



Development in transition

Concept and measurement proposal for renewed cooperation
in Latin America and the Caribbean



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Development in transition

**Concept and measurement proposal for renewed cooperation
in Latin America and the Caribbean**



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ECLAC

Alicia Bárcena
Executive Secretary

Mario Cimoli
Deputy Executive Secretary

Raúl García-Buchaca
Deputy Executive Secretary for Management and Programme Analysis

Luis F. Yáñez
Secretary of the Commission

Sally Shaw
Officer in Charge, Documents and Publications Division

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The document was coordinated by Alicia Bárcena, Executive Secretary of ECLAC, and Mario Cimoli, Deputy Executive Secretary. The drafting committee comprised the following staff members: Esteban Pérez-Caldentey, Wilson Peres, Sebastián Rovira, Cecilia Plottier, Enrique Oviedo, Zebulun Kreiter and Nunzia Saporito.

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Foreword

The coronavirus disease (COVID-19) pandemic has highlighted economic and social vulnerabilities in the countries of Latin America and the Caribbean, a middle-income region undergoing a transition to development that still suffers from significant structural gaps and has been one of the hardest hit by this crisis in economic, social and health terms, with more than 1,350,000 deaths from the disease as of 26 July 2021.

Even as the countries of the region have begun to graduate from cooperation and official development assistance, persistent development traps can be identified in the areas of production, social inclusion, institutions and the environment. These factors are making it more difficult to implement the 2030 Agenda for Sustainable Development and achieve the Sustainable Development Goals. In the new context of graduation, accordingly, it is vital for the cooperation agencies of countries traditionally understood as donors to adapt their cooperation strategies so as to maintain ties and continue working with countries that have recently graduated or are in the process of graduating and thereby maintain and strengthen partnerships and integration among all countries in pursuit of development, irrespective of income level.

A renewal of international cooperation is essential if more inclusive and sustainable development is to be attained for all the inhabitants of the region. In accordance with the concept of development in transition, elaborated by the Economic Commission for Latin America and the Caribbean together with the European Commission and the Development Centre of the Organization for Economic Cooperation and Development (OECD), this cooperation should be tailored to the specific needs of countries and seek to address structural development gaps, contributing to the generation of regional and global public goods. It should be a multilateral, multilevel type of cooperation involving traditional and new actors (horizontal, regional, South-South, North-South, South-North and triangular cooperation) and working with an extensive toolkit that includes, among other things, financing instruments, climate change funds, blended finance, debt for environment swaps and domestic resource mobilization. This would support knowledge-sharing, capacity-building and delivery of the transfers needed to break development deadlocks.

Today, national and global challenges have largely converged, while the linkages between domestic policies and the global arena have continued to increase. In a changing and uncertain context, this document calls for debate and action on the processes whereby countries graduate from cooperation, calling into question the use of one-dimensional indicators such as per capita GDP to determine the scope

of cooperation and strategic partnerships in what is a complex, multidimensional process, and highlighting the need for more appropriate and effective instruments to guide international cooperation and determine resource allocation. A multidimensional vision based on the participation of all the actors concerned is the way to shift from processes of graduation to processes of gradation that enable a renewed form of international cooperation to attain its full potential.

Alicia Bárcena
Executive Secretary
Economic Commission for Latin America
and the Caribbean (ECLAC)

Introduction

International cooperation has been and remains an essential force in countries' economic and social progress. The analytical approach underlying it, its operating mechanisms and the institutional scope of its actions have been progressively refined for decades. Thus, for example, in the 1970s it began to incorporate new perspectives and methods in response to the changes being experienced by economies and societies, as reflected in the concepts of South-South and triangular cooperation. In this context, cooperation has reconciled the needs and sovereignty of recipient countries and the interests and perspectives of donor countries, with varying degrees of success. The balance has not always been an easy one to strike, and has required continual renewal of methods and institutions.

The need to adapt cooperation to rapidly shifting realities has become more urgent in the context of the great changes, both positive and negative, that the world has undergone in recent decades, such as the sharp reduction in poverty and the increase in average life expectancy; the accelerating technological revolution, essentially in the digital and biological spheres; the occurrence of crises, often environmental catastrophes; and growing dissatisfaction among large groups of the population, expressed in various ways, over persistent and often rising inequality in the distribution of wealth and income.

One way of adapting cooperation to new realities is the development in transition approach. This concept treats the development process as an evolutionary continuum in which some problems are solved, as in the fight against hunger, while others emerge, such as growing technology divides, distrust of institutions, environmental degradation and difficulties in moving towards welfare States. The ultimate goal of this evolutionary process is to surmount the middle-income trap in which many developing countries, and in particular most of the countries of Latin America and the Caribbean, currently find themselves. This lock-in manifests itself in a wide array of structural gaps in the economic, social, gender, environmental and other dimensions. The structural gaps approach holds that no single standard classification based on any one gap adequately captures development levels. Countries will rank differently depending on which gap is considered. In particular, the level of per capita income cannot be equated with the level of development, since an increase in per capita income, and thus a narrowing of this gap, does not signify an improvement in the other pillars of development.

Linking the insights of the development in transition, middle-income trap and structural gaps approaches provides a useful tool for reorienting international cooperation to make it more effective

under present and future conditions, in the short and long term. The goal of the present document, which is organized into four chapters, is to make this linkage explicit and operationalize it.

The first chapter argues that the combination of the development in transition, middle-income trap and structural gaps approaches is a good instrument for orienting cooperation. In particular, it provides a way of moving beyond development assessments based only on the dynamics of per capita GDP or determining that country graduation processes based on this variable are appropriate. The chapter especially highlights the multidimensional nature of structural gaps and the importance of having perspectives that incorporate all their dimensions, along with the need for international cooperation to evolve by recognizing that graduation should be replaced by gradation.

The second chapter analyses aspects of the development dynamics of Latin America and the Caribbean from the perspective of the current international economic, social and environmental crises. On this basis, it presents the features characterizing this process in the region before the coronavirus disease (COVID-19) pandemic and, in particular, the worsening of problems such as unemployment and poverty as a result of the pandemic. It emphasizes that not only is the crisis caused by the pandemic the greatest the region has experienced in a century, but that its effects will be lasting and may give rise to phenomena of hysteresis in production and social structures. This situation, characterized as it is by major structural gaps, together with the threat from the unwanted effects of graduation, constitutes the challenge that the countries of the region must cope with.

The third chapter focuses on an issue that is crucial in the current context: that of access to domestic and external finance. The efforts of the region's countries to at least partly counter the effects of the crisis on poverty and unemployment have entailed unprecedented public spending growth. Alongside the expansion of domestic fiscal space through far-reaching tax reforms, development financing is taking on critical importance and involves amounts exceeding what international capital markets are able or willing to provide. In particular, the large differences in access to international capital markets are being highlighted, and this is an area where multilateral cooperation has an important role to play. While the issue of financing affects all countries in the region, the chapter pays particular attention to the situation of Caribbean small island developing States (SIDS) and smaller countries, in many of which the situation can only be described as critical.

The fourth and fifth chapters analyse some progress and setbacks in the effort to achieve the Sustainable Development Goals (SDGs) in the region in the current context and present proposals for new forms of international cooperation and partnership to help bring about a transformative recovery, i.e., a recovery that does not reinforce structural gaps, but reduces or eliminates them. It is argued that a reorientation of cooperation would help with implementation of the 2030 Agenda for Sustainable Development and its SDGs and that the measurement of progress towards the Goals provides a multidimensional tool for measuring development. It is also shown that graduation processes do not necessarily imply the end of bilateral cooperation or technical cooperation, and that the official development assistance received by countries before graduation can be a bridge towards later implementation of technical cooperation projects. The book ends by setting forth a new vision of cooperation, highlighting the role of new cooperation actors and methods and the way these interact with South-South and triangular cooperation practices, and identifying strategic partnerships for a transformative recovery.

These elements combine to allow the document to attain its objective of specifying the development in transition approach and operationalizing it with the aim of overcoming the structural gaps that keep the region in the middle-income trap and breaking out of development traps.



I. The challenges for middle-income countries

A. What is development in transition?

The world is going through a period of major transformations and threats that demand new global, regional and national responses. The emergence of new actors in the global arena, the impact of the environmental crisis on economic growth, the technological revolution, increased flows of irregular migration and high levels of inequality, compounded by the effects of the crisis resulting from the coronavirus disease (COVID-19) pandemic, have rendered traditional economic and political paradigms in many respects inadequate to respond to people's needs. In this context, the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs) are the outcome of a renewed consensus on a new development model and represent a major political breakthrough. They reassert the multidimensional nature of development needs and the principle that countries have shared but differentiated responsibilities in the environmental, economic and social spheres. The Agenda, which cannot be implemented successfully in isolation or through increased financial assistance alone, reflects the commitments accepted by the whole international community and requires public policy actions at the national, regional and international levels.

The concepts of development and of development cooperation cannot be unaffected by these changes. It is essential to rethink what is meant by development and to redesign the key elements for a form of international cooperation that leaves no one behind in any of the dimensions of development and inclusion, especially in the context of the pandemic. This is particularly important in the case of countries where per capita incomes have risen in recent decades, but which still present significant vulnerabilities and where the improvements seen in the quality of life of much of the population may not be sustainable. The pandemic has once again highlighted the fragility of development processes in these countries.

While development is usually seen as a non-linear, multidimensional phenomenon, this recognition is often not matched by the actions needed to move towards states of greater well-being. One of the areas where it should be applied is in graduation from international cooperation.¹ Making the transition to cooperation

¹ The criterion used by the OECD Development Assistance Committee (DAC) is that countries which exceed the middle-income threshold set by the World Bank for a consecutive period of three years "graduate" and thus no longer qualify for sources of official development assistance (ODA). Graduation is a process whereby an increase in per capita income or criteria of some other kind leave a country ineligible for ODA (which includes technical cooperation, non-repayable, non-interest-bearing donations and concessional loans repayable at interest rates below those of commercial banks), whether this is provided bilaterally or through a multilateral development agency or institution. The concept of graduation and its effects are detailed in chapter IV.

based on countries' needs and focused on the SDGs means looking beyond economic frameworks of analysis and progressing towards new multidimensional analytical frameworks that serve to identify the dissimilar development challenges faced by countries and thence give the right orientation to cooperation policies.

The resource allocation criteria, instruments and methods of international cooperation have all been called into question as many recipient countries have progressed to higher levels of per capita income. Although rising incomes have entailed significant improvements in other economic indicators, particularly poverty reduction, these countries have not experienced sustainable growth with improved social welfare. The literature has developed the concept of the "middle-income trap" for countries that, having reached their technological frontier, are unable to compete globally on the basis of low wages and at the same time have not developed the capabilities to compete on the basis of innovation, technological change and the production of knowledge-intensive goods and services (Milesi, 2016; Tezanos Vázquez and Sumner, 2013; ECLAC/OECD, 2018). This trap is a constraint on development because it prevents countries from maintaining steady long-term growth and converging on more advanced economies. In general, it is asserted that countries may fall into the middle-income trap owing to their inability to manage a structural shift towards innovation and more knowledge-intensive production.

Latin America and the Caribbean is often defined as a "middle-income region" under these one-dimensional classifications. This would imply that more countries in the region ought to join the group of "high-income" countries in the coming years. Looking beyond this designation, though, graduation and the cessation of official development assistance (ODA) represent an obstacle to sustainable development, since they do not take account of the fragility of development or the fact that, as will be seen below, per capita GDP is not an adequate measure of a country's or region's development.

Given the prospect of a number of countries in the region graduating, a dialogue has been generated between Latin American and Caribbean countries, the member countries of the European Union, the Economic Commission for Latin America and the Caribbean (ECLAC), the European Commission and the Development Centre of the Organization for Economic Cooperation and Development (OECD). One result of this dialogue has been a new conception of development as a continuous and non-linear process rather than merely a matter of passing through stages. The "development in transition" approach sees development processes as aiming at moving targets and income-based measurements as insufficient to assess countries' situations. Adopting this approach means devising an international cooperation strategy that is consistent with the spirit of universality of the 2030 Agenda and its SDGs, moving on from a vision of cooperation centred on poverty and economic growth and progressing towards more broadly based international cooperation aimed at facilitating the transition of all countries to more sustainable models of development. Seen in this light, current income-based development cooperation tools are inadequate to achieve the 2030 Agenda.

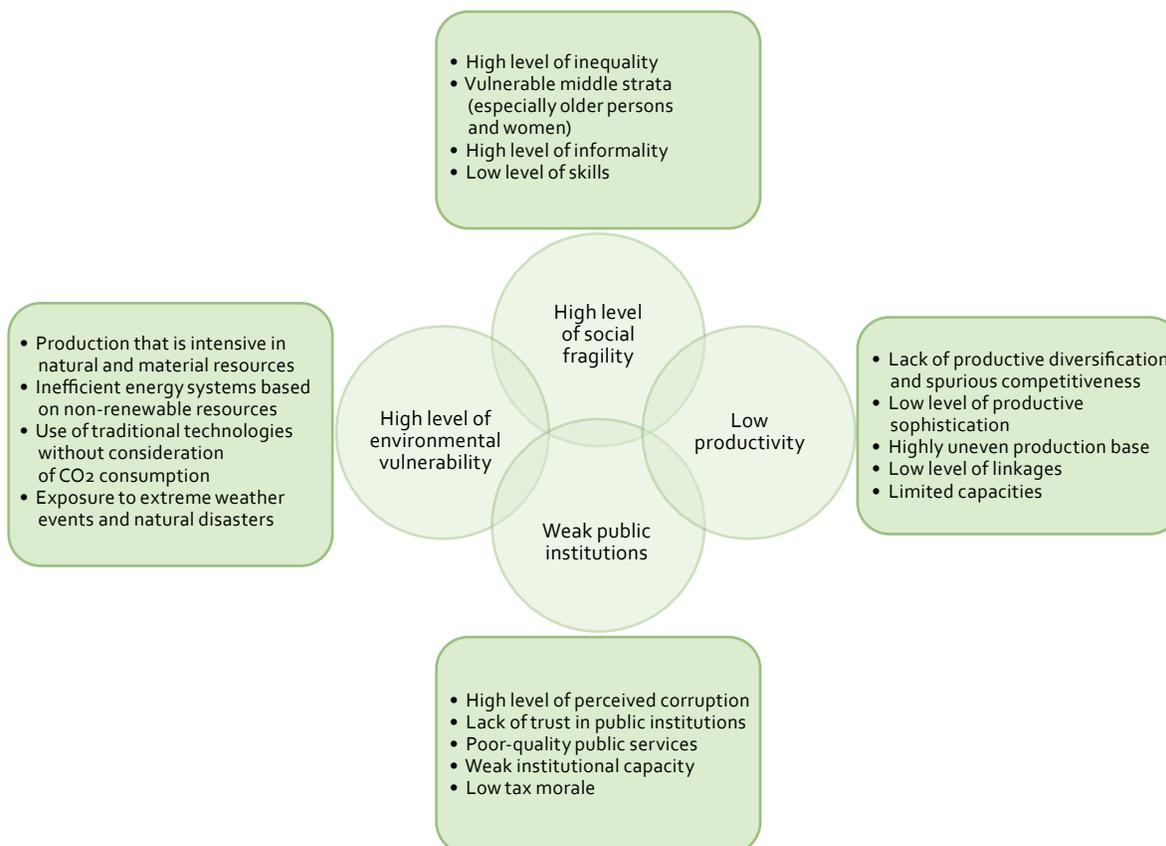
What is proposed in the development in transition framework, then, is that "graduation" should be replaced by "gradation", the aim being to:

rethink international cooperation for development and redefine relations between countries around the world at all levels of development to better respond to today's local, regional and global challenges in innovative and creative ways. It is about building a new multilateralism based on a new international cooperation approach—including metrics, frameworks, tools and partnerships— adapted to countries that are left behind by traditional cooperation once they move up the income ladder. (ECLAC/OECD, 2018, p. 36).

Thus, the concept of development in transition is a framework for analysing development processes that focuses on the dynamic relationship between four mutually reinforcing dimensions which hamper the development process (see diagram I.1). The traps described in the diagram take the form of vicious circles of low growth and productivity, involving specialization in resource-intensive and low-knowledge sectors, inefficient energy systems, low innovation capacity and limited creation of high-quality jobs, the result being low incomes, large vulnerable middle strata and a high level of inequality. Another factor is weak public institutions

incapable of capturing the resources needed to ensure access to essential goods and services, of implementing policies to increase productive diversification and productivity, of developing capacities or of generating the inputs needed for large-scale access to public goods and thus for more resilient and inclusive welfare States.

Diagram I.1
The four traps that hold back the development process



Source: Organization for Economic Cooperation and Development (OECD) and others, *Latin American Economic Outlook 2019: Development in Transition* (LC/PUB.2019/14), Paris, OECD Publishing, 2019.

For the development traps approach, ECLAC developed a methodology to detect and analyse structural gaps in 11 economic, social and environmental dimensions (ECLAC, 2012).² The size of each gap differs between countries, as poverty levels, the degree of social inclusion and productive, technological, institutional and financial capacities vary greatly from one to another. On the basis of this analysis, it was recognized that there was an urgent need to increase domestic institutional capacities and adopt new methods of international development cooperation that would serve to identify actions capable of breaking vicious circles, overcoming development traps and enabling countries to move towards higher levels of productivity, inclusion and sustainability.

The multidimensional frameworks and the taxonomy of gaps produced as part of the development in transition approach are applicable to all countries, irrespective of income level, and demonstrate the need to analyse development on the basis of a systemic approach that treats it as a complex process in which a variety of stakeholders interact. Development cooperation must adapt to this complexity by improving the identification and cataloguing of countries' conditions, potential and limitations and then designing instruments and methods tailored to the specific needs of each, avoiding external impositions.

² Per capita income, inequality, poverty, investment and saving, productivity and innovation, infrastructure, education, health, taxation, gender and the environment.

B. Middle-income countries: crucial actors in global development

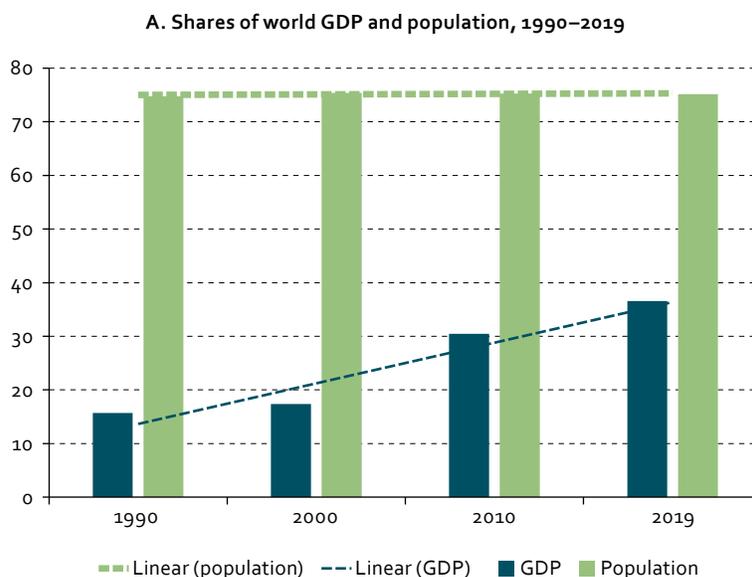
The benchmarks used by the international cooperation system are indicators developed by the World Bank,³ an institution that since 1978 has published an annual classification of countries into four groups by per capita income: (i) low-income countries, with per capita gross national product (GNP) of US\$ 1,035 or less; (ii) lower-middle-income countries, with per capita GNP of between US\$ 1,036 and US\$ 4,045; (iii) upper-middle-income countries, with per capita GNP of between US\$ 4,046 and US\$ 12,535; and (iv) high-income countries, with per capita GNP of US\$ 12,536 or more.

In accordance with this classification, and although their average per capita GDP is less than US\$ 28 per day as measured in purchasing power parity (PPP) and equivalent to only 19% of the per capita GDP of high-income countries, middle-income economies cannot just be spectators of global governance. They are home to more than 75% of the world's population and 62% of its poor, while generating around a third of global GDP, 45% of investment and 30% of exports (see figure I.1).⁴ Since they are vital to the accomplishment of the 2030 Agenda, they must play a key role in global decision-making on economic, social and environmental development strategies and cooperation.

At the same time, middle-income countries constitute a very heterogeneous group whose average per capita GDP ranges from a low of US\$ 1,160 to a high of US\$ 12,390, with even more significant differences if this variable is considered in PPP terms. Situations also differ greatly as regards economic and social development. For example, the poverty rate ranges from 0.0% to 69.8%, while the Gini index shows considerable variance, from a minimum of 24 to a maximum of 63.4 (see table I.1).

As this heterogeneity indicates, each country has its own problems and development needs stemming from its particular structural characteristics. Despite the progress they have made, middle-income countries remain economically and socially vulnerable because of (i) the frequency and intensity of external and internal shocks, (ii) their limited capacity to withstand and "recover" from these shocks and (iii) limited autonomy to formulate and implement policies, particularly in smaller economies such as the small island developing States (SIDS) of the Caribbean.

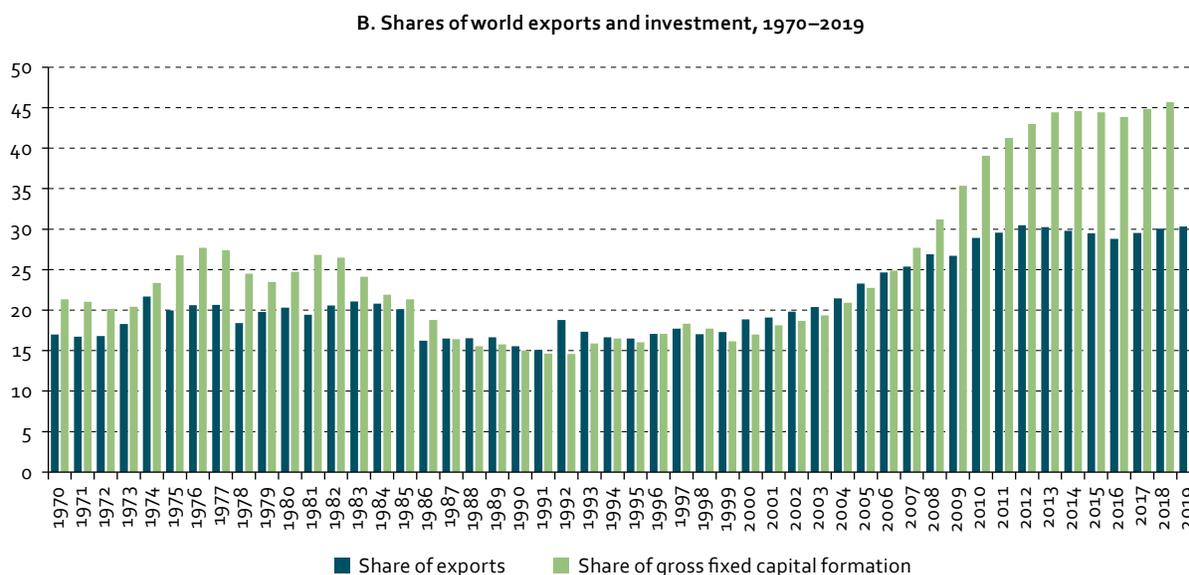
Figure I.1
Middle-income countries: weight in the global economy, 1970–2019
(Percentages)



³ The World Bank recognizes the multidimensional nature of development but regards per capita GNP as the best indicator for explaining countries' economic capacity and progress. The World Bank uses the Atlas method to calculate per capita GNP for its country classification (World Bank, 2020).

⁴ These magnitudes have depended heavily on the dynamics of China and India in recent decades.

Figure I.1 (conclusión)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank data.

