries. Diverse and healthy ecosystems can act as buffers and slow down the activation and spread of zoonotic diseases. They can also help achieve sustainable and resilient agriculture, which can serve as a basis for new development and growth strategies.

c. **Facilitating access to finance:** this catalytic financing opportunity will be unprecedented and must be aligned with the agricultural transformation objectives. Not only because it is a unique opportunity to build sustainability and resilience, but also because it makes long-term economic sense. For this reason, a necessary emphasis will be on strengthening work with countries to access green financing, from international and bilateral donors, and strengthening the link with international financial institutions.

4. Financing measures for countries and individuals

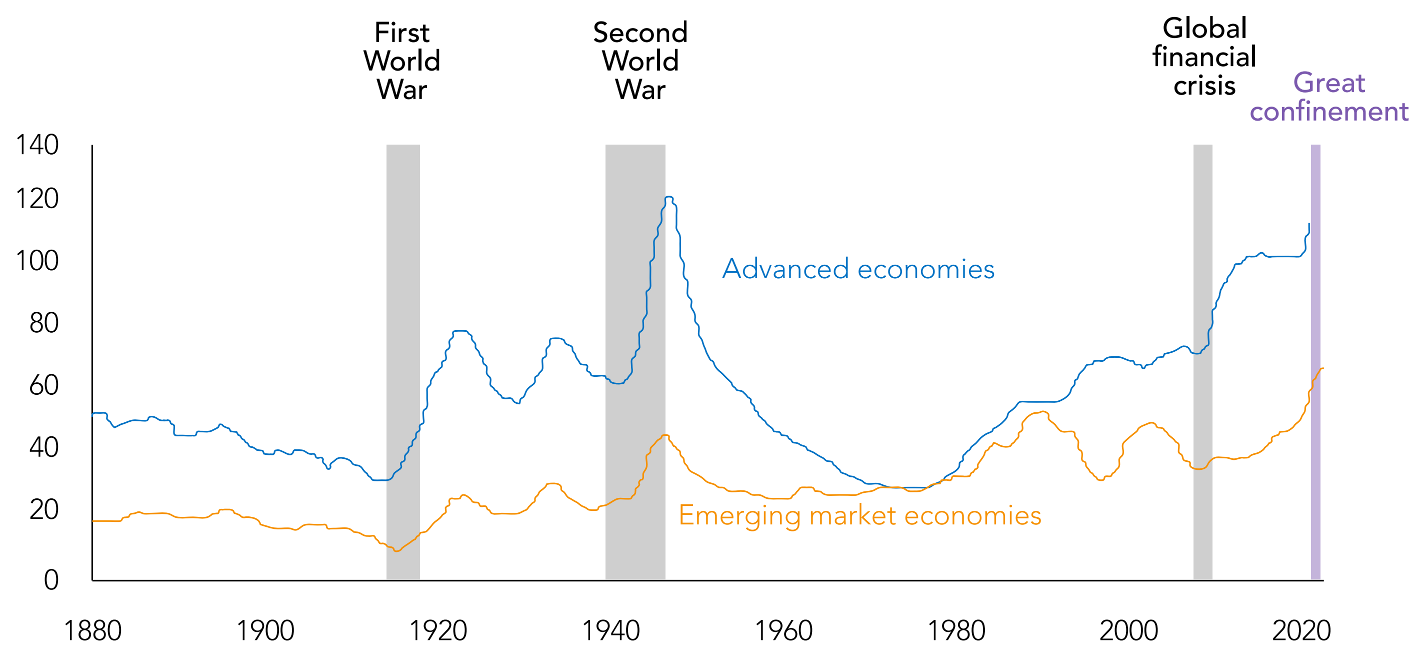
In this section, we list the challenges and forms of financing that could be implemented for the benefit of countries – at a macroeconomic level – and people – at a microeconomic level.

4.1. Countries

Short- and long-term measures will force governments into debt. According to the IMF (2020), fiscal deficit in the world will increase on average by 13 percent between 2019 and 2020 (from 83 to 96 percent of GDP). Advanced economies will increase their debts by 17 percent (from 105 to 122 percent of GDP). In comparison, in emerging and middle-income economies, the increase is estimated at 9 percent (from 53 to 62 percent of GDP).

The global public debt would exceed the highest rates recorded since the Second World War, which means a major challenge for governments (see Figure 2).

Figure 2. Global public debt (as a percentage of GDP).



Source: IMF (2020).

The following are some of the main sources of funding that are currently being discussed. These range from broadening the tax base and cutting unproductive spending to seeking new forms of funding to cover the debt assumed as a result of the crisis.

Raising tax revenue