



*Ministerio de Hacienda
Despacho del Ministro
San José, Costa Rica*

23 de noviembre del 2020
DM-1397-2020

Señor
Marcelo Prieto Jiménez
Ministro
Ministerio de la Presidencia

Asunto: Respuesta al oficio DM-1268-2020.

Estimado señor:

En atención al oficio DM-1268-2020 del 30 de octubre del 2020, el cual solicita a este Ministerio referirse, a las interrogantes planteadas por el Relator Especial sobre pobreza extrema y derechos humanos respecto a la creación de un mecanismo de solidaridad, denominado Fondo Mundial de Protección Social, así como aportar insumos que se consideren pertinentes. En relación al oficio de las Naciones Unidas denominado "*Call for reactions from Special Rapporteur on extreme poverty and human rights*", me permito responder en los siguientes términos:

1. Added value of the Global Fund for Social Protection (GFSP)

The GFSP is intended to contribute to four objectives:

- Improving the coordination of efforts towards the establishment of social protection floors worldwide, both at multilateral / inter-agency level at the country level.
- Capacity building and improving international cooperation in order to strengthen the ability for LICs to mobilize domestic resources.
- Increasing levels of financial support to low income countries; and



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- Providing risk insurance for LICs with poorly diversified economies and those that are particularly vulnerable to shocks.

(i) Taking into account these objectives, what do you see as the added value of the GFSP?

The GFSP is a social initiative to create a “...basic income security sufficient to live...”. From a general perspective, this program’s objective is implementing a universal minimum income for all citizens to cover their living expenses and provide a certain level of financial security. However, an initiative of such kind may have pros and cons to consider. For instance, a “basic income” may help reduce poverty (if it is measure with an absolute poverty line), and in times such as these, it could help boost the economy during recession periods. On the other hand, the short-term “free access to money” could generate inflationary pressures, while in the medium and long term could disincentive job-seeking efforts and, thus, the labor force participation.

The GFSP could coordinate with the proposal made by Costa Rica for a COVID-19 Economic Relief Fund. The Fund to Alleviate COVID-19 Economics (FACE), as a vehicle for international solidarity in light of the economic recession caused by the pandemic and an instrument to drive a sustainable recovery. FACE is not only needed to a debt standstill for the poorest countries and for official debt, but also to one that encompasses more countries, including emerging markets.

(ii) Do you see one or more objectives as a priority?

The main objective of the GFSP must aim to provide risk insurance to LICs, especially to those countries with higher exposure and vulnerability to climate change shocks. According to the Global Climate Risk Index 2019, four of the ten most affected countries worldwide by climate change were located in Central America and the Caribbean. Common factors in those countries are the high levels of poverty, low economic growth, and a limited diversified economy. A basic income scheme could help to make more resilient to such shocks while at the same time boosting economic growth through private consumption.



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2. Synergies with existing initiatives

- (i) How to ensure that the initiative for the Global Fund for Social Protections builds on, and ensures appropriate synergies with, existing initiatives in this area, in particular, the coordination achieved through SPIAC-B (Social Protection Inter-Agency Cooperation Board), USP2030 (Universal Social Protection Partnership), and the ILO Flagship Program on “Building Social Protection for All”?

The GFSP should be an active member of SPIAC-B and USP2030. The GFSP could gain from the expertise and the know-how from both organizations.

- (ii) How to ensure that the GFSP complements and does not compete with other existing multilateral funds, in particular funds placed under the Multi-Partner Trust Fund Office (MPTF Office)?

It is critical to have full communication with other agencies that pursue similar objectives. It is very likely that organizations with similar purposes to have goals that overlap. To avoid such duplicities, we would encourage regular meetings, constant communication, and monitoring from the GFSP with other agencies/organizations to evaluate if its programs or policy recommendations are not conflicting with those from other groups.

As mentioned in the first question, the Fund to Alleviate COVID-19 Economics (FACE), proposed by Costa Rica could also be used to strength coordination and financial support in order to achieve the goals of the GFSP.

3. Strengthening international coordination

- (i) How can objective (b) (capacity-building and improve international cooperation in order to strengthen the ability for LICs to mobilize domestic resources) be effectively achieved?

Governments and International Agencies should focus their public policy agendas on increasing bancarization and boosting the digital economy. It is very likely that in most LICs, citizens do not have access to formal financing mechanisms or that SMEs do not have credit records or enough collaterals. Another approach could be developing seed capital financing schemes and grants (or concessional loans) for entrepreneurs in activities with high economic impact.



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- (ii) Could the GFSP lead to improve international coordination against tax evasion and tax avoidance, including base erosion and profit shifting by transnational corporations, and, if so, how?

No. The Organization for Economic Cooperation and Development (OECD) already has an initiative in that direction. According to OECD, the Inclusive Framework on BEPS “...is a collaboration between 135 countries to put an end to tax avoidance strategies that exploit tax gaps and mismatches in tax rules to avoid paying taxes...”. In that sense, OECD already has the knowledge and many years of experience in the subject.