Table I.1
Middle-income countries: economic and social indicators, 2018 or most recent year

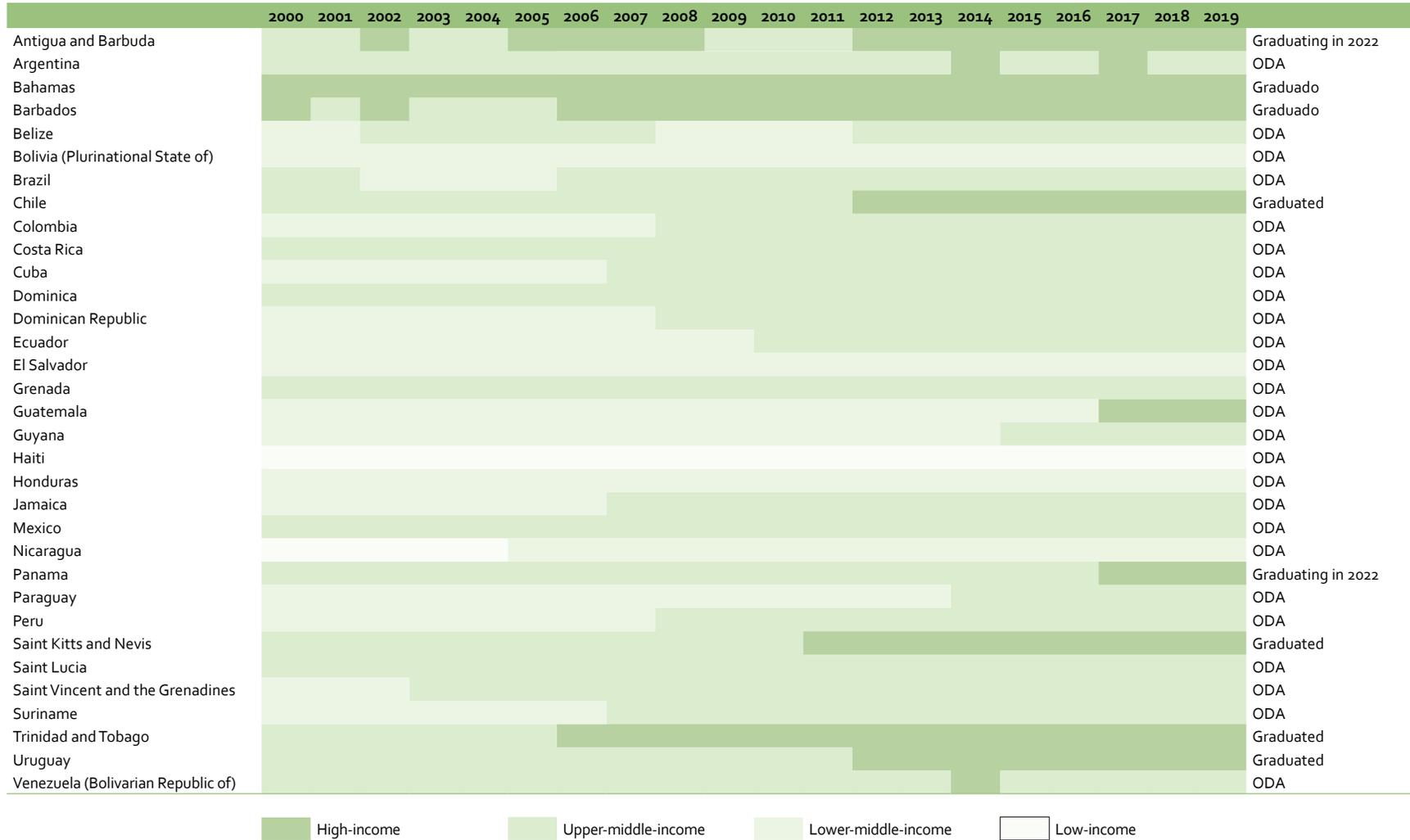
Indicator	Middle-income countries		
	Minimum	Maximum	Average
Per capita GNP (according to the World Bank Atlas method) (dollars)	1 160	12 390	4 888
Per capita GDP (purchasing power parity (PPP) dollars)	2 035	28 201	10 187
Poverty rate at US\$ 3.2 per day (percentage of the population)	0.0	69.8	10.5
Youth unemployment (percentage of the workforce aged 15 to 24)	1.28	52.85	18.82
Proportion of young people not in education, employment or training (percentage of youth population)	9.7	43.5	23.9
Coverage of social insurance programmes (percentage of population)	0.7	59.5	22.6
Gini index (0–100)	24.0	63.4	39.4
Human Capital Index (0–1)	0.3	0.8	0.5
Gross domestic saving (percentage of GDP)	-29.9	61.0	17.7
Tax revenue (percentage of GDP)	5.9	30.1	16.6
Gross fixed capital formation (percentage of GDP)	11.5	47.7	22.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, "World Development Indicators" [online] <http://data.worldbank.org/data-catalog/world-development-indicators>.

C. Latin America and the Caribbean: a middle-income region?

In Latin America and the Caribbean, 8 countries are classified as high-income, 20 as upper-middle-income, 4 as lower-middle-income and only 1 as low-income (see diagram I.2). Thus, six countries have already graduated from the list of potential ODA recipients, two will graduate in 2022 and the others are in the process of graduating as they approach the per capita GNP threshold of high-income countries.

Diagram I.2
Latin America and the Caribbean: World Bank classification of countries
by per capita income (Atlas method), 2000–2019



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank data.

According to taxonomies based on income, therefore, Latin America and the Caribbean is a middle-income region in transition to development. However, behind these categorizations lie a variety of development processes that are difficult to synthesize into a single indicator, and there is no one classification or standard criterion that enables specific needs to be accurately assessed in a synthetic form. There are as many indicators as there are development challenges facing a country, and the ranking of countries changes according to the dimension being considered. This is why the international cooperation system needs to look beyond per capita income and consider different development needs.

D. Per capita income: an inadequate measure for determining the level of development

Per capita income is treated by the international cooperation system, including multilateral financial institutions, as the key variable that summarizes the development level of countries and thus guides the allocation of resources by developed economies to emerging and developing ones. The use of per capita income as an indicator for allocating resources rests essentially on two arguments. First, it is assumed to be a true reflection of countries' level of economic and social development. Second, higher per capita incomes are assumed to be accompanied by an increased ability for countries to mobilize domestic and external resources and thus to finance economic and social needs. Moreover, this view assumes that there is an unambiguous relationship between per capita GDP and institutional development. Thus, as countries move from low-income and lower-middle-income levels to upper-middle-income and high-income levels, they should become less dependent on flows of official assistance, concessional loans and preferential and differentiated treatment in respect of trade and production rules.⁵

On graduating, upper-middle-income and high-income countries become ineligible not only for ODA but for any other type of preferential financing. This logic justifies the decision to give preference to lower-income countries in the allocation of international cooperation resources and funding from multilateral institutions.

The dynamics of growth and development processes and, more recently, the COVID-19 crisis have highlighted the need to consider other quantitative and qualitative measures that can provide an understanding of the stage of development countries have attained, given the large differences and structural gaps between individuals, firms, institutions and regions.

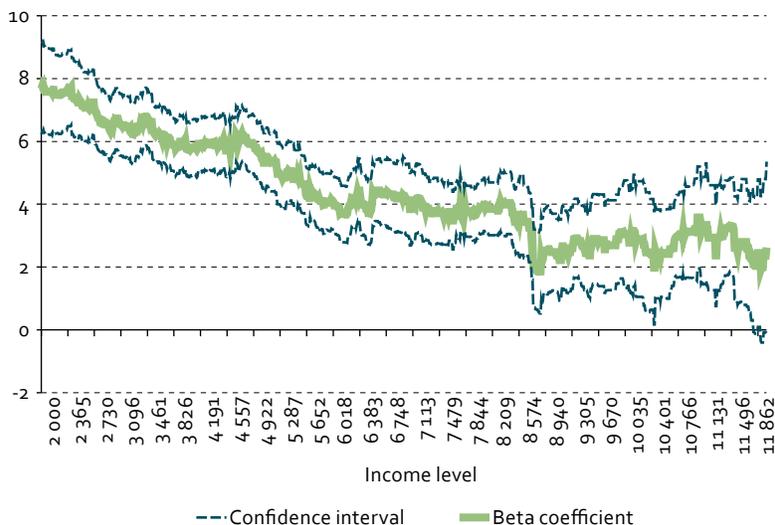
As the Commission on the Measurement of Economic Performance and Social Progress (CMEPSP) noted in 2008, GDP, like any aggregate calculated in per capita terms, may provide an inadequate picture of the situation of the majority of the population (Stiglitz, Sen and Fitoussi, 2009). For example, if inequalities widen even as average per capita income growth increases, some people may be better off and others worse off than before: the variable used does not capture increases or decreases in well-being within countries. Moreover, income can increase in different ways whose effects must be considered for the sustainability of growth and development processes to be understood. For example, income growth that leads to greater consumption of fossil fuels may have negative effects on quality of life. If citizens are concerned about air quality and air pollution increases, statistical measures that ignore these variables will translate into misleading estimates of well-being. Also, the tendency to measure gradual changes may not reflect the risks of abrupt environmental deterioration, like that which is occurring with the environmental crisis.

Again, as per capita income rises, other variables begin to be more important for understanding well-being (OECD and others, 2019). The relationship between per capita income and a composite

⁵ In fact, the OECD Development Assistance Committee (DAC) classifies countries into two groups for the receipt of ODA on the basis of income rankings: "developed countries" and "developing countries", which are the potential ODA recipients. Under the DAC criteria, countries that exceed the average income threshold set by the World Bank for a consecutive three-year period "graduate" and are removed from the list of potential ODA recipients. For countries that have graduated, international cooperation flows are no longer counted as ODA or concessional funds.

measure of variables relevant to well-being weakens up the income scale (see figure I.2). In fact, the ratio between this composite measure and per capita income is twice as large for low-income countries as for upper-middle-income countries, and almost three times as large as for high-income economies.

Figure I.2
Ratio between per capita income and well-being, by income level, rolling panel regression coefficient with fixed effects of a composite measure of well-being and per capita income
(2011 purchasing power parity (PPP) dollars)



Source: Organization for Economic Cooperation and Development (OECD) and others, *Latin American Economic Outlook 2019: Development in Transition* (LC/PUB.2019/14), Paris, OECD Publishing, 2019.

Note: The composite measure of well-being developed by the Organization for Economic Cooperation and Development (OECD) includes the following variables relating to the dimensions of development: income, health, education, political institutions and stability, personal security and inequality.

Per capita GDP often does not reflect major gaps that need acting on, since there remain structural obstacles to development that are at least as important for well-being as raising average incomes or moving a country up the income ranking. To meet the need for new metrics to provide a better understanding of development processes, several international organizations and other institutions have been pursuing an agenda that involves systematically analysing a set of indicators of well-being. These include in particular the Human Development Index (HDI) produced by the United Nations Development Programme (UNDP), the well-being framework developed by OECD, the Caribbean Multidimensional Vulnerability Index presented in Ram and others (2019) and the structural gap approach developed by ECLAC, which will be discussed in more detail below.

Development processes are not marked out by a succession of stages characterized by linear increases in per capita GDP, homogeneous elements or similar policies. Development, as a process that expands people's choices by expanding their capabilities, is inherently more complex and encompasses many dimensions not captured by per capita income (OECD and others, 2019). There is a need to develop new metrics and to move from a model centred on graduation to one that focuses on gradation. While the graduation mechanism is based on countries moving from one income level to the next and ceasing to qualify for ODA, the gradation mechanism adopts a gradual, phased approach that flexibly combines public and private financing instruments for all countries on the basis of their ability to mobilize domestic and external resources, their willingness and capacity to contribute to regional and global public goods, and a common, prioritized diagnosis of the problems that need addressing.

In accordance with this multidimensional perspective, the governance and financing approach of cooperation must play a facilitating role and be multilevel in nature, encompassing South-South cooperation, triangular cooperation and horizontal cooperation, both between different levels of government and between these and private and civil society organizations. Along with new metrics, new tools are needed to implement development cooperation at the operational level so that it can be adapted to the new global and regional contexts, while building on the effectiveness of existing tools.

E. The structural gaps approach: a tool for measuring and finding better indicators than per capita GDP and ensuring that middle-income countries are included in all forms of cooperation

The structural gaps approach, as noted above, provides an alternative to per capita GDP as a way of measuring inequalities in development processes and reformulating international cooperation to ensure that countries in transition to development are included in all forms of cooperation. This approach is based on two premises. The first is that it is necessary to measure the different dimensions of development (economic, social, environmental, institutional, financial, etc.), and the second is that there is no single classification or criterion that fits all countries. This approach makes it possible to sort a heterogeneous sample of countries into a few groups for each dimension of development, with each group being homogeneous to a certain extent because of the similarities between the countries that make it up. In short, different gaps translate into different classifications, and grouping countries by per capita income is just one possible classification. The classification that uses the income gap to determine country groups has an implicit weighting that assigns a fundamental importance to this gap. Thus, a development strategy that treats the income gap as central assigns a secondary importance to all other gaps.

In general, each gap is measured against the value of the relevant variable in the country considered to be the best performer in each dimension of development at the global level. The great diversity of gaps implies the possibility of different rankings. The relevance of each gap varies from country to country; while some gaps may be highly relevant for one country, they may be less so for others. A development strategy that considers only the income gap subordinates all other gaps and places them on a secondary level or implicitly assumes that income differences explain differences in all other dimensions. Each country must therefore identify the areas in which it has the greatest needs and the main challenges in order to determine the priority areas for action, the corresponding public policies and the scope of international cooperation. Thus, the gaps approach is more than an analytical perspective; it is an instrument for directing and coordinating cooperation based on recognition of the sovereignty of the recipient country, the interests of donors and the multidimensional scope of development. It is an instrument for action.

Table I.2 illustrates an application of the gaps approach in the countries of the region based on five indicators: per capita GDP, personal income tax revenue as a share of GDP, seats held by women in national parliaments as a percentage of total seats, the percentage of fixed broadband subscriptions and the Gini index.

Table I.2
Latin America and the Caribbean: ranking of countries by different gaps relative to a reference country

Variable/ Group	Income gap Per capita gross domestic product (GDP)	Fiscal gap Personal income tax receipts as a percentage of GDP	Gender gap Percentage of women in parliament	Digital gap Percentage of fixed broadband subscribers	Social gap Gini index
Group I	Bahamas	Barbados	Cuba	Saint Kitts and Nevis	Cuba
	Saint Kitts and Nevis	Trinidad and Tobago	Nicaragua	Barbados	Uruguay
	Barbados	Uruguay	Mexico	Uruguay	Argentina
	Trinidad and Tobago	Cuba	Grenada	Bahamas	El Salvador
	Chile	Mexico	Bolivia (Plurinational State of)	Trinidad and Tobago	Peru
	Uruguay	Guyana	Costa Rica	Grenada	Bolivia (Plurinational State of)
	Antigua and Barbuda	Jamaica	Argentina	Dominica	Dominican Republic
Group II	Brazil	El Salvador	Ecuador	Saint Vincent and the Grenadines	Chile
	Panama	Brazil	Guyana	Argentina	Ecuador
	Argentina	Belize	Honduras	Saint Lucia	Paraguay
	Mexico	Saint Lucia	Dominica	Chile	Mexico
	Costa Rica	Honduras	Suriname	Costa Rica	Honduras
	Saint Lucia	Peru	Jamaica	Brazil	Costa Rica
	Grenada			Mexico	Nicaragua
Group III	Suriname	Panama	Dominican Republic	Colombia	Panama
	Colombia	Nicaragua	Peru	Suriname	Colombia
	Dominican Republic	Chile	Trinidad and Tobago	Panama	Guatemala
	Dominica	Costa Rica	Uruguay	Antigua and Barbuda	Brazil
	Saint Vincent and the Grenadines	Dominican Republic	Chile	Ecuador	
	Cuba	Colombia	Panama	Venezuela	
	Peru	Guatemala	Venezuela (Bolivarian Republic of)	(Bolivarian Republic of)	
				Jamaica	
Group IV	Guyana	Paraguay	Barbados	Dominican Republic	
	Ecuador	Bolivia (Plurinational State of)	Guatemala	Guyana	
	Paraguay	Ecuador	Colombia	Peru	
	Jamaica		Saint Lucia	El Salvador	
	Belize		Brazil	Belize	
	El Salvador		Paraguay	Paraguay	
Group V	Guatemala		Saint Kitts and Nevis	Guatemala	
	Bolivia (Plurinational State of)		Saint Vincent and the Grenadines	Honduras	
	Honduras		Bahamas	Nicaragua	
	Nicaragua		Belize	Cuba	
	Haiti		Antigua and Barbuda	Haiti	

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Note: The countries in group I are those with the smallest gaps, while those in group V are furthest behind the reference country in the area considered. With the exception of the Gini coefficient, gaps were calculated as the difference between the average value of each indicator in the period 2014–2019 for each country in Latin America and the Caribbean with information available and the average value in the same period for the country with the best performance on each indicator. In the case of the Gini index, the data for 2018 or the latest year with information available were analysed.

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II. Development in transition in times of pandemic

A. A world in crisis

1. Societies dissatisfied with their development models

The problems affecting countries at all levels of income in recent years have highlighted the need for a multidimensional approach to development that is able to evolve with changing needs. The uneven growth, stagnating wages, geopolitical tensions and increasing uncertainty of recent years have called into question the development models followed by both developed and developing countries for decades.

The economic recovery in developed countries following the global financial crisis was the weakest since the Second World War. Feeble fiscal policy responses and premature austerity measures in the developed economies that were hit hardest by the 2007-2008 financial crisis contributed to the slow economic recovery. A decade of near-zero interest rates with expansionary monetary policies failed to spur a substantial increase in productive investment. During the decade from 2010 to 2019, gross domestic product (GDP) growth in advanced economies averaged just 2.0% (IMF, 2021a). By 2019, before the impact of COVID-19, widespread stagnation had taken hold and global GDP growth was at its lowest since 2009.

Along with low growth, wages have stagnated in much of the developed world for decades, even as the income and wealth shares of the richest percentiles have increased. The total wage bill in 35 advanced economies fell from 54% of GDP in 1980 to 50.5% in 2014, with significant variations between countries (IMF, 2017). Between 1980 and 2019, the share of pre-tax national income received by the bottom 50% of the distribution fell from 18.7% to 13.3% in North America and from 22.6% to 20.1% in the European Union, while the share of the richest percentile grew, respectively, from 10.3% to 18.8% and from 7.5% to 11.2% in the two regions (World Inequality Database, 2021).

The structural repercussions of globalization, the technological revolution and the erosion of trade union power contributed to increasingly fragile labour market conditions. The growing international integration of labour markets with the incorporation of China, India and the countries of the former Soviet Union greatly expanded the global labour supply, putting downward pressure on wages in developed countries

and at the same time reducing inequalities between countries. The internationalization of production through outsourcing and offshoring, facilitated by the deployment of information and communications technologies, together with the easing of restrictions on trade and capital flows, profoundly altered the structural composition of economies worldwide.

In parallel, process automation and digitalization changed the nature of production, with all the attendant effects on labour markets. The increasing weight of winner-takes-all industries in the economy, and the overall effect of concentration in such industries, also contributed to a reduction in the wage share of output.

The confluence of factors that led to stagnating growth and wages, rising inequality within countries and declining social cohesion manifested itself in the economic, social and political spheres. In both developed and developing countries, an increasingly vulnerable middle class suffered the negative effects of ongoing trends and contributed to public discontent and growing distrust of elites (OECD, 2019; ECLAC, 2021d). Populist movements of different stripes challenged the political world in the years before the pandemic. Some advocate a greater role for the State in the economy, while others support a more market-oriented development strategy.

Partly in reaction to these trends, the integration of the world economy went into reverse after years of rapid globalization. Exports of goods and services as a proportion of world GDP peaked at 31% in 2008 and have held steady at 28% since 2015 (ECLAC, 2021b). This change reflects a collapse of the pro-globalization consensus in developed countries. Also important is an economic and technological rivalry between the United States and China that has manifested itself in major trade tensions since 2018, China's reduced reliance on imports and exports, and technological changes, including automation of industrial processes and digitalization, which have contributed to increased flows of digital products and services in an ever-increasing number of sectors. Multilateral trade institutions have been progressively eroded, and a nadir was reached when the World Trade Organization (WTO) appellate body ceased to function in December 2019.

This reduced appetite for multilateral cooperation has prevailed just when greater international cooperation is needed to address and reverse the environmental consequences of the current development path. In 2020, atmospheric CO₂ reached the unprecedented level of 415 parts per million. Carbon emissions are increasing at a rate that is expected to contribute to an average global temperature increase of more than 3 °C this century. This is in breach of the target set in the Paris Agreement of limiting global warming to well below 2 °C and of the more ambitious goal of holding the increase to below 1.5 °C. In addition, the planet's ecosystems and biodiversity are declining at an alarming rate, with more than a million species already threatened with extinction (IPBES, 2019).

2. Crises and the pandemic prompted new approaches to development

The COVID-19 pandemic caused the biggest crisis in the world for decades. High-, middle- and low-income countries alike were devastated by the systemic effects of the virus and the economic impacts resulting from efforts to contain it. The non-linear nature of development was demonstrated by the disparate health impact of the pandemic in different countries of all income levels. The lack of a clear relationship between per capita GDP and the impacts of COVID-19 highlighted the importance of a broader range of factors requiring consideration when gauging countries' capacity to combat the pandemic. The uneven impact on countries' vulnerable communities revealed more clearly that structural gaps persist in rich countries as well as poor ones, in the region and beyond.

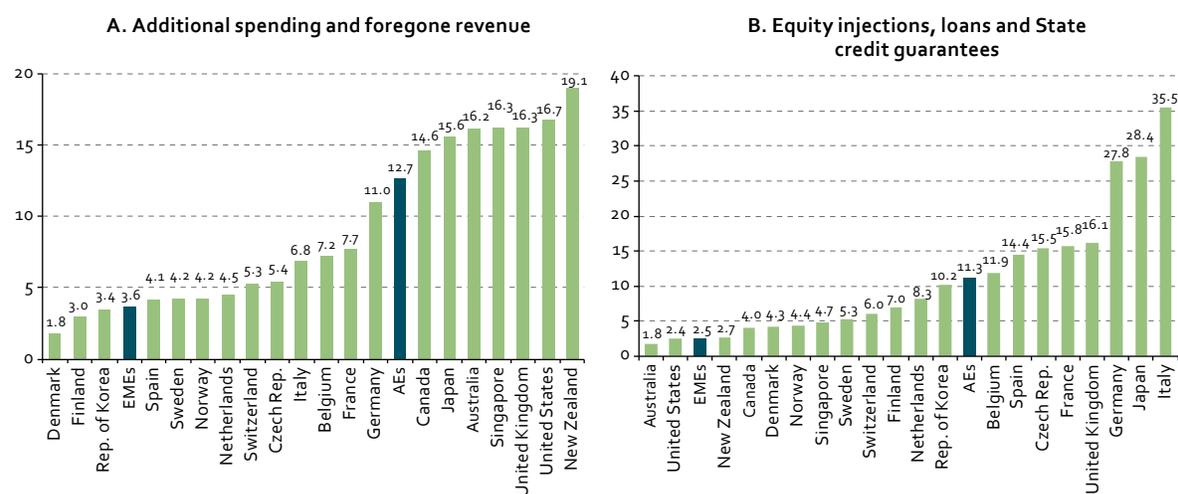
The global economy contracted by 3.3% in 2020, with the loss of the equivalent of 114 million full-time jobs relative to 2019, which also entailed the first increase in extreme poverty since 1998 (IMF, 2021a; ILO, 2021). The pandemic accelerated existing economic and social trends and strengthened stances opposed to the prevailing policymaking orthodoxy of recent decades. The crisis has forced countries at all income levels to rethink their economic and social policy priorities and approaches in order to seek

urgent responses to the effects of the pandemic and long-term development problems. COVID-19 has also shown the need for international cooperation.

In response to the pandemic, developed countries implemented massive fiscal stimulus packages in addition to increased liquidity and expansionary monetary measures. However, the contrast between the scale of the response in developed and developing countries is a demonstration of the asymmetries that characterize fiscal power. In 2020 advanced economies mobilized 12.7% of GDP in additional spending and foregone revenue and 11.3% of GDP in loans, equity and guarantees, compared with 3.6% and 2.5%, respectively, in emerging markets (see figure II.1). The scope for response in low-income developing countries was even smaller, with additional expenditures and foregone revenue equivalent to 1.6% of GDP and 0.2% of GDP in loans, equity and guarantees (IMF, 2021b).

In advanced economies, the resources mobilized consisted of support for the health sector and mechanisms to directly assist the households and firms most affected by the disruption of economic activity.

Figure II.1
Advanced economies (20 countries): fiscal responses designed to contain the impacts
of the COVID-19 pandemic
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *Fiscal Monitor Update, January 2021* [online] <https://www.imf.org/en/Publications/FM/Issues/2021/01/20/fiscal-monitor-update-january-2021>. Note: AEs are advanced economies and EMEs are emerging market economies.

Many measures were focused on supporting workers and their employers by means of employment subsidies, involving for example partial employment programmes and moratoriums on loan repayments conditional on jobs being preserved. Time limits for unemployment benefits were also extended and conditions for granting them eased, with a view to including temporary and self-employed workers in particular. With regard to income support for vulnerable households, measures included numerous unconditional transfer programmes targeted, for example, at chronically ill patients, people in need of childcare services and low-income families.

The massive direct intervention of governments in the economy and the rapid expansion of the welfare State during the emergency have given rise to a debate about the social contract and the future of social protection once the pandemic recedes. As countries implement policies to boost recovery, there is growing debate about the potential, priorities and unintended consequences of these decisions.

3. Investment in green economies to support a difficult recovery

With the development and distribution of multiple vaccines that have proven effective against COVID-19, developed countries have begun to progress from formulating current spending measures to deal with the emergency to redesigning the shape of post-COVID-19 societies. Political activism during the pandemic has given rise to an expansionary long-term fiscal and monetary policy perspective that supports new approaches to the labour market, welfare and production policies.

Common features of development strategies for recovery include specific sectoral orientations with an emphasis on greater sustainability, a prominent role for industrial policy and a drive towards greater national or regional self-reliance. These strategies, and the accompanying fiscal packages, allocate resources to sectors in order to address national development needs, take advantage of positive trends accelerated by the pandemic and adapt to the current geopolitical environment.

The multi-year financial framework of the European Union for 2021–2027 represents almost double the resources of the previous multi-year financial framework. It includes a new temporary facility, NextGenerationEU, designed to finance an economic recovery plan worth some 750 billion euros and focused on building societies that are more sustainable, more resilient and better prepared for the challenges and opportunities arising from the ecological and digital transitions.

China's fourteenth five-year plan for the period 2021–2025, ratified in March 2021, aims to increase self-sufficiency. This goal is part of China's gradual rebalancing towards a greater reliance on the domestic market. The decline in the ratio of foreign trade to GDP, from 64% in 2006 to less than 36% in 2019, is an indication of this structural change (World Bank, 2021). At the same time, the country's "dual circulation" strategy involves enhancing domestic production capacities through industrial policies, with a particular focus on the sectors prioritized by the Made in China 2025 policy that was launched in 2015 and the aim of maintaining access to international markets.

In the United States, in addition to US\$ 4.2 trillion in budgetary resources to support households, protect businesses and strengthen the health system since the outbreak of the pandemic, an initiative known as the American Jobs Plan has been proposed, involving an allocation of nearly US\$ 2 trillion for spending on transportation infrastructure, utilities and digital infrastructure. The plan would also favour manufacturing and innovation, with a clear focus on climate change mitigation. Another proposal is the American Families Plan, involving a similar amount to bolster childcare, education and health care. Final legislative approval and the corresponding final budget allocations are still pending.

A striking aspect of the development strategies of these global actors has been the use of approaches that differ markedly by sector, especially in the case of sectors deemed important for national security interests, with consequences for multilateralism and international cooperation. The recent G7 Summit Communiqué (G7, 2021) reflects this by calling for cooperation with China on climate change while challenging aspects of its economic model and human rights record and expressing concerns about security issues.

The drive towards greater self-sufficiency is likely to face obstacles, as supply chains involve significant planning, investment and the establishment of close relationships with suppliers (McKinsey Global Institute, 2020). So far, calls for greater self-sufficiency and fiscal incentives for reshoring have resulted in limited relocation. Despite the increasing regionalization of supply chains in recent years, the extent of these changes and the impact of the pandemic on them have yet to be determined. Rather than an incipient de-globalization, the stagnation of international trade that has been experienced since the 2008 global financial crisis may denote no more than a slowdown in a globalization that will not retreat but continue at a more measured pace (Antràs, 2020).

Also, notwithstanding changes in declarations about prioritizing more environmentally sustainable sectors, recovery policies have not entailed a one-way movement towards greater sustainability. From January 2020 to 28 July 2021, stimulus and recovery packages in the G20 countries included US\$ 296 billion

committed in support of the fossil fuel sector and fossil fuel-dependent industries. Most of these packages were unconditional. For their part, clean energy commitments increased to US\$ 227 billion, 76% of which was allocated as conditional support (Energy Policy Tracker, 2021).

Medium-term expectations regarding the implementation of expansionary fiscal and monetary policies have been challenged by those who argue that these interventions could stimulate long-dormant inflation. High commodity prices and shortages of critical production inputs in the early months of 2021 could portend a return of higher core inflation, if the stimulus-induced boost to global demand outpaces the supply of goods.

Despite the current low interest rate environment, rapidly rising debt levels would pose a risk from the point of view of intergenerational equity if interest rates were to rise in reaction to unanticipated price increases. Growing fiscal demands and debt-to-GDP ratios in developed and developing countries have led to debates about the need to raise taxes on corporations and individuals. If higher tax outlays become a permanent feature, it will be necessary to increase tax collection in a progressive and efficient manner.

Lastly, the massive liquidity injected into financial markets by developed countries' central banks has created distortions in those markets. While this has allowed developing countries to maintain access to international capital markets during the pandemic, it could have a negative impact on the real sector owing to effects related to the balance sheets of the private entities with the largest foreign-currency liabilities.

While the outcome of these policy debates depends on what happens in the period ahead, what is clear is that countries that have the capacity to do so are addressing long-term development challenges directly and with unprecedented resources. The sectoral approach that countries take to shaping their recovery policies, encompassing industries, labour markets, the social sector and regulatory frameworks, is an implicit recognition that per capita GDP is only one of the many dimensions that must be considered in the pursuit of sustainable long-term development.

B. Latin America and the Caribbean before the pandemic

Like many developed countries, Latin America and the Caribbean had multiple development problems before the pandemic. However, the structural characteristics of the region make these challenges more difficult to overcome. As described in chapter I, development traps related to low productivity, social fragility, institutional weaknesses and environmental vulnerability reinforce one another and limit the region's ability to move towards higher levels of development.

Stagnant growth with low productivity reversed progress on poverty, and inequality left a newly rising regional middle class at risk of falling back into poverty. Diminished trust in institutions and a high level of tax non-compliance contributed to a vicious circle of social discontent and institutional weakness. Moreover, a carbon-intensive growth model often based on extractive industries risked locking the region into a production structure that would further aggravate the consequences of climate change and natural resource depletion.

1. Stagnation and low productivity

(a) The lowest growth in seven decades

In the years prior to the outbreak of the COVID-19 pandemic, Latin America and the Caribbean faced a recessionary trend that exacerbated its development problems. Economic growth in the region was anaemic. The decade from 2010 to 2019 saw the lowest growth in seven decades, prolonging the trend decline in growth since the debt crisis. GDP growth averaged only 0.3% over the period 2014–2019 and reached a nadir of 0.1% in 2019. In this context, there was a sharp fall in per capita GDP.

As growth came to a halt in 2019, the pace of activity also slowed in a growing number of sectors that included manufacturing, construction and commerce, while mining had been in steady decline since the end of the commodity price boom in 2014. The slowdown was reflected by a rise in unemployment from 6.1% in 2014 to 8.1% in 2019 (ECLAC, 2020a).

This period was characterized by the persistence of the recessionary shocks experienced by the global economy as a result of the financial crisis of 2007 and 2008, the eurozone crisis of 2011 and the ending of the commodity boom cycle, which in turn had an unequal impact on commodity exporters and importers. The recent geopolitical landscape and its economic consequences, such as trade tensions between China and the United States, contributed to the recessionary trend. Towards the end of 2019, growth in the region for 2020 was forecast to be slightly better than the previous year. Even so, it was expected to be slower than in any other developing region.

Underlying the recent development problems of Latin America and the Caribbean is a technologically unsophisticated production structure that is mainly oriented towards the production of low-technology, natural resource-intensive goods and that requires low-cost, low-skilled labour. This production structure prevents the region from growing at a pace consistent with full absorption of the labour force owing to its inability to generate sufficient foreign exchange. The lack of dynamism and diversification of the economy owing to its reliance on less technology-intensive sectors limits formal employment and generates lower-quality jobs, often in the informal sector. This, in turn, has a negative effect on wages and aggregate demand, locking the region into a vicious circle of volatile growth and low productivity.

At the same time, the characteristics of the region's production structure limit opportunities and undermine incentives for technical change and diversification. Its participation in the international economy, dominated by a small number of large firms in natural resource-intensive sectors, offers few opportunities for broad involvement in higher value added activities. With little international competition and few incentives to invest in productive or technological capabilities, firms' productivity stagnates and the region remains in the low-productivity trap.

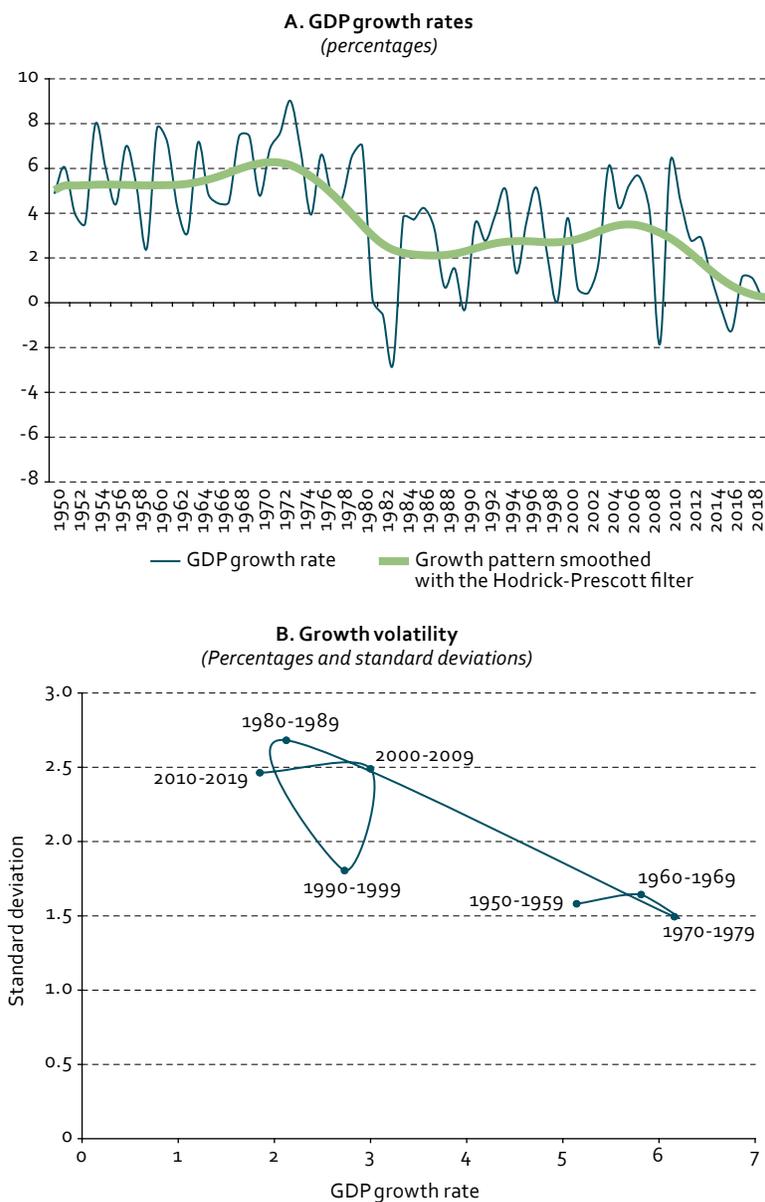
(b) Volatile long-term growth without productivity gains

Latin America has experienced considerable volatility in its average growth rate over the past seven decades (see figure II.2A). Boom periods have always been followed by periods of slower expansion, with low growth rates remaining quite sticky in periods of recession and recovery.

Between 1950 and 1980, the region grew at an average rate of 5.9%. In the late 1970s, the Organization for Economic Cooperation and Development (OECD) regarded Brazil and Mexico as part of the group of newly industrialized countries along with Greece, Hong Kong SAR of China, Portugal, the Republic of Korea, Singapore, Spain, Taiwan Province of China and Yugoslavia (OECD, 1981). After the debt crisis of the 1980s, however, the region never regained the same dynamism and its growth rates have since been lower than those of developed economies and other peripheral regions. Adjusting for this trend using the Hodrick- Prescott filter shows the persistent real variability of the region's economies and the fall in the trend growth rate since the 1980s. Comparing average GDP growth rates for the decade with their standard deviations, a measure of variability, reveals the greater volatility of the most recent period (see figure II.2B). Average growth was not only higher between 1950 and 1980, but also more stable than in the recent period.

The dependence of a number of Latin American and Caribbean countries on commodities and natural resource-based industries leaves them exposed to raw material price fluctuations and cycles of boom and bust. When external demand for the region's exports is weak, exports grow by less than the required imports, generating current account imbalances because of the difference between the income elasticities of the region's imports and exports.

Figure II.2
Latin America: GDP growth rates and growth volatility, 1950–2019

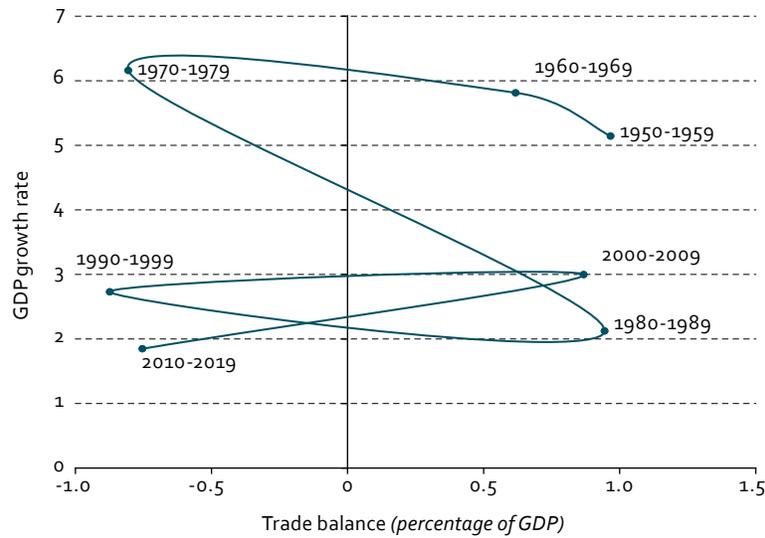


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Periods of high growth with trade deficits are followed by periods of low growth in which the region's economies must run surpluses and pay off accumulated debt. Only in the years of rapid industrialization prior to the 1970s was high growth with trade surpluses achieved. The years of the commodity boom were also characterized by growth with trade surpluses, although growth was lower in this latter case (see figure II.3).

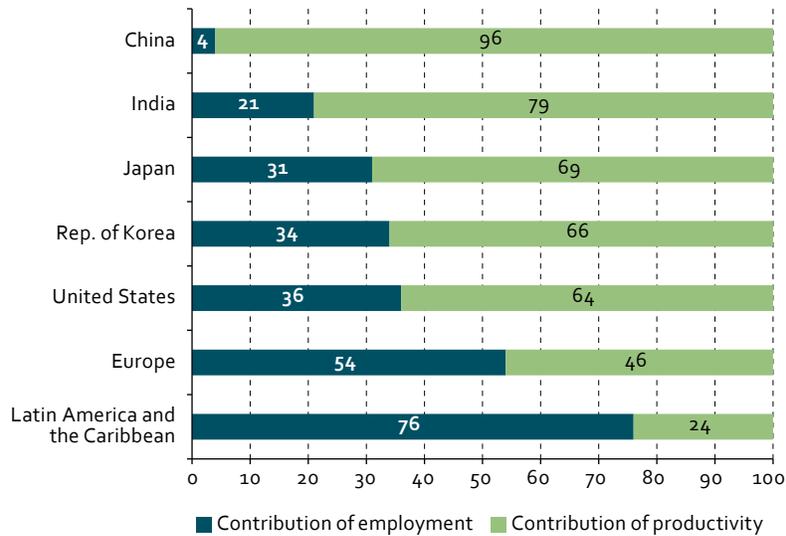
Being trapped in a process that tends to stagnation, Latin America and the Caribbean has not been able to achieve long-term productivity gains that would yield more sustained growth. Breaking down GDP growth into the contributions of employment and labour productivity in the set of countries making up the region and in other countries and regions over the period 2000–2019 shows that 76% of the average growth achieved by the region over the last two decades was generated by employment accumulation and 24% by increases in labour productivity. This pattern contrasts with the growth decomposition of economies such as China, India, Japan and the Republic of Korea. In the case of China, productivity contributed 96% and labour 4%. In India, the figures were almost 79% and 21%, respectively (see figure II.4).

Figure II.3
Latin America: trade balances as a proportion of GDP and GDP growth rates, 1950–2019
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

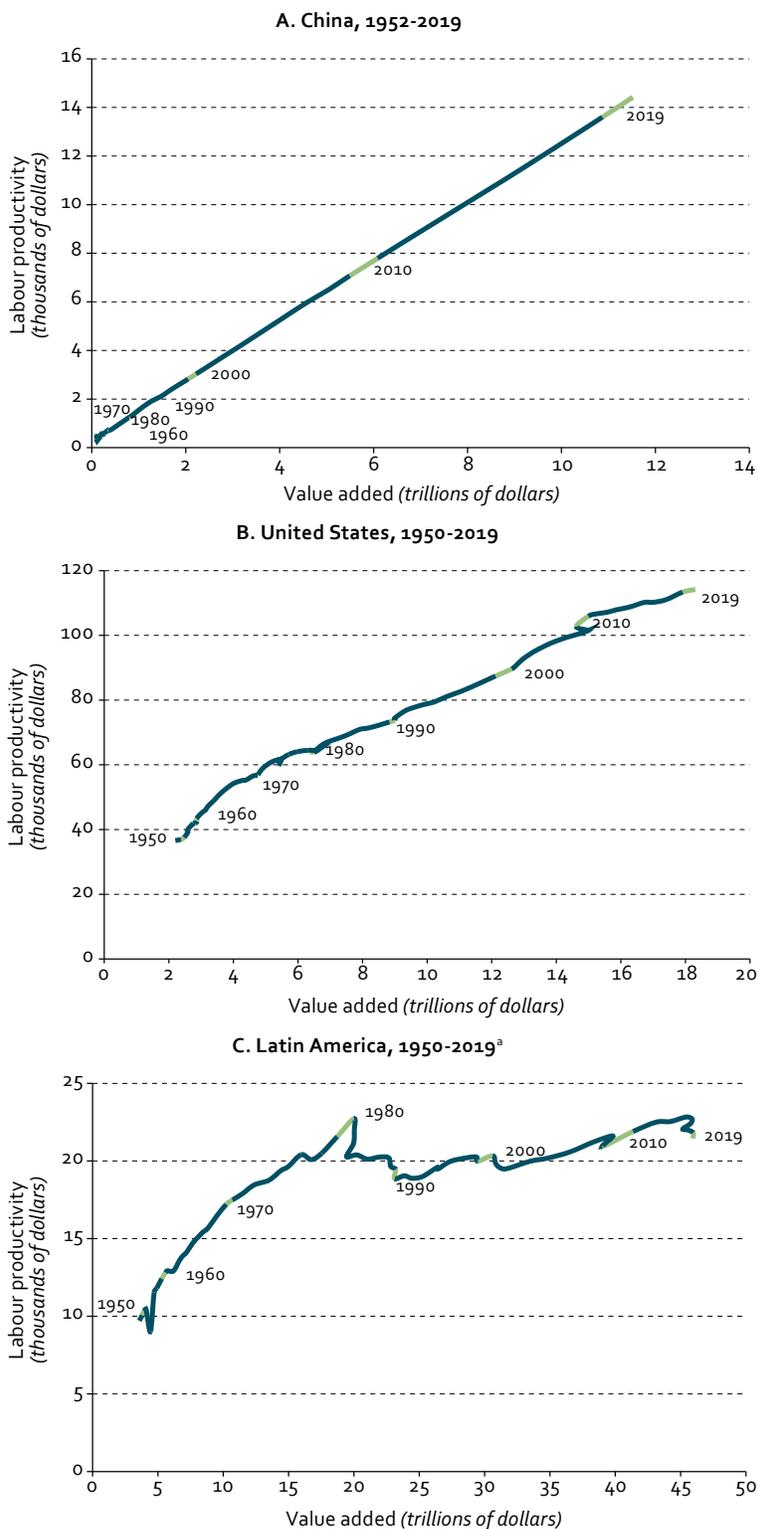
Figure II.4
Latin America and the Caribbean and other regions and countries: contributions of employment and labour productivity to GDP growth, 2000–2019 average
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Building a New Future: Transformative Recovery with Equality and Sustainability* (LC/SES.38/3-P), Santiago, 2020.

The relationship between value added and labour productivity in China, the United States and Latin America illustrates the different growth dynamics (see figure II.5). While China and the United States were able to achieve simultaneous employment and productivity gains, the relationship is much weaker in the Latin American case. The region achieved only fleeting productivity gains, which were often reversed during periods of low growth, particularly after 1980.

Figure II.5
China, the United States and Latin America: labour productivity and value added
(Constant 2010 dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; International Labour Organization (ILO) [online database] <https://ilostat.ilo.org/es/data/>; Groningen Growth and Development Centre, Penn World Table 10.0 [online database] <https://febpwt.webhosting.rug.nl/> and Penn World Table 10.0 [online database] <https://febpwt.webhosting.rug.nl/>.
^a Latin America includes nine selected countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru and the Plurinational State of Bolivia. Data for Peru prior to 1959 are not included.

The strong productivity growth experienced by countries such as China, India and the Republic of Korea, which enabled them to converge on the developed countries, has been the result of large investments in research and development and continuous upgrading of capabilities. In the absence of industrial and technology policies to drive convergence with the economies at the technological frontier, Latin America and the Caribbean has not seen any great construction of new capabilities or the consequent productivity gains. The renewed commodities specialization of the region's economy during the commodity boom cycle, coupled with weak industrial policies, has held back the kind of structural change that would increase labour productivity through investment in more complex industries with greater value added.

2. Fragile societies

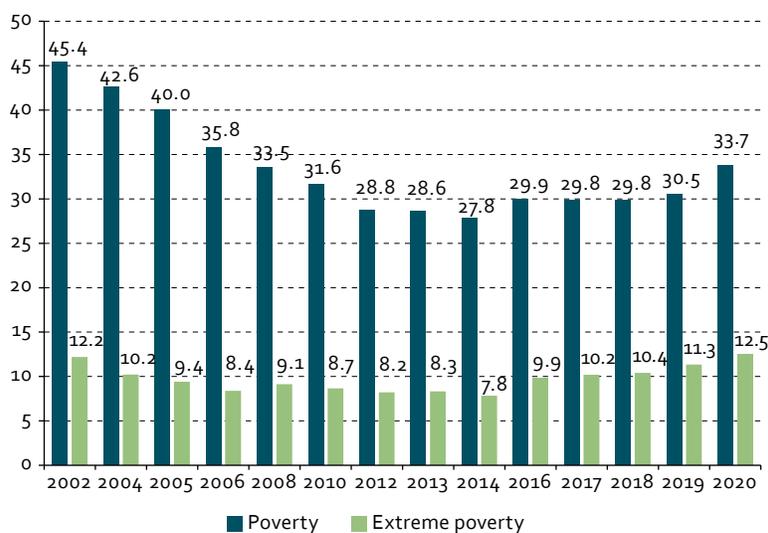
(a) A vulnerable new middle class

Latin America and the Caribbean also faces a social vulnerability trap that has prevented the consolidation of a new middle class. With the growth of investment and production during the commodity boom, functional income distribution in the region improved from the mid-2000s onward, reversing the decline since the 1970s. The wage share of total income rose in 8 of 15 countries in the region, mainly in South America, which benefited more than other subregions from the commodity boom.

Public policies also played a role. Countries where the total wage bill grew the most experienced solid economic growth and implemented a substantial set of policies in pursuit of job creation, the reduction of informal working, wage growth and the strengthening of labour institutions. The latter includes labour market oversight, collective bargaining and social dialogue mechanisms (ECLAC, 2019b).

In keeping with the significant improvement in functional income distribution and per capita household incomes from the early 2000s, a considerable reduction in poverty gave rise to a rapidly expanding middle class. The poverty rate in Latin America fell from 45.4% in 2002 to 27.8% in 2014, while the extreme poverty rate fell from 12.2% to 7.8% over the same period (see figure II.6).

Figure II.6
Latin America (18 countries)^a: poverty and extreme poverty, 2002–2020
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).
^a Weighted average of the following countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

Moreover, the middle-income segments grew continually, with their share of the population increasing from 27% in 2002 to 37% in 2008 and 41% in 2017. Despite this upward mobility, many middle-income households remained vulnerable to a return to poverty. Their level of well-being still depended on the wages of working-age members, and access to social protection systems remained limited. In 2017, 52.0% of the adult population belonging to the middle strata had not completed secondary education and only 55.3% of the economically active population was affiliated or contributing to a pension system (ECLAC, 2019a).

Many members of the growing middle-income sectors worked in informal jobs. Informal workers as a proportion of the labour force declined from 50.5% in 2000 to 47.9% in 2010. The wage gap narrowed. Over the same period, informal sector wages increased from 40.7% of formal sector wages to 44.9%. However, informal sector productivity declined in absolute and relative terms during this period. In 2010, informal sector productivity was only 10.4% of formal sector productivity, compared to 11.6% in 2000.

Acquiring more capabilities to secure better-quality formal employment with access to social security is difficult under insecure and informal conditions. First, given their low incomes and vulnerability, workers cannot afford long periods of unemployment or inactivity. Second, the businesses in which they work invest little in training. Lastly, workers in the informal sector are usually outside formal training channels and do not have access to the relevant programmes. These difficulties leave many members of the new middle class in a social vulnerability trap that renders them unable to invest in enhanced skills or new ventures.