4. Provision of financial support

- (i) How can objective (c) (increased levels of financial support to low-income countries) be most effectively achieved?

LICs should have access to concessional financial support and grants. In addition to financial support, LICs must be accompanied with technical assistance, especially in areas related to public finances, to increase their financing capabilities and decrease their dependence on foreign aid.

- (ii) If the GFSP provides financial support to establishment of social protection floors, should this be in the form of grants or form of loans?

It should depend on the economic development of each country. LICs should have access to financial support in the form of grants (subject to performance indicators). In contrast, Medium Income Countries should have access to these funds through concessional loans or at very attractive interest rates.

- (iii) Should financial support be made conditional upon recipient countries increasing their own budgetary efforts towards social protection (e.g., matching funds)?

Yes. Countries should allocate a part of their budgets to financing such programs. Through these matching funds, governments would make more efficient and responsible use of the resources provided by the GFSP.

- (iv) Should other conditions be imposed on recipient countries and, if so, which ones and why?



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Yes. For instance, the GFSP should impose performing indicators for disbursements. Such indicators could include a percentage of women-headed households, children's school attendance, regular visits to health facilities, and participation in entrepreneur training programs. Also, it is crucial to make these programs TEMPORARY. Otherwise, the recipients of grants would not have an incentive to "leave poverty." Also, to measure the efficiency of these interventions, we recommend the use of "Random Control Trials" before any policy implementation. These evaluations will help to correct potential failures at a very early stage.

- (v) How could the imposition of conditions be reconciled with the principle of national ownership?

The grants disbursement conditions will work similarly to the ones of a regular external loan. Nowadays, most countries worldwide use foreign sources of financing from bilateral or multilateral organizations. A mechanism that does not attempt against national ownership.

5. Innovative sources of financing

- (i) Should the GFSP develop a forum for the discussion of innovative financing sources, such as a worldwide tax on digital companies (the "GAFAM"), a carbon tax on air or maritime transport, a tax on financial transactions, or other?

Yes. GFSP should take advantage of other financial organizations with experience in such subjects as the International Monetary Fund, the Inter-American Development Bank, the Organization of Economic Cooperation and Development, or the European Commission.

6. Informal economy

- (i) Should the GFSP play a role in encouraging the extension of social protection to workers in the informal economy, in line with ILO Recommendation No. 204 on the Transition from the Informal to Formal Economy (2015), and how would it do so?



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The Ministry of Finance does not have criteria to answer this question. We recommend to forward this inquiry to “*Instituto Mixto de Ayuda Social*” or “Ministerio de Trabajo y Seguridad Social” or “Ministerio de Salud.”

7. Role of the private sector

- (i) Should the private insurance sector play a role in the organization of the reinsurance branch of the GFSP, and, if so, how do you envision such a role?

The Ministry of Finance does not have criteria to answer this question. We recommend to forward this inquiry to “*Instituto Mixto de Ayuda Social*” or “Ministerio de Trabajo y Seguridad Social” or “Ministerio de Salud.”

8. Governance

- (i) What governance structure should the GFSP have?

The Ministry of Finance does not have criteria to answer this question. We recommend to forward this inquiry to “*Instituto Mixto de Ayuda Social*” or “Ministerio de Trabajo y Seguridad Social” or “Ministerio de Salud.”

- (ii) What roles do you envision for governments, for international agencies (such as, in particular, the ILO, the World Bank, of the UNDP), or for social partners?

As mentioned in question 2 (ii), the GFSP is fundamental to have communication with other agencies that pursue similar objectives. It is very likely that organizations with similar purposes to have goals that overlap. To avoid such duplicities, we would encourage regular meetings, constant communication, and monitoring from the GFSP with other agencies/organizations to evaluate if its programs or policy recommendations are not conflicting with those from other groups.

- (iii) What lessons can be drawn, in particular, from the Global Fund on AIDS, tuberculosis, and malaria?

The Ministry of Finance does not have criteria to answer this question. We recommend to forward this inquiry to “*Instituto Mixto de Ayuda Social*” or “Ministerio de Trabajo y Seguridad Social” or “Ministerio de Salud.”



(i) If a mandate were to be given to a certain organization to develop operational proposals for establishing the GFSP, what approach would you recommend?

(ii) Should SPIAC-B be tasked with this mandate? Or USP2030? Or should another approach be followed, for instance, requesting that the OECD and the ILO develop operational proposals for the GFSP?

The Ministry of Finance does not have criteria to answer this question. We recommend to forward this inquiry to “*Instituto Mixto de Ayuda Social*” or “Ministerio de Trabajo y Seguridad Social” or “Ministerio de Salud.”

Sin otro en particular se despidе.

Cordialmente,

Elian Villegas Valverde
Ministro de Hacienda

VB: Marco Solera Rodríguez
Asesor, Despacho del Ministro