As economic growth slowed, more than a decade of progress in reducing poverty and extreme poverty went into reverse in 2015. From 2014 onward, the increase in the region's average total wage bill slowed, with large differences from country to country. Upward mobility came to a halt: middle-income segments held steady at 41% of the total population between 2017 and 2019. In 2019, 30.5% of Latin America's population, or some 187 million people, were poor. Of that total, 70 million, representing 11.3% of the population, lived in extreme poverty.

The trend of declining inequality that characterized the region for several years also went into reverse. Despite structural factors that limit the scope for deep distributional changes in short periods of time, the recent rise in indicators in several countries is remarkable. At the regional level, the rate of decline in the Gini index slowed considerably between 2014 and 2019, to around 0.5% per year (ECLAC, 2021d).

The productivity gap between the formal and informal sectors grew dramatically in the last decade. In 2018, labour productivity in the informal sector was only 5.6% of that in the formal sector. After narrowing the gap with the formal sector in the previous decade, informal sector wages fell from 44.9% of formal sector wages in 2010 to 43.9% in 2018.

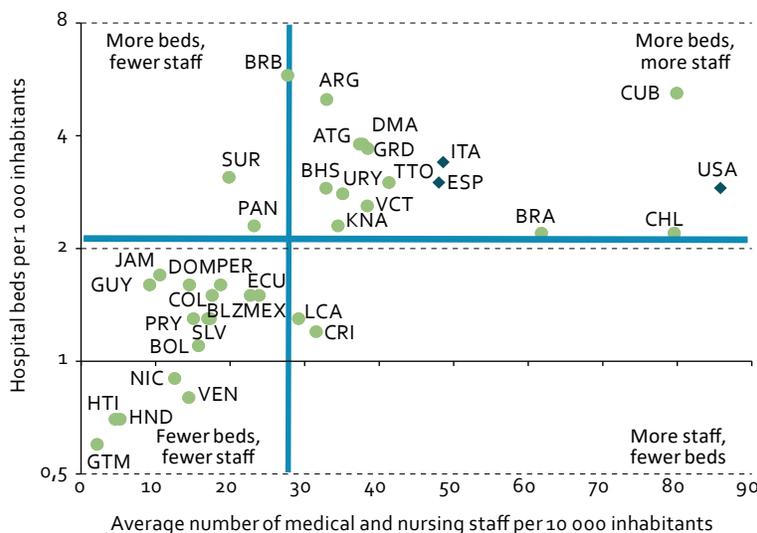
(b) Fragmented health-care systems

In addition to economic fragility, social vulnerability is compounded by Latin America's health systems, which are characterized by weakness, underfunding, fragmentation and substantial obstacles to coverage. Public spending on health in the region remains far from the target of 6% of GDP recommended by the Pan American Health Organization (PAHO), and there are problems with resource allocation. Financing for the first level of care falls short of the recommended benchmark of at least 30% of public spending on health, and in countries where it does reach this level, the absolute amounts are extremely low (Cid and others, 2020).

The challenges faced by health systems in the region range from access to safe drinking water and personal protective equipment to the availability of respirators or beds in intensive care units (ECLAC, 2020b). Health services still present major barriers to access, as well as limitations in the availability of human resources (PAHO, 2017) and health infrastructure. There are segmentation problems caused by the presence of several subsystems within the same country, with disparate results in terms of equity.

Countries with fewer beds and health personnel per capita have less capacity to cope with major disease outbreaks and little leeway for reorganizing their resources. While the region shows great heterogeneity in physical and human capacity, health system resources mostly lag behind those available in developed countries (see figure II.7).

Figure II.7
Latin America and the Caribbean (33 countries), Italy, Spain and the United States:
numbers of hospital beds and medical and nursing staff, latest year available



Source: S. Möller, "Intervenciones socio-sanitarias y uso de las tecnologías de la industria 4.0 para enfrentar la enfermedad por coronavirus (COVID-19) en América Latina y el Caribe", *Social Policy series*, No. 234 (LC/T/S.2020/87), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2020.

All this undermines efficiency and quality. In addition, there is a high level of financial insecurity that impoverishes households when they have to make large out-of-pocket payments to access the care system (ECLAC/PAHO, 2020). In 2019, 40% of employed persons in the labour markets of 13 of the subregion's countries were uninsured. Between 2010 and 2019, coverage expanded by 4 percentage points, with increases in all income deciles. However, the gap between the lowest and highest income deciles remained unchanged over the period at 47 percentage points. Only from the fourth income decile upward does coverage exceed 50% of employed persons (ECLAC, 2021d).

Latin America's dependence on imports of medical equipment and critical drugs adds to the fragility of health systems. It is true that the region has pockets of high-value production, such as medical devices in Mexico, large-scale production of generics in Brazil and a recent strengthening of Argentina's pharmaceutical biotechnology industry, which has begun to move into the production of copies of complex drugs (biosimilars). However, current strategies are heavily dependent on imports of pharmaceuticals and medical devices. For that reason, even producers in the large local generics manufacturing industries depend on imports of the bulk organic chemical inputs of which these drugs are composed.

In the pharmaceutical industry, production activities on Latin American territory tend to concentrate on the final links in the value chain. They focus on formulation and mixing, filling and finishing, logistics and distribution of products, using imported active ingredients. The value added of the pharmaceutical industry in the region in 2017 was 0.37% of GDP, while in OECD member countries the equivalent figure was 0.83% of GDP.

3. Institutional weakness

The expansion of middle-income sectors, made up of people who have higher expectations and social aspirations, are less tolerant of inequalities and corruption and are determined to participate in decision-making, has led to frustrations with institutions that have not been able to meet these demands. Dissatisfaction with persistent inequality in the distribution of income and resources and the perception of defencelessness in the face of economic and employment risks have led to social mobilizations in different countries of the region. Discontent with the functioning of political systems and a growing distrust of institutions and, in some cases, of democracy have translated into demands for substantive transformations to build fairer and more inclusive societies.

Indicators reflecting dissatisfaction with political and institutional factors have increased in recent years. The proportion of those who say that government is run by a few powerful groups increased from 60.9% in 2009 to 78.8% in 2018, indicating an increase in the perception that citizens' interests are unrepresented and unprotected. While the majority of the region's population still considers democracy to be the best form of government, this preference declined in all countries between 2013 and 2018, with the regional average falling from 79% to 64%. During the same period, trust in the armed forces, the police, the church, legislatures, the government, the judiciary and political parties declined (ECLAC, 2021d).

Growing distrust of institutions may also erode people's willingness to pay the taxes that finance them. Indeed, after a period between 2008 and 2011 during which people's willingness to pay taxes increased, 53.4% of the population stated in 2016 that not paying taxes was justified, up from 46% in 2011 (OECD and others, 2019). Unwillingness to pay for public institutions leaves them underfunded and less able to fulfil their mandates, creating a vicious circle that constitutes an institutional trap.

As will be discussed in detail in chapter III, losses from tax evasion in Latin America and the Caribbean are substantial. Non-payment of income tax is particularly serious, with many countries collecting less than half the revenue that their systems should theoretically generate (ECLAC, 2020c). International cooperation has been insufficient to offset much of these losses.

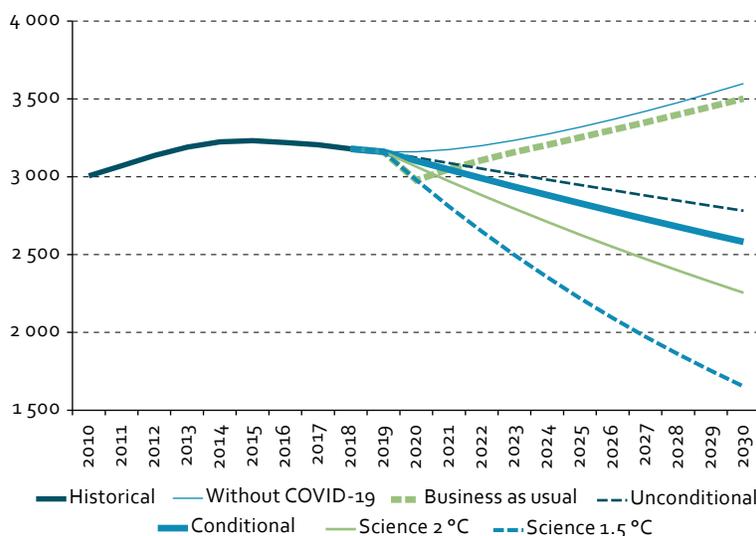
4. Environmental asymmetries

The countries of Latin America and the Caribbean in general, and Central America and the Caribbean in particular, suffer from a twofold environmental asymmetry. First, the share of global greenhouse gas emissions they generate is much smaller than the share of the negative effects of climate change they experience. This is particularly evident in the increasing frequency and intensity of weather events, such as the major hurricanes that strike the small island developing states of the Caribbean and a number of Central American nations. Second, the poorest sectors in each country, which produce the least emissions, are the most vulnerable to the impact of droughts, hurricanes and the loss of forests and biodiversity (Bárcena and others, 2020).

The region thus faces the challenge of decoupling from a carbon-intensive growth path and a natural resource-based economic model to reduce its environmental vulnerability. While the carbon intensity of Latin America and the Caribbean (around 0.7 kg of emissions per dollar of GDP) is similar to that of the rest of the world, it seems important for the region to move towards greater decoupling of production processes (ECLAC, 2020d).

Global greenhouse gas emissions have continued on an upward trend, reaching 51 gigatons of carbon dioxide equivalent (Gt CO₂ equivalent) globally in 2019. These emissions have also been on an upward trend in Latin America and the Caribbean, reaching 4.3 Gt CO₂ equivalent in 2019. The region has shown a strong declarative commitment to emission reductions (Samaniego and others, 2019), with the new unconditional contributions targeting a reduction in emissions of 21% (and the conditional ones a reduction of 26%) relative to the baseline scenario, as compared to the respective 13% and 23% reductions in the original Nationally Determined Contributions (NDCs). Without structural change, however, the economic growth being stimulated will push the emissions trajectory above that required by the commitments declared in 2023 (see figure II.8).

Figure II.8
Latin America and the Caribbean: emissions under different scenarios, 2010–2030
(MtCO₂ eq)



Source: World Resources Institute (WRI), Climate Analysis Indicators Tool (CAIT), emissions information by country for the period 1990–2018 [online] www.climatewatch.org.

Note: These data are based on information from various sources and may not tally with official inventories submitted by the countries. Emissions related to land-use change are excluded. An average GDP growth rate of 1.4% between 2019 and 2030 is assumed.

As the global average temperature has already risen by 1.1 °C, disasters such as forest fires and extreme hydrometeorological events have become more frequent. Between 1990 and 2020, 1,412 extreme events were recorded in Latin America and the Caribbean, 87% of them climate-related, e.g., storms, floods, wet mass movements, extreme temperatures, droughts and fires (ECLAC, 2021c). Climate change is expected to increase the frequency and magnitude of these events.

In the region, ecosystems are deteriorating and biodiversity is declining at an alarming rate. According to the Living Planet Index (LPI) 2020, which tracks some 21,000 populations of mammals, birds, fish, reptiles and amphibians worldwide, the decline in the American tropics between 1970 and 2016 was equivalent to 94% of the populations surveyed. This is the largest decline recorded in any biogeographic area in the world (WWF, 2020). Between 1990 and 2020, forest cover declined by 7% in the region. The loss of tropical and subtropical forests has a major impact on the biodiversity and hydrology on which economic systems depend.

C. The pandemic is aggravating development problems

1. The worst crisis in a century

The pandemic has had catastrophic effects on Latin American and Caribbean societies. By 28 June 2021, coronavirus had claimed more than 1.26 million lives in the region, in a context of incipient progress with vaccination in many of its countries, although so-called “herd immunity” is unlikely to be achieved this year. The impact of the health crisis has amplified structural problems on a massive scale and threatens to further entrench the economic, social and environmental traps that are holding back the region’s development.

Mutually reinforcing supply and demand shocks have had negative effects on the production structure, employment and the reduction of poverty and inequality. Except in some of the region’s smaller economies, the economic effects were largely attributable to elements of domestic demand. ECLAC

estimates that the region's GDP declined by 6.8% in 2020, its worst economic contraction in more than a century and the deepest of any region in the developing world. Latin America and the Caribbean was already projected to be the slowest-growing developing region in 2020. Even so, it was subject to the largest downward revision in the latest IMF estimates (see table II.1). This indicates that the region was particularly prone to negative shocks owing to the structural features discussed in this chapter.

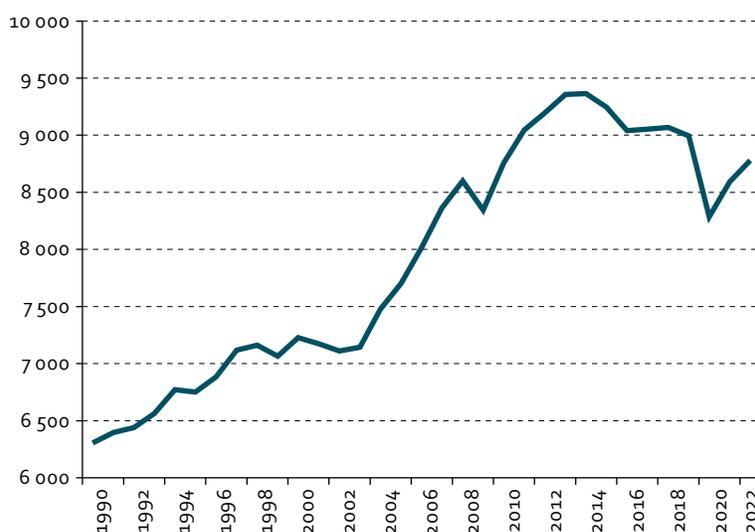
Table II.1
Gross domestic product growth rates projected and estimated for 2020 by IMF,
constant prices, October 2019 and July 2021

	Projection in October 2019	Value estimated in July 2021	Difference
Emerging and developing Asia	6.0	-0.9	-6.9
Emerging and developing Europe	2.5	-2.0	-4.5
Latin America and the Caribbean	1.8	-7.0	-8.8
Middle East and Central Asia	2.9	-2.6	-5.5
Sub-Saharan Africa	3.6	-1.8	-5.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) data.

In per capita terms, the region is on a trajectory that points to a lost decade. Although per capita GDP is expected to start recovering, by 2022 it is forecast to be only slightly above 2010 levels (see figure II.9). In 2021, Latin America's GDP is projected to grow by 5.2%. If the region grew at the average rate recorded in the period 2014–2019, namely 0.3% per year, it would take many years to regain the GDP level of 2019.

Figure II.9
Latin America and the Caribbean: per capita GDP
(Constant 2010 dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

The crisis led to a sharp rise in unemployment, which is estimated to have climbed from 8.1% in 2019 to 10.5% in 2020. The sudden increase in the unemployment rate was accompanied by a sharp drop of 4.5 percentage points in the labour market participation rate.

The impact of the crisis was greatest for female employment and the most vulnerable groups. Between 2019 and 2020, the number of people in employment fell by 24,827,000, of whom some 13 million

were women. This resulted in a female unemployment rate of 11.9%, up from 9.3% in 2019. Meanwhile, the unemployment rate for men was 9.3% in 2020 and 6.9% in 2019. The female participation rate fell from 51% in 2019 to 46.9% in 2020, while the male participation rate fell from 74.7% to 69.6%. This drop in the female participation rate brought it back to a level similar to that of 2002.

As of the first quarter of 2021, the region had only managed to recover 58% of the total number of jobs lost during the crisis. In some countries, however, economic recovery has led to a better outcome. In Mexico, for example, 93 out of every 100 people who lost their jobs at the beginning of the health crisis have regained them, although most of these are low-paying jobs (INEGI, 2021).

The severe impact of the crisis on the production structure and employment threatens to worsen the productivity trap. The large contraction in investment (-20% in real terms) will limit future capital accumulation, as well as the ability of the region's economies to generate growth and employment. The immediate impact of the crisis on employment in the informal sector was negative, as the sectors in which these workers are concentrated were among those most affected by the containment measures. The proportion of informal jobs is likely to increase as economies gradually reopen, however, since a weakened formal sector cannot absorb all those seeking work. Informality indicators rose again after the third quarter of 2020, and informal jobs were largely responsible for the slight rebound in employment and labour market participation observed in the region in that period.

In the first nine months of 2020, the change in cumulative output was markedly negative compared with the same period the previous year, with technology-intensive sectors being hit hard. According to preliminary information, the relative weight of technology-intensive activities declined and they have recovered more slowly than the industry average. Moreover, the fall in production activity has been accompanied by the closure of companies and plants, jeopardizing the capabilities with the greatest potential to diversify production and generate much-needed productivity gains.

On the other hand, the changes brought about by the pandemic could boost new sectors, as has already happened with e-commerce, tele-education and teleworking. This was reflected in a substantial increase in the number of commercial websites in Brazil, Chile, Colombia and Mexico between March and August 2020 compared to the previous year. In April, the number of active business websites was up by 800% in Colombia and Mexico and by around 360% in Brazil and Chile compared to the same month in 2019 (ECLAC, 2021c).

2. Increased social vulnerability

Job losses and declining household incomes resulted in rising poverty levels. The number of people living in poverty rose from 185.5 million to 209 million between 2019 and 2020 (the regional poverty rate increased from 30.5% to 33.7%). At the same time, the number of people living in extreme poverty reached 78 million in 2020, a rise of 8 million, and the extreme poverty rate increased from 11.3% to 12.5%.

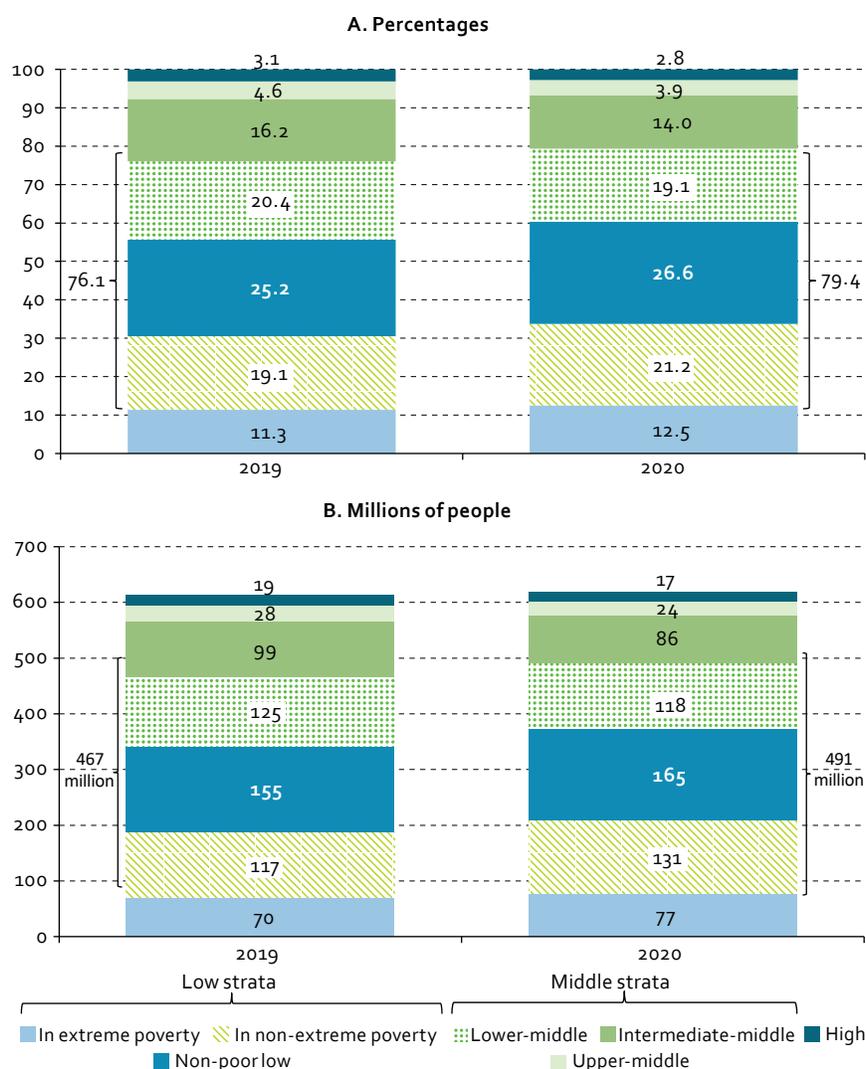
The repercussions of the labour market crisis are also being felt in the coverage of social security benefits, with administrative data indicating a 5.3% drop in contributors to pension systems in 11 Latin American countries if the fourth quarters of 2019 and 2020 are compared. Given the impact of the crisis on labour market participation and employment, it is relevant to analyse contributor coverage in relation to the working-age population (ECLAC, 2021d). The aggregate decline for the region is estimated at 2 percentage points between the fourth quarters of 2019 and 2020 (or the latest figure available in both years) in the 11 countries for which information is available. In the countries where it is possible to analyse the change in the number of contributors by sex between the fourth quarters of 2019 and 2020 (or using the latest figures available), the fall was larger among female contributors than among male contributors.

Between 2019 and 2020, the low-income strata are estimated to have increased by 4.7 percentage points (about 31 million extra people) and the middle-income strata to have contracted by a similar proportion (-4.1 percentage points or 25 million fewer people). Out of a total of around 59 million people

who belonged to the middle strata in 2019 and appear to have experienced downward economic mobility in 2020, just over 25 million seem to have done so while remaining in the middle strata. Meanwhile, just over 3 million are estimated to have fallen straight into poverty or extreme poverty and the remainder to have moved into the low-income stratum above the poverty line.

Although in general emergency social protection measures mainly targeted people who were poor or very likely to become poor, they were only partly successful in curbing the contraction of the middle-income strata. Ultimately, between 2019 and 2020, the vulnerable population living on incomes up to three times the poverty line increased by 3.3 percentage points, or 20 million people (see figure II.10) (ECLAC, 2021d). The vulnerable proportion of the population rose in all countries of the region.

Figure II.10
Latin America (18 countries)^a: population by per capita income stratum, 2019 and 2020
(Percentages and millions of people)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG), figures adjusted for population projections in United Nations, World Population Prospects 2019 [online] <https://population.un.org/wpp/> and poverty estimates for countries whose measurements are not available for the years shown.

^a The countries included are: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

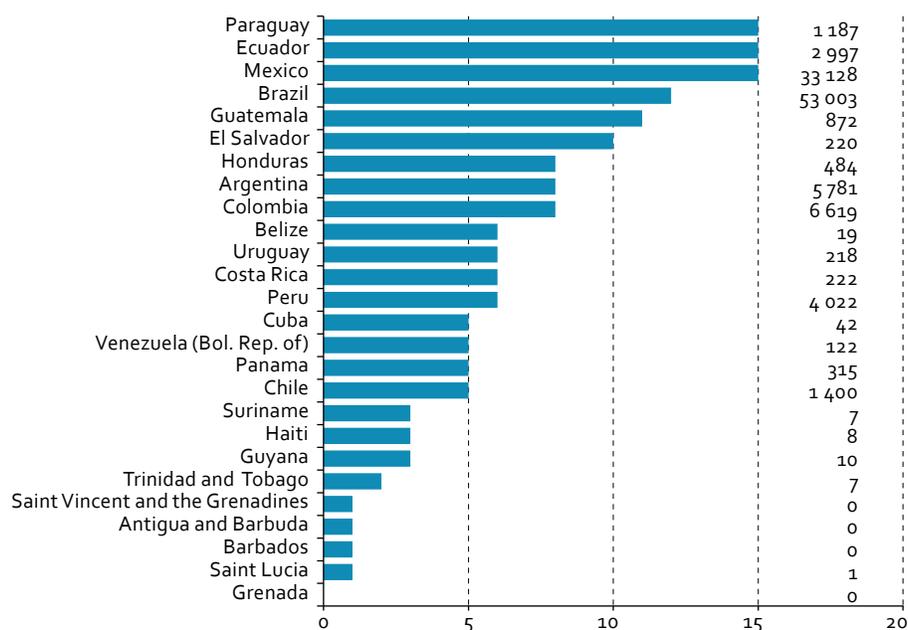
Downward mobility has been accompanied by an increase in food insecurity. The latest FAO data indicate that undernourishment increased in all subregions of Latin America and the Caribbean during 2020 compared to 2019. In the region as a whole, food insecurity, defined as severe or moderate, increased by 7 percentage points to 40.4% of the population (Torero, 2021).

The closure of educational institutions to contain the spread of the COVID-19 virus threatens to hamper the attainment of skills that would enable the next generation to escape from the social vulnerability trap. As of late May 2021, education facilities remained fully or partially closed in most countries of the region. On average, the countries of the region have gone for more than an academic year without face-to-face classes or with extended interruptions. Although efforts have been made to keep up education remotely using digital media or traditional ones such as television or radio, the digital divide has become evident for rural and lower-income populations that have less access to the connectivity and skills needed to take advantage of this type of technology. Learning losses due to lack of school attendance are estimated at up to one year of schooling (García Jaramillo, 2020).

3. The environmental crisis continues

The region's unsustainable development path has left it more vulnerable to the impact of the pandemic. Air pollution is also intensifying the spread of COVID-19 and exacerbating its effects on morbidity and mortality (see, for example, Bolaño-Ortiz and others, 2020; Fattorini and Regoli, 2020; Zhou and others, 2021), to the extent that it could be responsible for approximately 110,000 of the nearly 1 million deaths from the COVID-19 pandemic reported in 26 countries of the region. In some countries, air pollution could account for up to 15% on average of COVID-19 deaths (see figure II.11).

Figure II.11
Latin America and the Caribbean (26 countries): COVID-19 mortality attributable to long-term exposure to air pollution from human emissions
(Percentages of COVID-19 deaths reported)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the number of deaths reported by E. Dong, H. Du and L. Gardner, "An interactive web-based dashboard to track COVID-19 in real time", *The Lancet*, vol. 20, No. 5, May 2020, and in accordance with the coefficients estimated by A. Pozzer and others, "Regional and global contributions of air pollution to risk of death from COVID-19", *Cardiovascular Research*, vol. 116, No. 14, December 2020.

Note: In the case of Saint Vincent and the Grenadines, the figure for Saint Vincent is used.

The economic slowdown caused by the pandemic resulted in a significant reduction in CO₂ emissions in the region, even more so than elsewhere, owing to the sharp drop in output. Although the pandemic has given Latin America and the Caribbean another three to four years to meet its nationally determined conditional commitments, however, the region's underlying carbon-intensive model has remained unchanged.

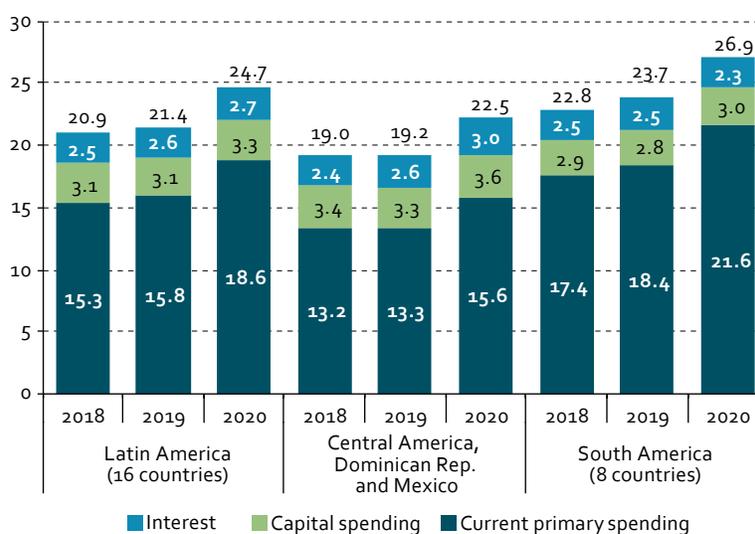
In Latin America, announced stimulus packages total US\$ 318 billion, with US\$ 51 billion earmarked for long-term recovery. Of this, only US\$ 1.47 billion is for what are deemed to be green initiatives, i.e., apparently less than 0.5% is compatible with the region's environmental and climate goals. The recovery packages are thus set to keep the region on an unsustainable path and do not promote structural change, so that there is still an inconsistency between the goals of the 2030 Agenda for Sustainable Development and the Paris Agreement, with their supporting declarations, and the actual targets of spending and investment programmes. Moreover, the budget for safeguarding nature and the environment plummeted during the pandemic, falling by 35% on average over the period 2019–2020 in 11 countries analysed.

The rise in commodity prices after their decline at the beginning of the pandemic has provided a lifeline to governments that have had liquidity problems. However, having a greater share of production geared towards natural resource-intensive industries risks locking the region's countries into the existing commodity-oriented production structure.

4. Unprecedented government responses

The fiscal packages announced in response to the pandemic, which averaged 4.6% of the region's GDP in addition to 2.5% of GDP in State credit guarantees, were largely implemented. In Latin America, public spending reached record levels in 2020 and total central government spending reached 24.7% of GDP (see figure II.12). The increase in primary current spending was driven by growth in cash transfers and subsidies, which were widely used to channel resources directly to households, businesses and subnational governments as part of fiscal packages to cope with the crisis. Between January and June 2021, as the pandemic persisted, most Latin American countries announced new emergency fiscal plans equivalent to 2.2% of GDP.

Figure II.12
Latin America (16 countries)^a: composition of total central government spending,
by component, 2018–2020^b
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: Because of rounding, the sum of the figures may not match the total.

^a The countries included are: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

^b Simple averages. In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

During 2020, 263 non-contributory social protection measures were adopted in 32 countries, including cash transfers, the provision of food and medicine and measures to ensure the provision of basic services. It is estimated that cash and in-kind transfers reached an average of 49.4% of the population in the region's countries (ECLAC, 2021d). These programmes, whose coverage and effectiveness varies, were aimed at maintaining consumption and guaranteeing basic living conditions through the adaptation and extension of existing cash and in-kind transfers and the creation of new instruments. Had emergency cash transfers not been implemented, the poverty rate would have been 3.5 percentage points higher and the extreme poverty rate 2.3 percentage points higher.

According to a preliminary estimate, emergency transfer measures equivalent to about US\$ 10 billion were announced (or extended) in 20 Latin American countries during the first four months of 2021. These measures benefit around 60 million households comprising some 231 million people (29% of the population of the region's countries).

Despite the unprecedented current spending responses implemented by the region's governments to address the health crisis in the short term, the implementation of transformative recovery policies for the countries of Latin America and the Caribbean will require the existing fiscal space to be expanded. A strategic look at public spending shows how essential it is to boost investment, which is at its lowest rate since the mid-1980s compared to other regions and in 2020 fell to its lowest level in three decades.

In contrast to recent policies that reflect the new development strategies of the world's largest economies, the countries of Latin America and the Caribbean do not possess the same degree of monetary and fiscal flexibility, and thus cannot implement ambitious plans on the same scale. In a context where the destruction of capital and skills due to business closures and unemployment could affect the region's supply-side prospects, expansionary policies that stimulate demand will not be enough. For the region to break out of its development traps, new forms of development finance and cooperation will be needed to break the vicious circles that have beset Latin America and the Caribbean for years, so that sustainable long-term development can be achieved.

5. Institutions at risk

Given that the pandemic is ongoing, only partial data are available on perceptions of government responses to the crisis, and existing evidence for perceptions of performance varies widely. However, between April and August 2020, there was a downward trend in reported approval levels in all countries for which data are available, with the exception of Mexico, although some countries were notable for their initially high approval levels (ECLAC, 2021d). It remains to be seen how this affects the decline in trust in institutions that had been observed prior to the pandemic.

Public perceptions aside, higher fiscal deficits in the region could pose a risk to institutional capacity, in a context of higher debt levels and limited sources of concessional financing. In Latin America, the overall deficit averaged 6.9% of GDP in 2020, largely owing to higher public spending (3.3 percentage points of GDP), although lower revenues (down 0.5 percentage points of GDP) also contributed (ECLAC, 2021a). While the low interest rate environment has allowed many of the region's governments to access international capital markets, concerns about long-term debt could affect governments' budgetary outlook.

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III. Mobilizing resources for development

A country's income level does not reflect its capacity to mobilize domestic and external resources. One of the greatest challenges facing countries that cross the middle-income threshold as they seek to implement the 2030 Agenda for Sustainable Development and achieve the Sustainable Development Goals (SDGs) is to access development finance and mobilize domestic resources, particularly when concessional flows cease after graduation. Moreover, the emergency measures that it has been necessary to take in response to the pandemic have heightened the need to mobilize additional resources. In this situation, high priority must be given to developing cooperation and financing methods that allow development resources to be aligned with national needs. International cooperation plays a key role in supporting the development of domestic resource mobilization capacities, designing new mechanisms that combine traditional development assistance with other sources of development financing, and consolidating international instruments that serve to facilitate the mobilization of private resources for development. This chapter analyses three dimensions of financing for development: domestic resource mobilization, financing from external resources and the important role of cooperation flows for vulnerable countries.

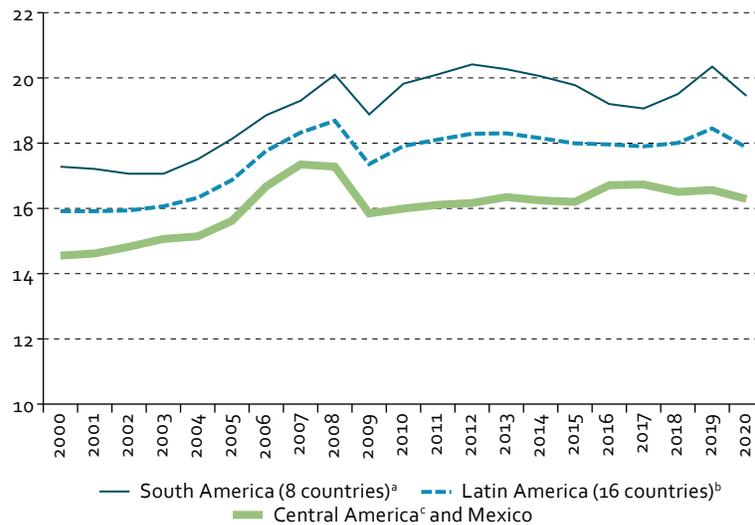
A. Domestic resources: expanding fiscal space

In the region, the behaviour of fiscal revenues is linked to changes in external conditions (the international business cycle) and the volatility of economic growth. Between 2000 and 2008, central government revenues increased substantially as a percentage of GDP, a phenomenon associated with the commodity boom. Between 2008 and 2009, these revenues declined as a result of the global financial crisis. In 2009, they returned to an upward trend, but a slower one than in the period 2000–2008, consistent with a phase of low growth and, eventually, stagnation. Lastly, as shown in figure III.1, tax revenues dropped again in 2020 because of the COVID-19 crisis (ECLAC, 2020b and 2021a).

At the same time, the evolution of tax revenues also reflects the composition and size of direct and indirect taxes and, more specifically, the region's low level of direct taxation and the excessive weight of indirect taxation. The role of personal income taxation is one of the main tax divides between the region and the countries of the Organization for Economic Cooperation and Development (OECD). In 2019, personal income tax receipts represented 2.2% of GDP in Latin America and the Caribbean, while in OECD the figure was 8.1% of GDP (OECD and others, 2021). This low level of personal income tax collection in Latin America and the Caribbean is largely due to structural

deficiencies, such as a narrow tax base with a high level of basic income exemptions and generous preferential tax treatment, as well as low marginal tax rates (ECLAC, 2021a). In all Latin American countries, furthermore, direct personal income tax collection is highly concentrated in the top income decile. This weakens not only the potential revenues from the tax, but also its ability to change income distribution. The burden of taxation falls on indirect goods and services taxes, which tend to be regressive. In the region, these taxes are at a level very close to that in developed countries (10.9% of GDP and 11.4% of GDP, respectively).

Figure III.1
Latin America (16 countries)^a: total central government revenues, 2000–2020
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean, 2020* (LC/PUB.2020/6-P), Santiago, 2020, and *Fiscal Panorama of Latin America and the Caribbean, 2021* (LC/PUB.2021/5-P), Santiago, 2021.

^a Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay.

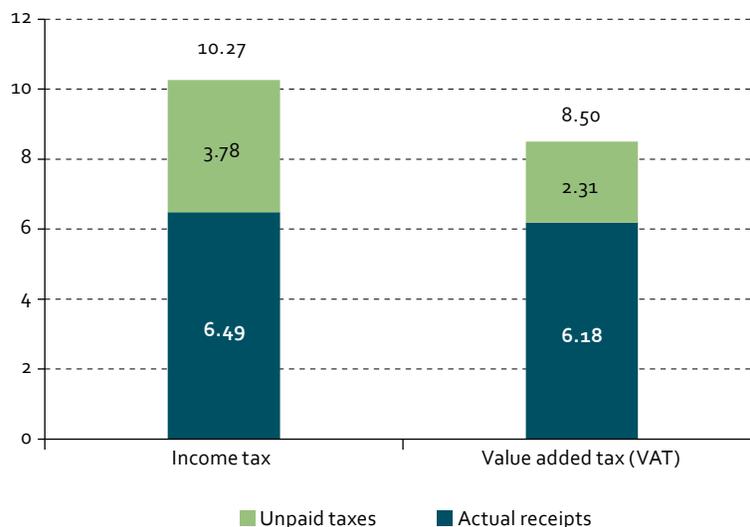
^b Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

^c Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

Added to these factors is tax evasion, which underlies many of the challenges facing domestic resource mobilization in the region. In 2018, income tax and value added tax (VAT) evasion resulted in a loss of US\$ 325 billion (6.1% of GDP) in revenues. Income tax evasion accounts for a significant portion of this, equivalent to 3.8% of GDP, leaving an estimated 2.3% of GDP to be accounted for by VAT evasion (see figure III.2). Non-payment of income tax is particularly serious, with many countries collecting less than half the revenue that their systems should generate (ECLAC, 2020b).

Illicit flows are one of the factors that most limit countries' ability to mobilize domestic resources. Figure III.3 shows an ECLAC estimate of illicit financial outflows arising from the manipulation of trade prices. The estimated amount of resource outflows from the region due to illicit financial flows is about US\$ 85 billion per year (ECLAC, 2021a).

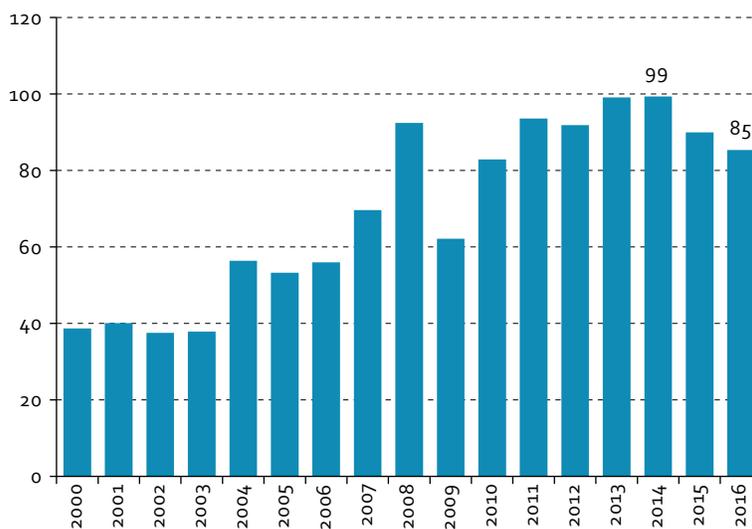
Figure III.2
Latin America and the Caribbean (selected countries): evasion of income tax and value added tax (VAT), 2018
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean, 2021* (LC/PUB.2021/5-P), Santiago, 2021.

Note: Estimates are based on national studies of non-payment of income tax and VAT. The figures are weighted averages based on GDP at current dollar prices. The countries included in the case of income tax are: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay. The countries included in the case of VAT are: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. The figures for non-payment are the gap between the revenue that should be generated by the tax system and what the government actually receives. Conceptually, theoretical tax revenues are calculated as the tax revenues that would arise from full compliance with current tax regulations, including special tax treatments and other tax expenditures.

Figure III.3
Latin America and the Caribbean: illicit flows arising from manipulation of international trade prices, 2000–2016
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean, 2020* (LC/PUB.2020/6-P), Santiago, 2020.

Addressing these limiting factors requires changes in the administration of and ability to monitor tax collection, and the international dimension of tax evasion needs to be addressed in the face of evidence that huge flows of capital are being transferred from their source countries to other jurisdictions where they are accumulated to take advantage of tax and legal benefits. These actions involve both multinational companies, which as global entities seek to reduce their effective tax burden as much as possible, and very high-income individuals who, in addition to using tax planning mechanisms to pay lower tax rates, can conceal their wealth abroad, beyond the reach of national tax administrations.

An additional factor limiting countries' capacity to mobilize domestic resources is the scale of tax expenditures, which are preferential tax treatments widely used in the region. They entail a substantial amount of foregone revenue, averaging 3.7% of Latin America's GDP in the period 2013–2017 (ECLAC, 2019). It is important to note that these foregone revenues are equivalent to an average of more than 15% of the budgetary expenditure of the region's central governments (and in some countries more than 25%), yet it is not clear that they produce the benefits for which they were created. Accordingly, it is essential that countries take steps to strengthen the governance of tax expenditures in order to maximize their impact and limit the sometimes unnecessary losses associated with their use (ECLAC/Oxfam International, 2019).

B. Financing from external resources

The dynamics of financial flows to Latin America and the Caribbean show that the share of private flows in total financial flows to the region has increased at the expense of official development assistance (ODA), which has shown a declining trend. Over the period 1980–2020, ODA flows went from an average of 16% of total net flows between 1980 and 1989 to 10% between 1990 and 1999 and 4% between 2010 and 2020 (see table III.1).¹

Table III.1
Latin America and the Caribbean: foreign direct investment (FDI), portfolio flows, remittances, official development assistance (ODA) and other investments, 1980–2020
(Millions of dollars and percentages)

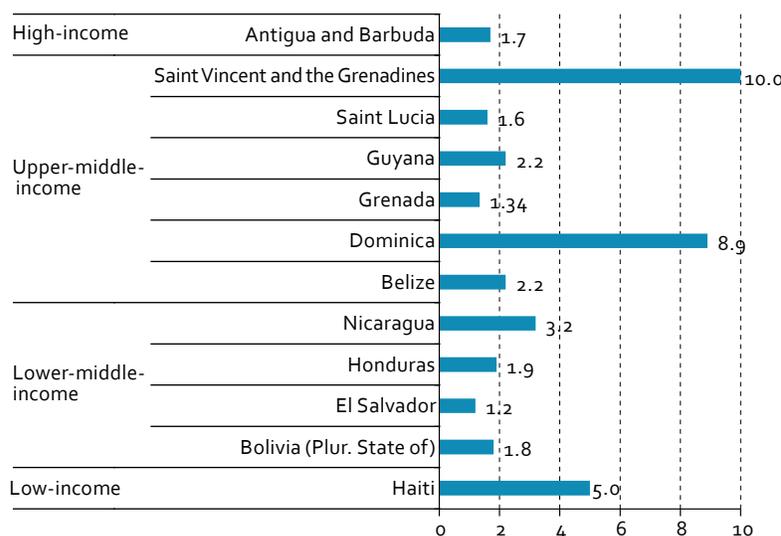
	1980–1989	1990–1999	2000–2007	2008–2009	2010–2020	2000–2020
	(Millions of dollars)					
Foreign direct investment (FDI)	6 057	34 247	23 459	90 047	130 986	99 604
Portfolio flows	-363	31 379	15 372	17 991	59 263	32 524
Other net investment	3 821	-10 795	-5 280	-19 591	-31 484	-27 772
Remittances	2 049	9 883	6 826	55 339	66 880	54 713
Official development assistance (ODA)	2 974	5 549	4 405	8 795	8 985	7 816
Total	14 539	70 264	44 782	152 581	234 630	166 885
	(Percentages)					
Foreign direct investment (FDI)	40	48	48	59	58	69
Portfolio flows	12	47	29	12	22	9
Other net investment	24	-21	-3	-13	-17	-27
Remittances	8	16	13	36	33	43
Official development assistance (ODA)	16	10	13	6	4	6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, "World Development Indicators" [online] <http://data.worldbank.org/data-catalog/world-development-indicators> and International Monetary Fund (IMF), "International Financial Statistics (IFS)" [online] <https://data.imf.org/?sk=4c514d48-b6ba-49ed-8ab9-52b0c1a0179b>.

¹ The region's share of global ODA flows declined from 15% in the 1980s and 1990s to about 8% in the 2000s.

Although its importance in Latin America and the Caribbean has declined, ODA remains an important source of funding not only for the sole low-income country in the region (Haiti) and the lower-middle-income countries (El Salvador, Honduras, Nicaragua and the Plurinational State of Bolivia), but also for some upper-middle- and high-income Caribbean countries (Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Saint Lucia and Saint Vincent and the Grenadines).² For the Caribbean economies as a whole, ODA accounted for 34% of the financial flows received in 2019. Moreover, the importance of ODA does not correlate unequivocally with per capita income levels, as can be seen in figure III.4.

Figure III.4
Latin America and the Caribbean (12 countries): official development assistance (ODA)
as a share of gross national income, 2019
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, "Net ODA received (% of GNI)", 2020 [online] <https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS>.

The counterpart to the decline in ODA at the regional level is the growing importance of private finance. Foreign direct investment (FDI) has traditionally been the largest component of all financial flows, including remittances and ODA. In absolute terms, net FDI flows to the region averaged US\$ 6.057 billion in the 1980s, US\$ 34.247 billion in the 1990s and US\$ 130.986 billion in the 2010s. In relation to total flows, FDI represented 40% during the period 1980–1989, 48% in the periods 1990–1999 and 2000–2009, and 58% in the period 2010–2020. In 2020, FDI amounted to 2.1% of regional GDP.

FDI is directly related to the region's patterns of trade specialization and comparative advantage. It is sectorally concentrated to a high degree, mainly in extractive industries, natural resource-based manufacturing, some other manufacturing industries (such as the automotive industry) and services, including financial activities, electricity, gas, water, transport, storage, communications and digital technologies. There is no linear relationship between FDI and per capita GDP: a higher (or lower) level of per capita GDP does not correlate with greater (or lesser) access to FDI.

Much like FDI, remittances vary from country to country and are highly concentrated within them. Remittances represent a key source of external financing and balance-of-payments liquidity for many small economies, including those of the Central American and Caribbean countries, where in some cases they amount to more than 10% of GDP. The percentage can be several times this at the subnational level, as in some Mexican states that are a significant source of out-migration.

² As noted in chapter I, the threshold separating countries that do not receive ODA (high-income countries) from countries that do has been set at US\$ 12,055 per capita per year. Once a country exceeds this income threshold, it starts the transition towards graduation from ODA. A country is removed from the list of ODA-eligible countries compiled by the OECD Development Assistance Committee (DAC) when its national income is above the US\$ 12,055 per capita per year threshold for three consecutive years.

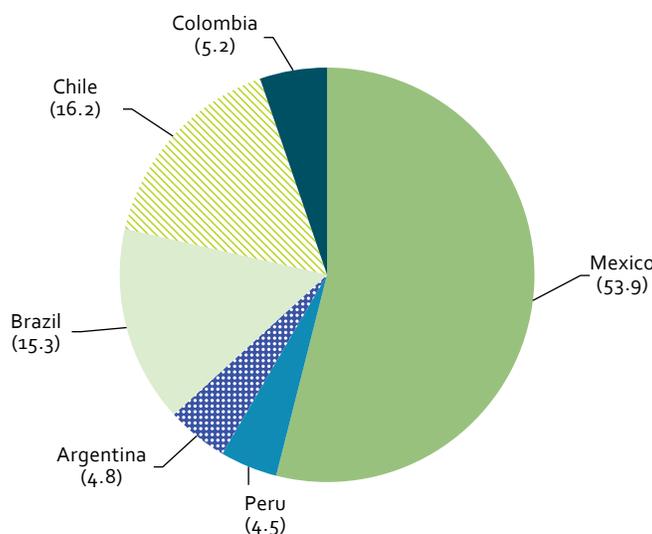
Remittances to Latin America and the Caribbean grew by 8% in 2020,³ a similar rate to that of 2019, even though a drop of some 20% had been projected because of the crisis. In the first quarter of 2021, they actually increased by 21%, owing to strong growth in Mexico and Central America. In several countries of the region, this income helped to mitigate the economic contraction. Several hypotheses have been put forward regarding the resilience shown by remittances during the current crisis: one is that government support programmes have also benefited migrants in remittance-sending countries, another that migrants started with more savings after learning lessons from the global financial crisis of 2008 and 2009. In addition, cheaper digital methods of sending remittances have been adopted as a substitute for face-to-face services.

The third-largest source of external financing for the region are portfolio flows, which accounted for about 18% of total flows in the period 1990–2020. Short-term portfolio flows are highly volatile and are known to contribute to sudden episodes of capital flight and balance-of-payments crises, of which the region has had traumatic experiences.

Until the global financial crisis of 2008 and 2009, short-term capital flows had mainly taken the form of cross-border bank lending, which was the most important type of international financial intermediation. After the crisis, the growth rate of cross-border bank lending declined considerably, and it lost its primacy to the bond market. Since the start of the quantitative easing policies implemented by the United States Federal Reserve, the European Central Bank and the Bank of Japan, the share of international bond markets in total lending has risen steadily from 40% to 48% of global credit to non-residents.

In Latin America, the international bond market has become an important source of financing for governments and the non-financial corporate sector, including the private sector. Access to capital markets for sovereign debt issuance depends on countries' fiscal needs, credit ratings, risk perceptions and external conditions. In the period 2007–2020, an average of only 11 economies in Latin America and the Caribbean accessed international markets for sovereign debt issuance. Access to private international markets for the non-financial corporate sector is even more restricted and is confined to the region's large economies (see figure III.5).

Figure III.5
Latin America and the Caribbean (6 countries): average stock of international debt
in the non-financial corporate sector, 2009–2020
(Percentages of the total)

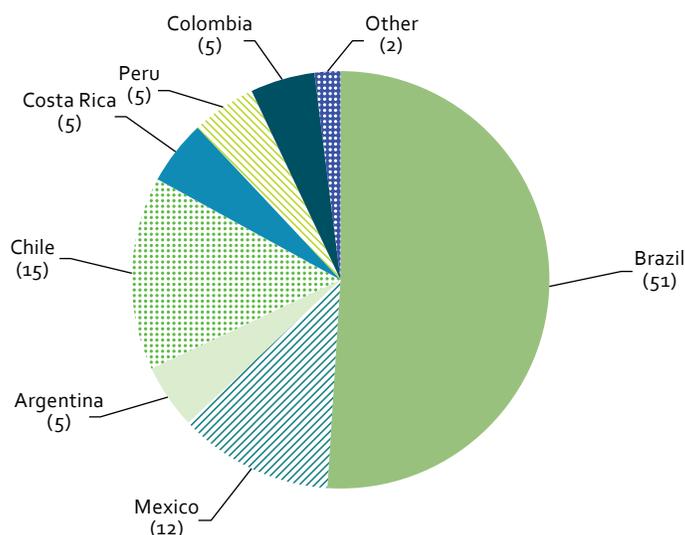


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bank for International Settlements (BIS), "FRED Economic Data", Federal Reserve Bank of St. Louis, 2021 [online] <https://fred.stlouisfed.org/tags/series?t=bis%3Bdebt%3Bnonfinancial%3Bnsa>.

³ Total for the following countries: Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Peru and Plurinational State of Bolivia.

Access to climate change funds poses similar challenges. Despite their status as middle-income countries, some of the smaller economies of Latin America and the Caribbean have had difficulty accessing these funds. Smaller countries are unable to generate sufficient economies of scale and find it difficult to make the human capital investment necessary to acquire the expertise to access these funds. Green bond issuance was US\$ 1 billion in 2015, US\$ 1.5 billion in 2016, US\$ 4 billion in 2017, US\$ 800 million in 2018 and US\$ 1.8 billion in 2019. There is a high level of concentration at the country level; Brazil is the largest issuer of green bonds (51% of the total), followed by Chile (15%) and Mexico (12%) (see figure III.6).

Figure III.6
Latin America and the Caribbean (selected countries): cumulative emission of green bonds, 2015–2019
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of S&P Global Market Intelligence, "Latin America's green bond market sprouting again after a sluggish 2018", 8 May 2019 [online] https://www.capitaliq.com/CIQDotNet/CreditResearch/RenderArticle.aspx?articleId=2229003&SctArtId=470779&from=CM&nsf_code=LIME&sourceObjectId=10977024&sourceRevId=3&fee_ind=N&exp_date=20290508-18:37:20.

The growing importance of private flows poses a critical challenge, that of finding ways to mobilize these resources and channel them from the financial architecture to the SDGs in order to deliver on the 2030 Agenda.

Rather than development concerns, private capital flows are driven primarily by economic profit; investment may be inadequate in areas crucial for sustainable development if the expected return is unsatisfactory compared to other investment opportunities. In this context, the public sector plays an increasingly important role when it comes to the inclusion of social return criteria in cost-benefit analyses, as it can provide public funding for activities that do not attract sufficient private flows, as well as appropriate incentives for private capital to be channelled towards development objectives.

A positive innovation has been the development of blended finance mechanisms, such as the Latin American Investment Facility (LAIF) and the European Union's Caribbean Investment Facility (CIF), which aim to mobilize private investment in line with the region's development objectives. It is necessary to align cooperation from international institutions with countries' public investment plans to ensure that investments are directed towards sectors and activities that are critical for the attainment of the SDGs.

In addition to facilitating the mobilization of private resources for development, cooperation will have to design new tools. The challenge of raising adequate volumes of blended public and private funds is made more demanding by the significant changes in the development finance map over recent decades, including the emergence of new actors, mechanisms and sources, such as new donors that are not Development Assistance Committee (DAC) member countries, innovative financing mechanisms and climate funds. These are all playing a more important and visible role in the financing of development.

These changes in the financial landscape have expanded the range of development finance options and increased the complexity involved in coordinating and combining the whole array of actors, funds, mechanisms and instruments into a consistent financing architecture. This complexity is particularly in evidence in the case of innovative financing mechanisms and climate funds, which need greater clarity with regard to development objectives, sources of finance and conditions of use and access. At the same time, achieving effective and efficient financing that accelerates progress towards sustainable development in countries at different income levels should not distract attention from the need to ensure that certain countries, such as Caribbean small island developing States (SIDS), are not excluded from official assistance flows because of criteria based on per capita income. Lastly, to induce countries to adopt a strategic approach to development finance, it is not enough to map their architecture; the current multiplicity of financing options does not equate to effective access.

The ability to effectively access private finance varies widely in the different countries of Latin America and the Caribbean. Such funding is subject to multiple access requirements and conditionalities, making it difficult for countries to adopt a strategic approach to financing their development priorities and assessing the impact and effectiveness of funding sources. Moreover, private funders do not demand the same conditions or impose the same access criteria as public funding sources.

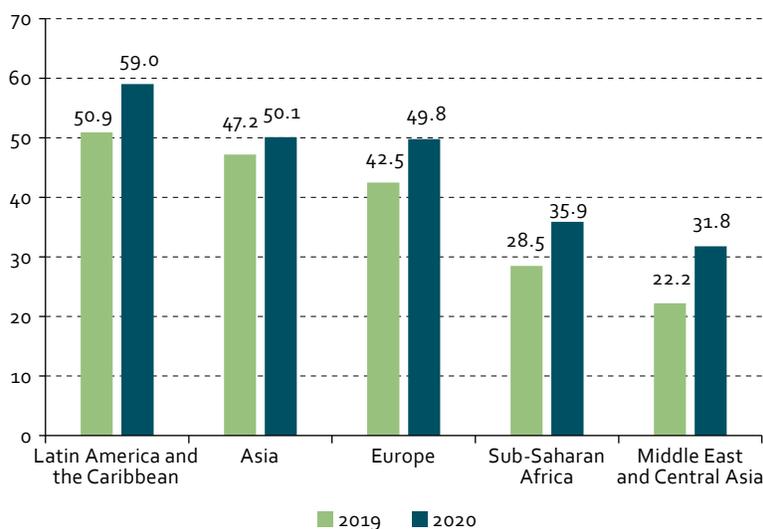
C. The pandemic crisis and development financing

The economic and social effects of COVID-19, as well as the policy measures taken to address them, have significantly increased the region's financing needs. On the one hand, total fiscal expenditure increased from 21.4% to 24.7% of GDP between 2019 and 2020, a dynamic that is explained by the strong expansion of subsidies and current transfers to households and the productive sector to address immediate liquidity needs and alleviate the emergency. On the other hand, fiscal revenues fell from 18.4% to 17.9% of GDP as a result of the sharp economic contraction in the region, amounting to 7.7% of GDP (ECLAC, 2021a).

The resulting increase in the overall fiscal deficit, from -3.0% of GDP in 2019 to -6.9% of GDP in 2020, pushed up public debt by more than 10 percentage points, from 45.6% of GDP in 2019 to 56.3% of GDP in 2020. Taking a simple average, Latin America and the Caribbean is not only more indebted than low-income regions, but is the most heavily indebted developing region in the world. In Barbados, Belize, Jamaica and Suriname, debt levels approach or exceed 100% of GDP. Latin America and the Caribbean is also the region that devotes the largest share of its goods and services exports to external debt servicing; in 2020, this figure was 59% (ECLAC, 2021c) (see figure III.7).

This situation exacerbates the budgetary constraint and limits the capacity of fiscal policy to continue to respond to the economic and social demands arising from the pandemic and to address the structural gaps being widened by it in the medium and longer term. Countries in the region will be able to maintain expansionary fiscal policies if they manage to stabilize borrowing levels, and this requires a large increase in fiscal revenues through higher economic growth. Otherwise, they may be forced to reduce their primary deficits, which is not a viable option in the current circumstances.

Figure III.7
Developing regions: external debt service relative to goods and services exports, 2019 and 2020
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "World Economic Outlook Database", April 2021 [online] <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>.

On the expenditure side, countries are faced with an upward trend in debt service payments that has been accentuated by the pandemic. In the period 2012–2020, interest payments by central governments in the region increased from 1.7% to 2.7% of GDP. As a result, resources that could have been used to address the effects of the pandemic and the provision of public goods were diverted to debt service payments. Moreover, as can be seen, the stabilization of debt levels as a proportion of GDP does not guarantee a matching stabilization of debt service payments (ECLAC, 2021a).

Liquidity and financing constraints also affect the productive sector. The debt of the non-financial corporate sector in the region increased from 38.7% to 43.7% of GDP between the last quarter of 2019 and the last quarter of 2020 (IIF, 2021). The situation has been compounded by falling profitability, liquidity constraints and a decline in the repayment capacity of the non-financial corporate sector (IMF, 2020).⁴ In 2019, some 30% of firms in the region had an interest coverage ratio of below 1, and more than 30% of the debt of these firms is associated with an interest coverage ratio below 1. These indices of financial fragility could worsen with the pandemic.

On the one hand, the cooperation and response initiatives of multilateral financial institutions have not been commensurate with the financing needs of the countries in the region. The financing lines granted by the International Monetary Fund (IMF) to the countries of Latin America and the Caribbean to cope with the effects of the pandemic have covered, on average, only between 23.1% and 32.3% of the financing needs of the countries requesting support. Meanwhile, the financing committed by the World Bank and the Inter-American Development Bank (IDB), equivalent to US\$ 8 billion and US\$ 7.7 billion, respectively, has been less than that granted by the subregional development banks, namely the Development Bank of Latin America (CAF), the Central American Bank for Economic Integration (CABEI) and the Caribbean Development Bank (CDB), estimated at US\$ 12.3 billion (ECLAC 2021b; Bárcena, 2021).

Moreover, although the effects of COVID-19 do not distinguish between income levels, the architecture of international cooperation has meant that multilateral initiatives have concentrated on

⁴ Since late 2019, the credit rating agency Standard & Poor's has downgraded the credit ratings of the long-term foreign-currency debt of about one third of all companies in the region (IMF, 2020).

responding to the financing needs of low-income countries. Most of the increase in World Bank financing in 2020 was channelled through the International Development Association (IDA), the World Bank entity that provides assistance to the lowest-income countries through concessional financing. IDA channelled 65% of all the financing provided by the World Bank to address the effects of the pandemic (Bárcena, 2021).

In the case of Latin America and the Caribbean, only seven countries (Dominica, Grenada, Haiti, Honduras, the Plurinational State of Bolivia, Saint Lucia and Saint Vincent and the Grenadines) received concessional financing from the World Bank through IDA, representing 14% of the total concessional and non-concessional financing received by the region. The rest of the countries are not eligible for concessional financing, given their classification as middle-income countries. Similarly, IDB is granting concessional loans to only four economies in the region, namely Guyana, Honduras, Nicaragua and the Plurinational State of Bolivia, all of which, with the exception of Guyana, are lower-middle income economies.

Most countries in the region are likewise ineligible for the Debt Service Suspension Initiative (DSSI) launched by the Group of 20 (G20) in April 2020, which consists of a temporary suspension of repayments on loans from official bilateral creditors and targets low-income countries and middle-income countries classified as vulnerable. Eligible countries in Latin America and the Caribbean include some of the Caribbean economies (Dominica, Grenada, Guyana, Haiti, Saint Lucia and Saint Vincent and the Grenadines) and Central America (Honduras and Nicaragua). To date, of the countries in the region, only four Caribbean economies are participating: Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines (ECLAC 2021b).

The idea that international cooperation should be guided by per capita income also permeates initiatives to expand liquidity and redistribute liquidity from developed to developing countries. In response to the strong demand for liquidity from developing countries, the G20 has given its support to IMF for a new issuance of Special Drawing Rights (SDRs) initially estimated at the equivalent of US\$ 650 billion, the largest issuance in its history. Under the existing quota system, developed countries would receive 64% of this issuance (US\$ 419 billion) and developing countries the remainder (US\$ 232 billion, or 36% of the total).

In Latin America and the Caribbean, a new SDR allocation would benefit some of the smaller economies (including Caribbean SIDS), which are also the most vulnerable owing to their small size, structural constraints and exposure to natural hazards. The economies that would benefit most are the Bolivarian Republic of Venezuela, Guyana and Suriname; their total SDR holdings would represent, respectively, 79%, 37% and 30% of their total international reserves. Other small economies that would also benefit from a new SDR allocation include the Bahamas, Belize, Ecuador, El Salvador, Haiti, Jamaica and Saint Lucia. Some of these economies, such as Belize, Jamaica and Suriname, are also among the most indebted in the region. In 2020, central government public debt stood at 130.7%, 103.3% and 94.8% of GDP in Belize, Jamaica and Suriname, respectively. The increase in international reserves in these economies would provide an important financial cushion by reducing risk and strengthening the balance-of-payments position (Bárcena, 2021).

Consequently, it has been proposed that this new SDR issuance be accompanied by a reallocation to developing countries of SDRs that developed countries do not use. Most proposals have focused on reallocating SDRs to lower-income countries by strengthening the Poverty Reduction and Growth Trust (PRGT), which aims to channel loans to the poorest countries. In Latin America and the Caribbean, the reallocation of SDRs would strengthen the financial capacity of regional financial arrangements and other financial institutions in the region, such as regional development banks.

Liquidity can also be redistributed by creating multilateral funds, such as the Fund to Alleviate COVID-19 Economics (FACE) proposed by the Government of Costa Rica, and by strengthening regional cooperation, with an increase in the lending and response capacity of regional, subregional and national development banks and other regional institutions. Access to increased financing should be complemented by policy measures aimed at reforming the international debt architecture. This would include the creation

of a multilateral debt restructuring mechanism and a multilateral credit rating agency. The scope of the G20 Debt Service Suspension Initiative should also be broadened to include all relevant stakeholders (the private sector and multilateral institutions) and vulnerable middle-income countries. Furthermore, the initiative should be extended beyond 2021. This should be accompanied by an increased use of different innovative instruments aimed at avoiding over-indebtedness and increasing countries' capacity to repay and service debt.

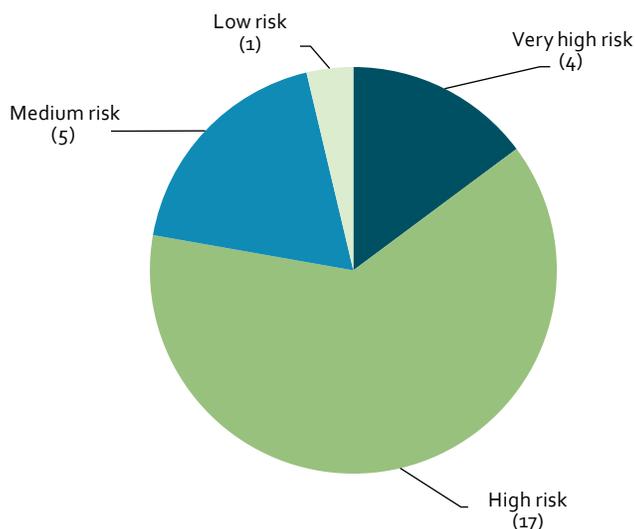
In view of the limited response in the area of international cooperation and the constraints faced by middle-income countries when seeking the necessary financing, the region's countries have largely financed their borrowing by tapping into the private capital market. Issuance totalled US\$ 122 billion in 2020, up from US\$ 118 billion in 2019. However, not all countries have access to capital markets, and not all those with access enjoy the same conditions. The economies that most frequently use the capital market for sovereign bond issuance are the larger economies. A number of smaller economies, particularly those in the Caribbean, have made little use of the private capital market. Moreover, the cost of sovereign debt issuance is generally higher for the smaller economies in the region.

Lastly, capital markets are highly sensitive to international financial conditions and to perceptions of risk in issuing countries, making them extremely volatile and liable to sudden reversals. In the current context, the expansionary monetary policies of central banks in developed economies, in particular the United States Federal Reserve, have spurred private investors' search for yield in emerging economies.

Available data for the period 2017–2020 show that profits increased over the course of 2020 (i.e., during the pandemic). Profits are determined indirectly by calculating the difference between the interest rate on debt issues in the international capital market and the risk-free interest rate on ten-year United States Treasury bonds (ECLAC, 2021b).

However, the upward trend in long-term interest rates since early 2021 could reduce the incentive to invest in emerging economies. A compounding factor is the fact that most countries in the region are classified as high risk for private investors and therefore subject to potential credit downgrades. Out of a sample of 27 countries in the region, 17 (63% of the total) are rated high risk and 4 very high risk (see figure III.8).

Figure III.8
Latin America and the Caribbean: groups of countries by sovereign credit risk ratings, 24 May 2021
(Numbers of countries)



Source: CountryRisk.io, "Sovereign Risk", 2021 [online] <https://www.countryrisk.io/platform>.

D. Caribbean SIDS and their vulnerability in the graduation process

Owing to the small size of their economies and the particular constraints and challenges they face, Caribbean small island developing states (SIDS) can be severely affected by graduation and the consequent loss of access to concessional finance.

The size of Caribbean economies greatly limits their ability to benefit from economies of scale and scope and to increase their productivity. The absence of economies of scale leads to higher unit costs as a result of suboptimal firm size, lack of complementarity in productive activities and input production, and an inefficient spatial production hierarchy.

Because they are islands, transport costs per unit of goods traded are higher than in other countries. These high transport costs limit innovative development in productive sectors that depend on imported inputs. In addition, smaller producers are considered a high-risk investment, which restricts financing possibilities.

Furthermore, small countries have limited physical and human capital endowments. This is compounded by the fact that Caribbean SIDS are characterised by one of the highest emigration rates in the region, and emigration is concentrated in skilled human capital (people with tertiary education). Partly as a consequence, Caribbean countries are facing a process of population ageing.

Lastly, geographical location exacerbates these constraints, as Caribbean SIDS are in a geographical area prone to a growing number of increasingly severe natural disasters. Between 1950 and 2016, the economic cost of natural disasters was more than US\$ 22 billion in the Caribbean, compared to US\$ 58 billion worldwide. In some countries the estimated damage can exceed the size of the economy. Thus, it is estimated that the cost of Hurricane Maria in Dominica was equivalent to 226% of its GDP, and the damage caused by Hurricane Ivan in Grenada in 2004 was of the order of 200% of its GDP (IMF, 2018).

Central American countries are having to cope with similar challenges in the face of the continued reduction of international cooperation. Although they are considered middle-income countries, there are considerable differences between them, and they are marked by significant internal inequalities. In 2020, per capita GDP in the subregion ranged from US\$ 1,721.8 in Nicaragua to US\$ 9,664.9 in Costa Rica (in constant 2010 dollars). According to the most recent available data, in five Central American countries (Costa Rica, Guatemala, Honduras, Nicaragua and Panama) the Gini index, which measures income distribution, was higher than the simple average for Latin America. This is particularly important given that Latin America is the most unequal region in the world.⁵

Central America is facing increasing fiscal pressure, which has been strongly exacerbated by the economic consequences of the COVID-19 pandemic. Between 2019 and 2020, public sector debt in these countries increased, on average, from 49.0% of GDP to 58.6% of GDP. The highest levels are observed in El Salvador (88.4% of GDP) and Costa Rica (80.2% of GDP). This has further increased the percentage of public resources devoted to debt service payments. It is increasingly necessary for the subregion to have access to diversified long-term external resources at low rates.

Central American countries are also particularly vulnerable to extreme weather events. The Global Climate Risk Index produced by Germanwatch for the period 1998–2017 indicates that Honduras was the country with the second-highest recorded climate impacts in the world, while Guatemala ranked fourteenth and El Salvador sixteenth (ECLAC, 2020c).

Because of their destructive effects on production sectors, natural disasters cause major disruptions in productivity. They also translate into higher levels of debt, thereby reducing the ability of governments to improve productivity through spending on education, health care and infrastructure. In 2013, 5 of the

⁵ See ECLAC (2021e).

20 most indebted countries in the world (in terms of their public debt-to-GDP ratio) were in the Caribbean: Antigua and Barbuda, Barbados, Grenada, Jamaica and Saint Kitts and Nevis. The combined total debt of the Caribbean amounted to US\$ 4,6 billion, or 71% of subregional GDP.

Initiatives to address the issues involved in the financing of Caribbean SIDS are rare. The World Bank, through the International Development Association (IDA), provides concessional financing that includes loans for small islands that have a population of less than 1.5 million, demonstrate high vulnerability because of their size and geographical location, and have few options for obtaining credit because of their high risk; this instrument benefits only three Caribbean islands: Dominica, Saint Lucia and Saint Vincent and the Grenadines. In the case of IDB, the beneficiary countries include only Guyana and Haiti. The smaller Caribbean islands, belonging to the Organization of Eastern Caribbean States (OECS), are not eligible for concessional financing because, being territories, they are not members of IDB.

In 2020, official bilateral creditors accounted for approximately 44.4% of all debt service in countries participating in the Debt Service Suspension Initiative, which is a major step forward. However, private creditors (25.5%) and multilateral creditors (30.1%), which do not participate in the initiative, account for the bulk of debt service. In the cases of Dominica, Grenada and Saint Lucia, multilateral and private creditors also account for the bulk of debt service (see table III.2), and the savings from participation in the Initiative were limited (0.70%, 0.72% and 0.27% of GDP in 2020, respectively).

Table III.2
Dominica, Grenada, Saint Lucia and selected countries^a: debt service by creditor type, 2020
(Percentages of the total)

Creditor type	All participating countries ^a	Dominica	Grenada	Saint Lucia
Private	25.5	18.0	25.0	1.0
Multilateral official	30.1	49.0	58.0	74.0
Bilateral official	44.4	25.0	17.0	25.0
Unofficial	...	8.0	0.0	-

Source: World Bank, "COVID 19: Debt Service Suspension Initiative", 28 July 2021 [online] <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>, and I. Fresnillo, "The G20 Debt Service Suspension Initiative: draining out the Titanic with a bucket?", European Network on Debt and Development (EURODAD), October 2020 [online] https://www.developmentaid.org/api/frontend/cms/file/2020/10/DSSIShadowReport_14Oct.pdf.

^a Countries of the world participating in the Group of 20 (G20) Debt Service Suspension Initiative.

Lack of access to concessional financing is compounded by uncertainty over the continuation of the trade preferences that Caribbean countries receive when exporting to the United States under the Caribbean Basin Initiative (CBI), which are vital for their economic and social development. These preferences are subject to the beneficiary countries meeting a number of criteria that are evaluated every two years by the United States Congress. They include the beneficiary country's economic conditions and criteria relating to its policies on trade, labour, foreign investment, intellectual property and other matters (USTR, 2019).

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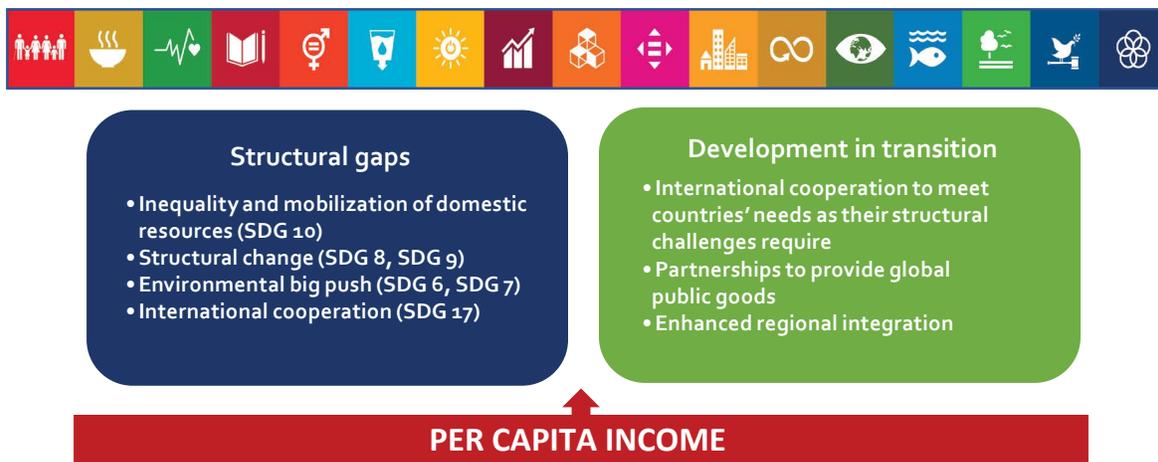
IV. The 2030 Agenda for Sustainable Development and the Sustainable Development Goals: a guide for development and cooperation

A. The 2030 Agenda: a multidimensional, multi-stakeholder strategy

The United Nations 2030 Agenda for Sustainable Development emphasizes the importance of promoting new ways of measuring development over and above gross domestic product (GDP). With its 17 Goals, 169 targets and 232 monitoring indicators, the 2030 Agenda embodies a political consensus around a systemic vision of development. Its guiding principles (universality, indivisibility, participation, accountability and a commitment to ensuring that no one is left behind) highlight the importance of a comprehensive approach to structural challenges whereby progress towards one goal does not hinder progress towards others and where account is taken of different national capacities and priorities.

For the 2030 Agenda and the Sustainable Development Goals (SDGs) to be implemented, not only must indicators based on per capita GDP cease to predominate when concessional resources are allocated, but the forms and methods of international cooperation need to change. The SDGs cannot be achieved unless the divisions between countries that have graduated and those that have not are overcome and an approach based on shared challenges and solutions is increasingly adopted. SDGs 10 and 17 specify some of the targets to be achieved if global economic governance and international cooperation are to be aligned with the 2030 Agenda. In this context, the development in transition approach is complementary to the implementation of the 2030 Agenda, as it proposes a shift towards cooperation that facilitates and catalyses development processes, meeting the needs of countries as their structural challenges require (see diagram IV.1).

Diagram IV.1
The 2030 Agenda for Sustainable Development and the Sustainable Development Goals
within the framework of the development in transition concept



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

B. The SDGs and the measurement of development

When classifying development processes, it is necessary to clearly identify the dimensions to be measured. With the structural gaps approach, the selection and ranking of development priorities depend on the individual conditions of the countries in the region. Countries must identify, measure and quantify the dimensions of development where the greatest needs and challenges are to be found, while at the same time deciding which areas and deficiencies they want to prioritize and address. However, the global development agendas set the priority objectives of the international community and might thus be regarded as a frame of reference for orienting international cooperation.

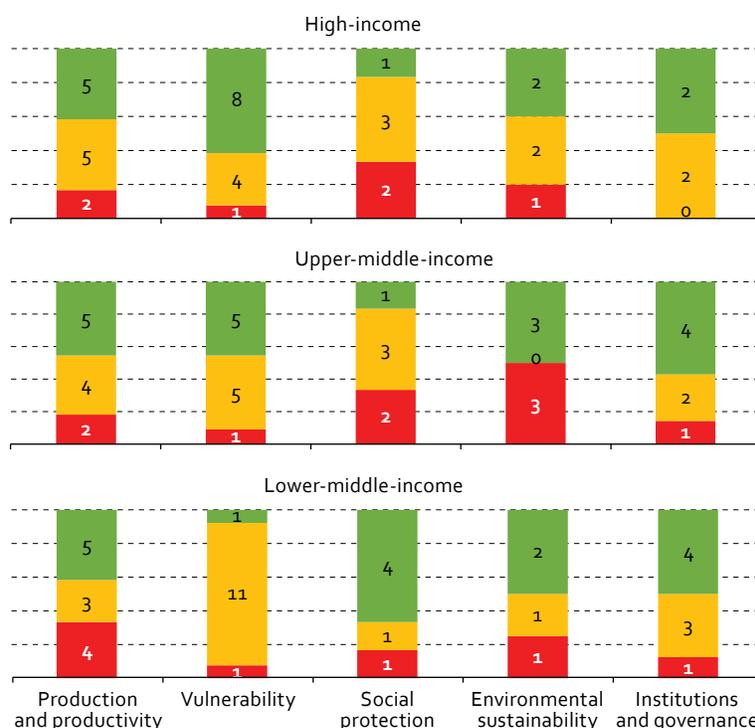
Analysis of the indicators proposed in the framework of the targets for achieving the SDGs shows that the countries of the region are in a position of vulnerability in several areas that are vital for their development, even in the case of high-income and upper-middle-income countries.

In an exercise to simulate scenarios and project out trends to 2030 on the basis of a selection of 177 indicators, representing 53% of the indicators in the regional framework of SDG monitoring indicators for Latin America and the Caribbean, the Economic Commission for Latin America and the Caribbean (ECLAC, 2021a) found a mixed dynamic when it came to the prospects of the 2030 Agenda targets being met: in 32% of the series the targets would be met, in another 32% it would be essential to implement public policy actions for the targets to be met, and in 36% the trend appeared to be one of stagnation or regression unless corrective measures were taken.

This document analyses five dimensions of development with the aim of showing the importance of having a systemic and multidimensional development classification methodology. The selection of dimensions is based on the structural traps affecting the countries of Latin America and the Caribbean, as outlined in the Organization for Economic Cooperation and Development's *Latin American Economic Outlook 2019: Development in Transition* (OECD and others, 2019): (i) productivity and production, (ii) vulnerability, (iii) social protection, (iv) environmental sustainability and (v) institutions and governance. One of the greatest challenges in constructing a non-threshold-based multidimensional classification is the unavailability of data for all countries. To overcome this limitation, 41 SDG target-related indicators analysed by ECLAC (2021a) have been chosen for the five selected dimensions (see table A.1 in annex 1).

The selected indicators are analysed by grouping the countries of the region according to the income thresholds determined by the World Bank. Using the projections of ECLAC (2021a), the series are classified into three groups: (i) the green group, containing those series in which the targets set for the indicator have already been reached or are likely to be reached by 2030 on the current trend; (ii) the yellow group, containing those series in which the 2030 targets are likely to be reached only with public policy intervention; and (iii) the red group, containing those series in which the observed trend is likely to be reversed in the absence of public policy action. Analysis of the likelihood of the targets for the indicators grouped into these categories being met by 2030 shows that all the region's countries share challenges regardless of income level, and this supports the idea that, graduation notwithstanding, many of the middle-income countries of Latin America and the Caribbean still face difficulties (see figure IV.1).

Figure IV.1
Latin America and the Caribbean: projection of the state of progress in five dimensions
of sustainable development by 2030
(Percentages of the indicators expected to be achieved by 2030)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Note: The green sections show the proportion of the series for which the targets have been met or will be by 2030 on current trends; the yellow sections show the proportion for which the targets are unlikely to be met by 2030 without public policy intervention; and the red sections show the proportion for which the observed trend is likely to be reversed in the absence of public policy measures.

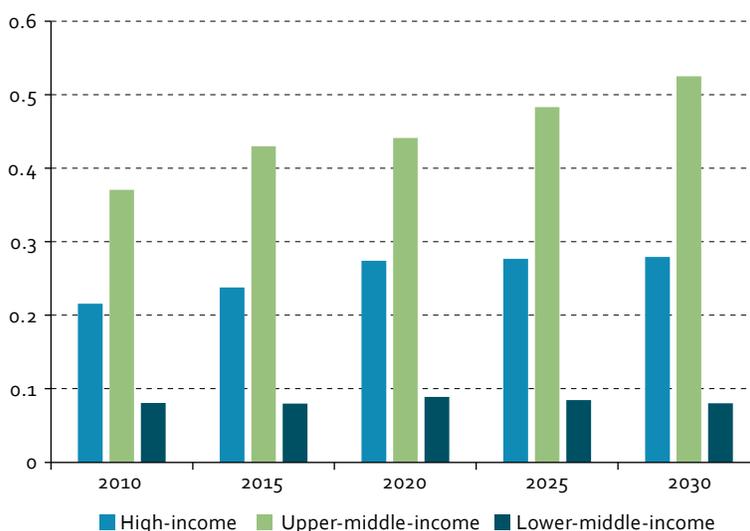
In respect of output and productivity, the weak production structure of the region's countries is reflected in the likelihood of the 2030 targets being met. Progress towards the targets is fairly independent of income levels here: in all three country income groups, more than 60% of the production and productivity targets will not be met by 2030 or the situation will regress unless the trend changes (ECLAC, 2021a). The difference between high-income and upper-middle-income countries is also very small where vulnerability indicators are concerned: the high-income countries are projected to miss the targets for 5 indicators out of 15 (or regress on these indicators), while the upper-middle-income countries are projected to miss the targets for 6 of the indicators. In the five categories analysed, it is clear that the

prospects of achieving the SDGs are not uniform within the country income groups, so new mechanisms for international cooperation in the region that look beyond GDP and take account of the countries' structural characteristics need to be sought.

Taking a more specific look at the indicators that make up each of these dimensions, three series in the production and productivity dimension that reveal the structural difficulties faced by the region's countries were analysed: spending on research, development and innovation; the education of children and adolescents; and access to digital technologies. These have been central to a number of cooperation initiatives and should receive attention even once countries reach the upper-middle or high income levels.

Spending on research, development and innovation (R&D&I) as a proportion of GDP in the region is stuck at a very low level, and on current trends there will be no substantial improvement by 2030 (see figure IV.2). This low investment in R&D&I affects countries' prospects of improving the technological sophistication of their production and progressing with capacity-building.

Figure IV.2
Latin America and the Caribbean: spending on research, development and innovation (R&D&I) as a proportion of GDP, 2010, 2015, 2020 and 2030 (Percentages)

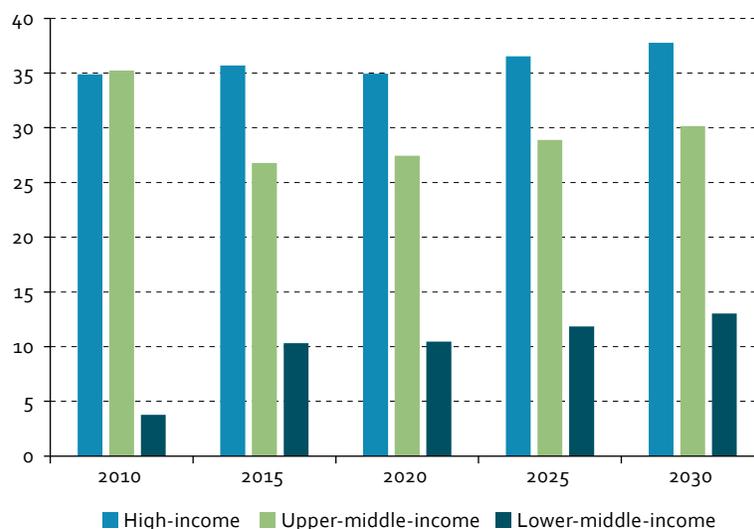


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Another aspect that is crucial for capacity-building and for inclusive and sustainable development is the education of children and adolescents. In this area, if the proportion of children and adolescents who have reached a minimum level of proficiency in mathematics by the end of lower secondary school is considered, the situation in the countries of the region is worrying. This proportion was 10% in low-income countries in 2020 and will be similar in 2030 if the trend continues. While the situation is better in higher-income countries, the percentage is still too low in absolute terms (see figure IV.3).

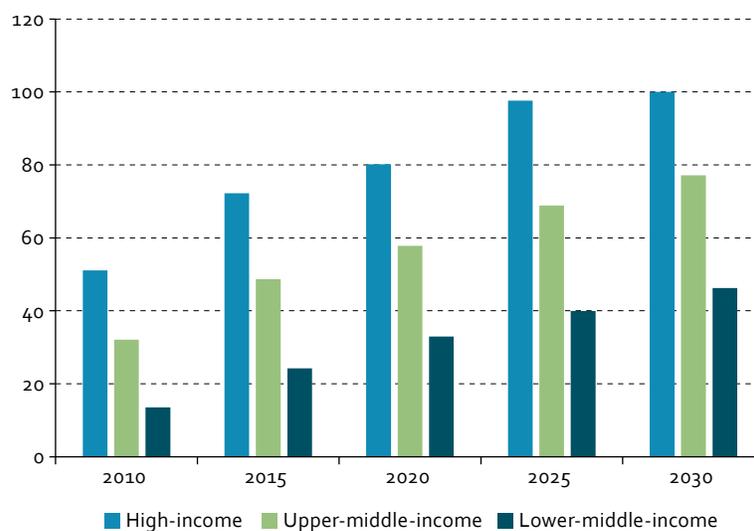
Lastly, access to digital technologies is crucial for development and, although there have been substantial improvements in the region and the trend is upward, universal Internet access remains a challenge for middle-income countries (see figure IV.4). The pandemic has clearly had an impact here. With face-to-face activities shut down and quarantines in place, having access to services through the Internet, even in highly sensitive areas such as education and health care, has made a difference to people's well-being. According to the information analysed, there is still work to be done in middle-income countries to achieve universal access.

Figure IV.3
Latin America and the Caribbean: proportion of children and adolescents achieving at least a minimum level of proficiency in mathematics by the end of lower secondary education, 2010, 2015, 2020 and 2030
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

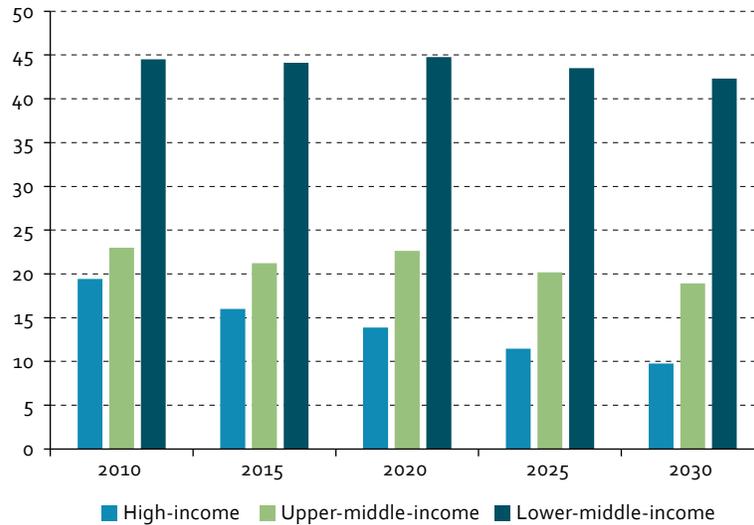
Figure IV.4
Latin America and the Caribbean: Internet users, 2010, 2015, 2020 and 2030
(Per 100 inhabitants)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Within the structural vulnerability trap category, one indicator of the difficulties countries face as they seek to ensure the well-being and inclusion of their inhabitants in their transition to development is the persistently high rate of urban slum dwellers. In lower-middle-income countries, more than 40% of the population is in this situation, and projections to 2030 suggest that the situation will hardly improve (see figure IV.5). The gap with upper-middle-income and high-income countries is large, but upper-middle-income countries could see a regression in this indicator by 2030 in the absence of public policy action.

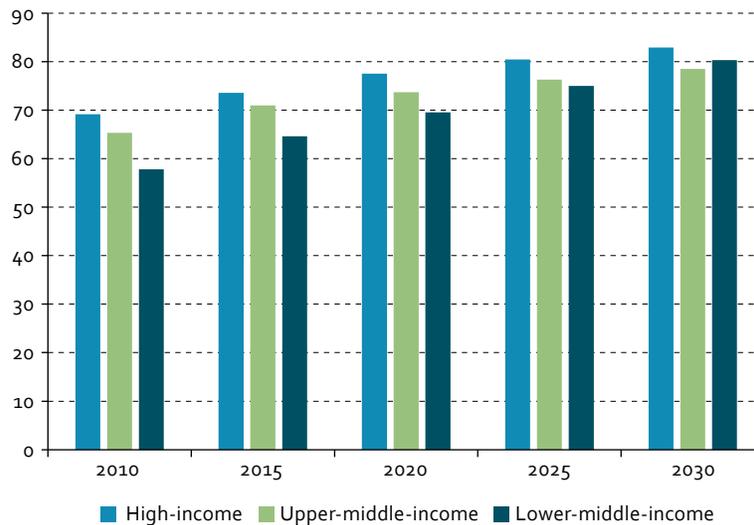
Figure IV.5
Latin America and the Caribbean: urban population living in slums, 2010, 2015, 2020 and 2030
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Where health care is concerned, on the other hand, there is not a large gap between countries by income level. All country groups are projected to show a positive evolution by 2030, with coverage of around 80% (see figure IV.6). Despite this, the pandemic has made it apparent that health coverage is not sufficient to protect the population when new diseases emerge; technological and productive capacities are needed to solve problems quickly, whether they involve manufacturing or access to inputs (personal protective equipment, medicines, vaccines, etc.). Accordingly, it is crucial for all countries in the region, regardless of their per capita income level, to have mechanisms for cooperation with developed countries in place.

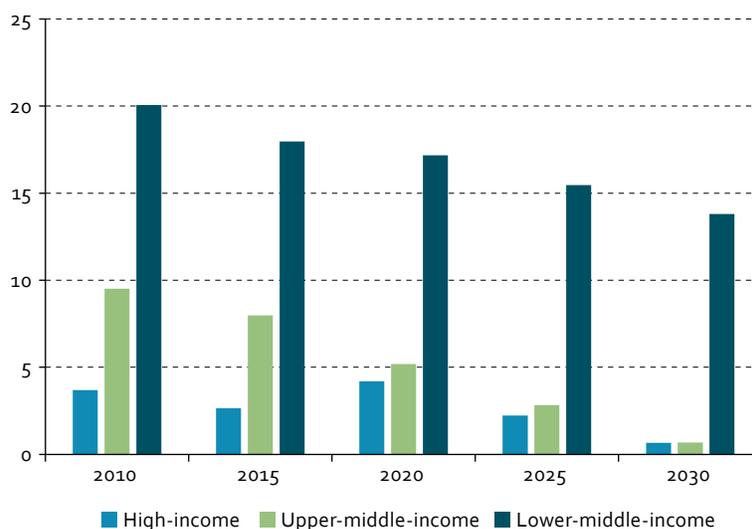
Figure IV.6
Latin America and the Caribbean: universal health services coverage index, 2010, 2015, 2020 and 2030
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

In the area of social protection, there is a wide gap between lower-middle-income countries and the others in the number of fatal occupational injuries among employed persons per year (see figure IV.7). This indicator will evolve favourably in all three groups of countries according to their income, but will still remain high for lower-middle-income countries in 2030. Cooperation can help to improve institutions by contributing regulatory good practices and can disseminate accident reduction technologies and tools. Vulnerability to occupational hazards is an issue that the countries in the region need to address in their transition to development.

Figure IV.7
Latin America and the Caribbean: fatal occupational injuries among employed persons, 2010, 2015, 2020 and 2030
(Per 100,000 employees)



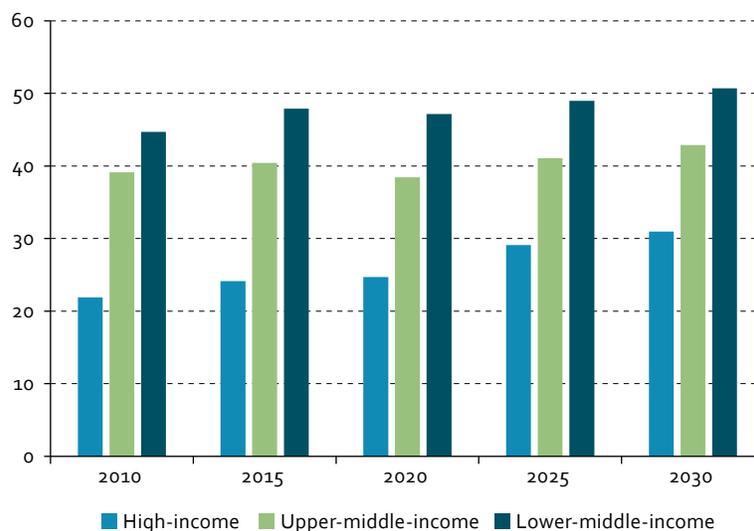
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Lastly, one of the assets of Latin America and the Caribbean is its biodiversity, but the exploitation of natural resources can threaten this wealth if it is not carried out to the highest standards of care for the environment. The protection of biodiversity areas is one of the tools used by the countries of the region in the search for a balance between natural resource-intensive production activities and care for nature. The indicator of the percentage of key terrestrial biodiversity areas that are protected shows an inverse relationship with the level of income and a tendency to stagnate (see figure IV.8). In the search for a sustainable development model, support from the international community to improve these indicators is essential.

As mentioned at the beginning, analysis of the likelihood of certain indicators grouped into five categories of structural traps being met by 2030 shows that the countries of the region share structural challenges that persist even despite rising incomes. In this situation, to categorize Latin America and the Caribbean as a middle-income region close to graduation is inadequate and incomplete as a basis for analysing the region's development processes. Moreover, graduation could leave the countries worse placed than at present to achieve the Goals of the 2030 Agenda.

Latin America and the Caribbean is a diverse region with an incomplete development process and numerous challenges ahead. The indicator analysis exercise carried out shows that a cooperation criterion based on income categories could prompt the misleading conclusion that the region is not a priority for international cooperation, as many of its countries are in the process of graduation.

Figure IV.8
Latin America and the Caribbean: key terrestrial biodiversity areas protected, 2010, 2015, 2020 and 2030
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

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V. Conclusions: a new partnership for a world in transition

A. A new vision of cooperation

As analysed in previous chapters, the Latin America and the Caribbean region has experienced a truncated development process. This has been characterized by low productivity and difficulties in sustaining technological and productive change that would make it possible to move from sectors that make intensive use of natural resources and unskilled labour, to more dynamic sectors that generate good jobs and reduce inequalities. The countries of the region remain vulnerable to the dynamics of international markets; and this prevents them from maintaining macroeconomic equilibrium, which results in limited fiscal space and insufficient access to domestic capital markets. At the same time, major challenges persist in the region in terms of social inclusion, inequality reduction and sustainability. The graduation process and its consequences could expose countries to setbacks in some of the fundamental dimensions of development. Graduation not only implies leaving the official development assistance (ODA) framework, but also changes dialogue mechanisms and relational channels with more developed countries; and it restricts access to other financing sources and cooperation modalities. Once graduated, countries automatically lose concessional cooperation funds tied to development objectives; but they do not have sufficient capacity to match private flows, which respond to profitability criteria, to development objectives. Moreover, many of the graduated countries do not have access to other sources of development finance. The current graduation process, based on per capita income thresholds, exposes countries and their vulnerabilities and does not support them in consolidating their development processes. The impact of COVID-19 in the region has shown that countries' development achievements are not sustainable, and they face persistent challenges that cannot be addressed with private financial flows.

In the new graduation context, the cooperation agencies of traditional donor countries have adapted their cooperation strategies to reach graduated countries through regional development cooperation and triangular cooperation programmes. These enable graduated countries to support the development of neighbouring countries and deepen integration, while maintaining relations between traditional donors and the graduated countries (see box V.1). Some bilateral donors, however, maintain their development programmes, even if the country is no longer eligible for ODA, if they consider that strategic partnerships exist in relation to specific themes or sectors.¹

¹ An example is the continuation of operations by the Japan International Cooperation Agency (JICA) in Chile (Calleja and Prizzon, 2019).

Box V.1**The Advanced Cooperation Agreement between Spain and Costa Rica**

Since being classified as an upper-middle income country by the international financial institutions and the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), Costa Rica has had less access to non-reimbursable cooperation resources, whereas the inflow of reimbursable funds has increased significantly.

Costa Rica and Spain have maintained a development cooperation programme since 1990. In June 2021, they signed an Advanced Cooperation Agreement (ACA), which will set the stage for bilateral relations in development cooperation for 2021–2029. This agreement presents a horizontal cooperation model, involving bilateral dialogue to identify innovative cooperation actions aligned with the capacities of both countries, mutual accountability between the parties and permanent feedback. It proposes cooperation modalities (bilateral, regional, multilateral, border, triangular and delegated) and instruments such as programmes and projects, the Development Promotion Fund (FONPRODE), public private partnerships and humanitarian assistance.

The Advanced Cooperation Agreement seeks regional projection, in which border development is one of the areas of work; and it aims to emphasize technical, South-South and triangular cooperation. It will also implement innovative modalities, such as leveraging new delegated cooperation funds and working in coordination with the European Union and United Nations agencies, to generate strategic partnerships to mobilize and exchange knowledge, expertise, technology and financial resources.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Spanish Agency for International Development Cooperation (AECID) and others, *Acuerdo de Cooperación Avanzada España – Costa Rica (ACA – ES CR)* [online] <http://www.aecid.otc.cr/wp-content/uploads/2021/07/Acuerdo-de-Cooperacion-Avanzada-Espana-CR-2021-2029-VB.pdf>.

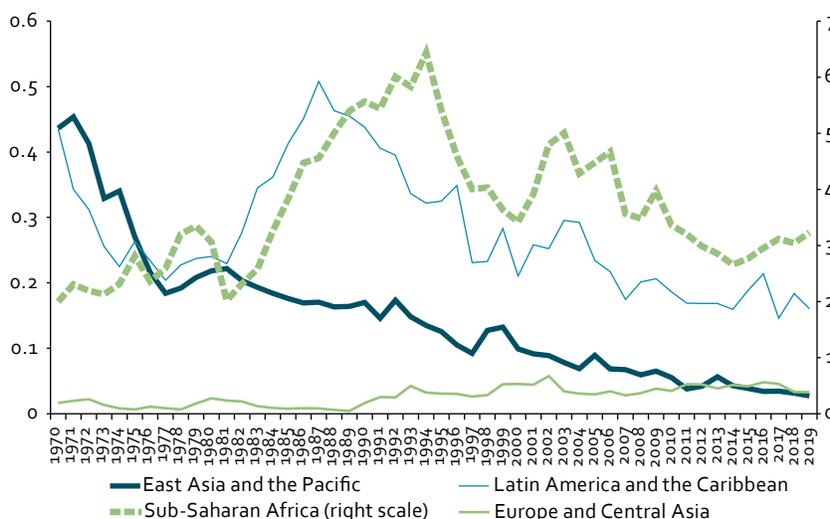
In the last decade, the need to rethink international development cooperation has been an important part of the debate on the future of the multilateral system. Since the adoption of the 2030 Agenda for Sustainable Development, the need to redesign international cooperation modalities has become clear. Achieving the goals of the 2030 Agenda requires efforts to mobilize public and private, national and international resources for development directed towards achieving the Sustainable Development Goals (SDGs). In this context, international cooperation plays a key role. Firstly, for the developing countries, ODA represents a significant and reliable source of financing. At the same time, for higher-income countries, ODA provides resources to address the structural challenges that limit development potential; and it contributes to institutional strengthening and capacity transfer. Secondly, international cooperation generates mechanisms for dialogue between developed and developing countries to exchange experiences and manage global challenges jointly.

In the current system, ODA graduation undermines the access of developing countries in transition, not only to non-concessional funding, but also to the transfer of knowledge, good practices and technical standards; and it reduces opportunities for dialogue and policy coordination. Graduating countries thus face heightened challenges in fulfilling the 2030 Agenda for Sustainable Development and in responding to the citizens' needs. The current context offers an opportunity to reflect on the criteria used for ODA allocation and sharpen the focus to determine where the greatest development challenges lie in each case, and how international cooperation can help countries drive virtuous development processes. Development cooperation must be reimagined as a comprehensive instrument to accompany countries in their development processes, taking their structural characteristics into account. Thus, the development in transition approach considers development as a multidimensional and uninterrupted process, which does not end when countries reach a certain level of per capita income but continues in the various dimensions until achievements are sustainable. From this perspective, cooperation is an enabler of development and responds to the countries' needs. In particular, in keeping with the concept of development in transition, international cooperation should have a focus that goes beyond poverty reduction. Countries that are in the stage of development in transition need cooperation to catalyse development processes and support their efforts to implement the structural changes needed to break free from the dynamics of development that is truncated or subject to hysteresis.

In Latin America and the Caribbean, the following countries have been removed from the Development Assistance Committee’s list of ODA recipients, having been classified by the World Bank as high-income countries for three consecutive years: the Bahamas (1996), Bermuda (1997), Barbados and Trinidad and Tobago (2011), and Chile and Uruguay (2018). Antigua and Barbuda and Panama are scheduled for removal in 2022.

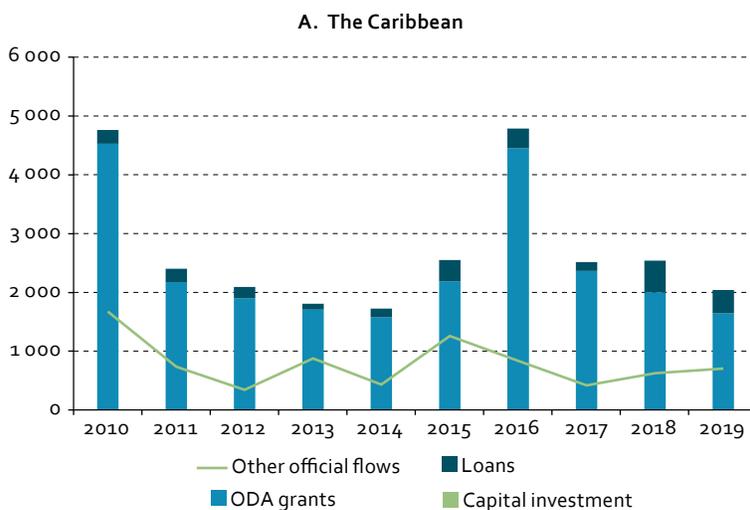
Since the 1970s, as the region’s per capita GDP has increased, the contribution of ODA as a percentage of GDP has declined (see figure V.1). At the subregional level, ODA is particularly important in the Caribbean countries, where it remains the largest component of official flows (see figure V.2). An analysis of ODA flows shows that, while the region’s development does not depend on them, they remain essential for addressing some of the region’s remaining development challenges.

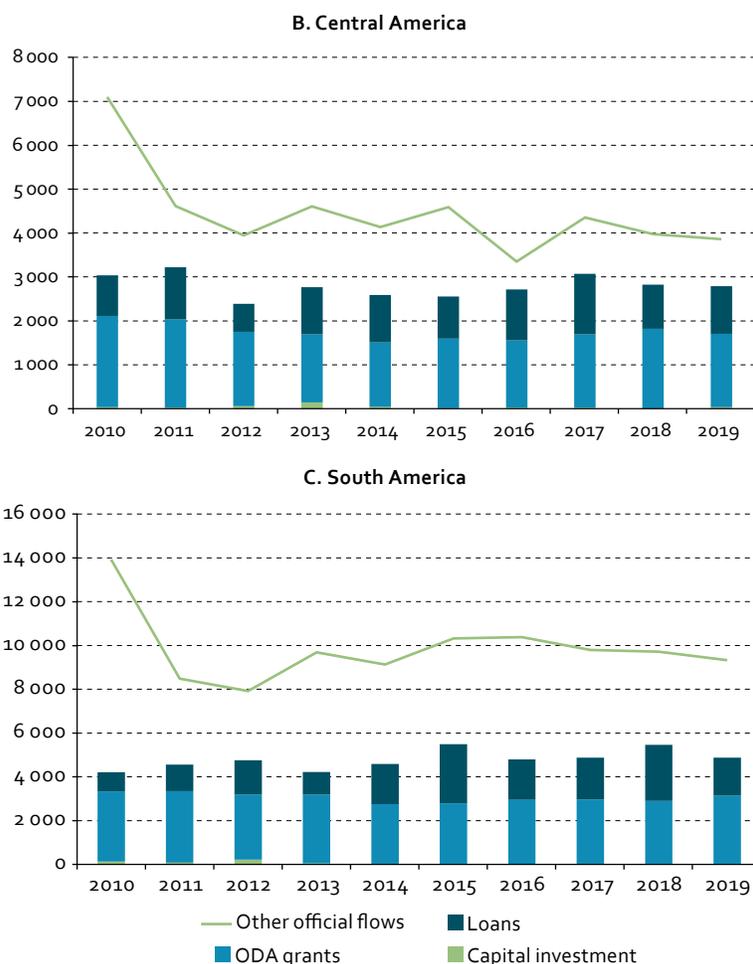
Figure V.1
Net official development assistance (ODA) received in the world, by region, 1970-2019
(Percentages of gross national income)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database] <http://data.worldbank.org/data-catalog/world-development-indicators>.

Figure V.2
Latin America and the Caribbean: composition of official development flows, 2010-2019
(Billions of United States dollars at 2019 prices)





Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organization for Economic Cooperation and Development (OECD).

Among the region's recently graduated countries, in addition to reduced flows, the sectoral allocation of concessional funds changed in the years leading up to graduation, as did the terms and conditions of non-concessional development financing (loans and other financial instruments). Graduation has also had non-financial effects, in that countries have encountered increasing difficulties in mobilizing resources for development, triangular cooperation and access to certain global funds. Countries have reported greater difficulties in leveraging resources for technological research, development and innovation (see box V.2). One of the consequences of graduation is an increase in membership fees payable to the multilateral system. graduated countries participate in the system as developed countries, which entails a reduction in the resources available to address domestic shortfalls. Graduation has also meant the end of unilateral trade preferences,² a reduction in funding for academic and professional training and a decrease in resources available to civil society organizations, as well as additional difficulties for small and medium-sized enterprises to successfully enter international markets (see table V.1).

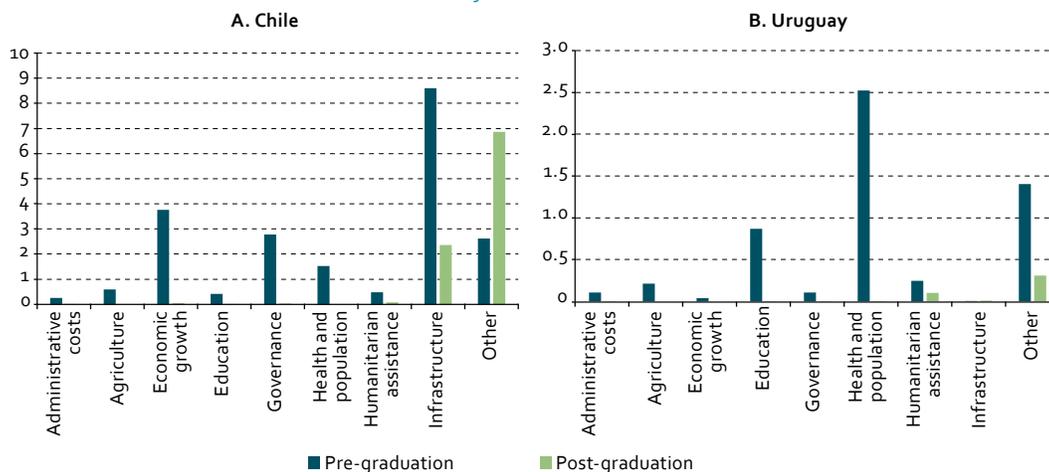
² In several of the region's countries, reciprocal preferences have replaced non-reciprocal ones in free trade agreements signed with the United States and the European Union. This is the case both for countries that have not yet graduated from ODA and for those that have (Chile, Brazil, Colombia and Peru).

Box V.2

The effects of graduation from official development assistance: the experiences of Chile and Uruguay

Despite the lack of an exhaustive analysis of the effects of graduation on development processes in graduated countries, the cases of Chile and Uruguay reveal several immediate effects of graduation. The direct effects include the drying up of concessional loan and grant flows (see figure 1). In both countries, graduation has meant a reduction in ODA funding in all sectors, even in some where the countries still face problems in mobilizing other resources, for example, those linked to competitiveness, economic growth and capacity building.

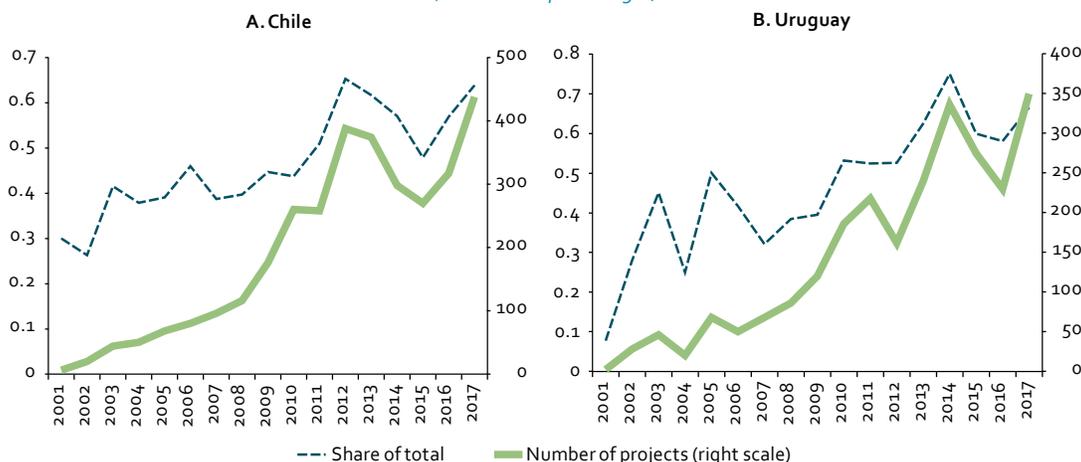
Figure 1
Chile and Uruguay: official development assistance, total amounts received by area of funding, before and after graduation, simple annual average, 1990–2020
(Millions of United States dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of International Aid Transparency Initiative (IATI) [online] <https://iatistandard.org/en/about/>

Despite the reduction in total resources disbursed, the sectoral scope of official international cooperation has evolved more towards activities related to new challenges that arise as countries move forward in their development processes. Thus, in Chile and Uruguay, for example, ODA was directed more towards capacity building in innovation, science and technology (see figure 2), along with the establishment of strategic partnerships aimed at mobilizing and exchanging knowledge, expertise, technology and financial resources.

Figure 2
Chile and Uruguay: official development assistance projects with innovation impact and their share in total projects, 2001–2017
(Number and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of Chilean Agency for International Cooperation/ United Nations Development Programme (AGCI/JNDP), *Primer análisis de impacto de la graduación de Chile*, Santiago, 2017, and data from the Chilean Agency for International Development Cooperation (AGCID).

Since graduating, Chile has maintained relations with multilateral donors and considers that this mechanism is conducive to interaction both on relevant issues and on regional and global challenges. The end of bilateral programmes linked to ODA did not put an end to development cooperation. Although with smaller amounts, Germany, Spain and the United Kingdom maintained their support with new modalities, for example, with regional approaches and the promotion of triangular cooperation. Some bilateral donors continued with their development support programmes—an example being the Japan International Cooperation Agency (JICA), which continued to operate in Chile through research programmes in science and technology, environment and disasters, and risk reduction.

In the case of Uruguay—which used to receive international cooperation for social, health and environmental issues—concessional loans in the final years of ODA were linked mainly to the reconversion of its energy matrix and renewable energies. In 2018, the first year of leaving traditional cooperation, the amounts of cooperation between China and Uruguay increased significantly, as also happened between Chile and certain partners outside the European Union.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organization for Economic Cooperation and Development (OECD) and C. Alemany and R. Herrera, “Valoración de la cooperación Sur-Sur: el caso del Uruguay”, *Valoración de la cooperación Sur-Sur en seis países seleccionados de América Latina y el Caribe: desafíos compartidos en la implementación de la Agenda 2030 para el Desarrollo Sostenible*, E. Oviedo (coord.), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), in press, 2021.

Table V.1
Effects of official development assistance graduation

Direct effects	
Financial	Non-financial
Drying up of concessional loan and grant flows	Increase in fees payable to the multilateral system
Reduction in funding flows for scholarships and academic training	Difficulties in mobilizing resources for triangular and South-South cooperation
Contraction and displacement of sectoral flows	Difficulties in leveraging funds for science and technology
Change in the terms and conditions of non-concessional development financing	End of unilateral trade preferences
	End of preferences for academic and professional training
	Weakening of support for civil society organizations
Indirect effects	
Financial	Non-financial
Potential reduction of concessional and non-concessional funds linked to development challenges	Potential closure of the formal dialogue channel with donor countries
Difficulty in leveraging other resources	Low rates of participation in dialogue mechanisms with graduated countries
	Loss of business opportunities for small and medium-sized enterprises

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Chilean Agency for International Cooperation/ United Nations Development Programme (AGCI/UNDP) (2017), *Primer análisis de impacto de la graduación de Chile*, Santiago, 2017 and A. Vignolo and K. Van Rompaey, “Uruguay: una respuesta política a la graduación y a la Agenda 2030”, *Documentos de Trabajo*, No. 27/ 2020, Madrid, Fundación Carolina, 2020.

Graduation also has indirect medium- and long-term effects on the capacities of countries to leverage resources for development. International cooperation funds and the existence of an official dialogue channel between countries improve the chances of leveraging other resources both nationally and internationally, as demonstrated by Rosenstein-Rodan (1969) and Kharas, Makino and Jung (2011). International cooperation funds can improve the possibility of leveraging other budgetary resources and other international flows, once international cooperation is implemented in certain sectors. Thus, the interruption of formal cooperation channels could mean diminished resources to address development challenges.

As a result of the pandemic, the ability of countries to mobilize resources for long-term objectives has been limited. Adequate resources that go beyond cooperation will be essential for graduating and near-graduating countries if they are to achieve the Sustainable Development Goals.

Recovery from the pandemic therefore represents an opportunity to rethink the modalities and instruments of international cooperation in relation to middle- and high-income countries. The development in transition approach proposes moving towards a more flexible form of cooperation that facilitates development processes. In particular, cooperation with Latin America and the Caribbean should be organized around three key dimensions: more inclusive mechanisms, the capacity of the mechanisms to respond to the needs of the countries to meet national, regional and global development challenges, and innovation and incorporation of multiple actors (see table V.2). In the context of the pandemic, countries will need cooperation to be retargeted towards a facilitating and catalytic role in recovery strategies, involving a variety of actors and instruments that are adapted to their needs. These would include concessional flows and official development assistance, new sources of financing for middle- and high-income countries, new mechanisms for vulnerable Caribbean countries, new sectoral funds to achieve the Sustainable Development Goals, technical assistance, technology and capacity transfer, and international networking around global challenges. In particular, addressing the challenges of the pandemic could stimulate the creation of blended finance facilities that foster the mobilization of high-impact development and recovery investments in the region.

Table V.2
Key dimensions of cooperation with Latin America and the Caribbean

Dimension	Description
Inclusive	Cooperation mechanisms should involve countries at all levels of development on an equal footing, as peers, to develop and participate in multilateral and multi-stakeholder partnerships.
Based on country needs	Cooperation instruments should take countries' development priorities into account; strengthen their capacities to develop, implement and evaluate their own development plans and policy priorities; foster harmonization between national and international priorities; and seek integrated approaches to the most complex and interconnected challenges.
Innovative and multi-stakeholder	Instruments for greater international cooperation should be expanded, including knowledge sharing, policy dialogues, capacity building and technology transfers; and incorporating more stakeholders, including public actors, in a country approach.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD) and others *Latin American Economic Outlook 2019: Development in Transition* (LC/PUB.2019/14), Paris, OECD Publishing, March 2019.

B. New actors and modalities: South-South, bilateral and triangular cooperation

As shown in chapter III, once graduated, countries that are in the transition stage of development will continue to demand technical cooperation, knowledge and expertise, with higher qualification levels and greater depth, both in terms of ideas, designs, strategies and planning of project cycles and in their implementation, monitoring and evaluation.

The experience of one graduated country in the region (Chile) demonstrates the need for a creative search for ways to support countries in the process of graduation and for adaptation by international cooperation actors. Other relevant elements include the generation of medium and long-term plans by development partners, before the bilateral relationship ends. This would ensure a smooth transition that also considers the future after ODA, and the expansion of technical assistance in the transition. This time should be seen as an essential stage for learning, the installation of capacities (in both governmental and non-governmental organizations) and rapprochement between countries. Departing from ODA

does not mean that all financial assistance is halted. In certain cases, the identification of countries as strategic partners for development will be fundamental for maintaining financial assistance ties, as has happened in the relationship between Chile and Japan (Calleja and Prizzon, 2021).

In the field of international cooperation for development, South-South, triangular and regional cooperation, as well as the multilateral system, open up spaces for incorporating innovative cooperation modalities that complement North-South cooperation. South-South cooperation is a manifestation of solidarity between peoples and countries of the South —based on principles such as horizontality, respect for sovereignty, complementarity, mutual benefit, equity, transparency and accountability— the purpose of which is to contribute to the achievement of development objectives. In Latin America and the Caribbean, South-South cooperation can claim at least four decades of progress.

The 1970s were the decade of greatest activity in defining and promoting South-South cooperation, with the milestone being the United Nations Conference on Technical Cooperation among Developing Countries. This was convened in 1978 and adopted the Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries (BAPA). This plan outlined the general guidelines for technical cooperation among developing countries and became the key reference document for South-South cooperation until 2020.³ In that year, the Second United Nations High-Level Conference on South-South Cooperation (BAPA+40) was also held, which produced guidelines for this type of cooperation in the future. From an institutional perspective, the 1990s saw increased financial, technical, human and institutional resources for development cooperation.⁴ In 2015, international development cooperation policy documents that consider support for the multidimensional nature of development expressed in the Sustainable Development Goals were consolidated, in the context of approval of the 2030 Agenda for Sustainable Development and the start of its implementation. Also, in the 1990s, regional and subregional integration mechanisms started to gain recognition as important instruments for South-South cooperation; these mechanisms reached full development after 2000, when the countries of the South began to participate actively in discussion and agreements around the construction of a fairer and more effective architecture for development.

The innovative modalities of South-South cooperation include an increase in resources to bring the means and ends of countries' South-South cooperation policy closer together, as well as the creation of numerous programmes and bilateral funds. The latter include the Chile-Mexico and Mexico-Uruguay funds, and funds managed by the countries with United Nations agencies, such as Chile's with the United Nations Development Programme (UNDP), among others. Regional integration programmes have been used to promote South-South and triangular cooperation with their own funds and cooperation modalities —examples being the Southern Common Market (MERCOSUR), the Central American Integration System (SICA), the Caribbean Community (CARICOM), the Pacific

³ The basic objectives of South-South cooperation considered in BAPA include the following: foster the independence of developing countries to find solutions to their problems in accordance with their aspirations, values and needs; exchange experiences and encourage countries to complement each other in the development of their capabilities; strengthen the capabilities identified by the countries themselves, analyze their development priorities and formulate the strategies needed to address them; increase the quantity and quality of international cooperation for development; build technological capabilities in developing countries, and strengthen existing ones; increase and improve communications among developing countries to raise awareness of their common problems; recognize the problems and needs of the least developed countries, landlocked developing countries, small island developing States and countries most affected by natural disasters and other crises; and increase the participation of developing countries in international economic activity.

⁴ In Latin America, the first cooperation agencies were the Brazilian Cooperation Agency (ABC) (1987) and the Chilean Agency for International Development Cooperation (AGCID) (1990). These were followed by the Peruvian Agency for International Cooperation (APCI) (2002), the Ecuadorian Agency for International Cooperation (AGECI) (2007), the Colombian Presidential Agency for International Cooperation (APC-Colombia) (2011), the Mexican Agency for International Cooperation for Development (AMEXCID) (2011), the Uruguayan Agency for International Cooperation (AUCI) (2011) (see Rivero and Xalma (2019)) and the El Salvador Agency for International Cooperation (ESCO) (2020). In the remaining countries of the region, development cooperation policy, programmes and activities have generally been conducted through offices or directorates in one or more ministerial portfolios.

Alliance and the Bolivarian Alliance for the Peoples of Our America (ALBA). The countries participate in international organizations and forums that strengthen relations between the nations of the South and foster North-South dialogue on cooperation issues, such as the Forum of Latin American and Caribbean Countries on Sustainable Development. In these mechanisms, the region has highlighted the need for new cooperation criteria and modalities, the refounding of multilateralism through multilateral cooperation at various levels, which includes new and traditional actors, new sources of financing, technical assistance, debt reduction, technology transfer and new strategic partnerships.

In Latin America and the Caribbean, there are numerous experiences of South-South, bilateral and triangular cooperation, as well as regional modalities aimed at creating and strengthening capacities that contribute to the integration and development of the countries.⁵ This type of cooperation is very important in the Caribbean countries, as illustrated in box V.3. Nonetheless, despite the progress made, there are deficits in South-South cooperation in the region; for example, the lack of systemization and monetary and non-monetary valuation of cooperation, as well as the absence of impact assessments. However, progress has been made, mainly in Brazil, Colombia and Mexico, which can foster rapid progress in this direction.

Box V.3

Cases of Caribbean countries, recipients and providers of South-South cooperation

Since the 1970s, Barbados has had significant South-South cooperation experiences with the Bolivarian Republic of Venezuela, Brazil, Cuba and Mexico. The programmes in question have included capacity-building in health and education, sports development, agriculture and food security, energy and cultural cooperation. It has also been involved in recent cooperation initiatives with, for example, Cuba, Brazil, China, various Pacific small island developing states and members of the Commonwealth, such as Ghana and Kenya. The emphasis of cooperation has been on capacity building for disaster risk management and the development of a green economy. Barbados is a leading beneficiary and contributor to knowledge exchange and training projects.

Cuba has one of the longest track records in South-South cooperation in Latin America and the Caribbean. Its support is sought mainly because of its experience in the areas of health, education and disaster risk prevention (see table). Like other middle-income countries, Cuba plays a dual role of provider and recipient of ODA, which in practice implies accepting the principles and methodologies of traditional cooperation, while adhering to the promotion of a South-South cooperation framework based on principles such as solidarity. Since its first international missions, Cuba has emphasized the transfer of knowledge by sending professionals to the recipient countries.

⁵ Examples of Chile's triangular cooperation initiatives include the following: "Training programme for human resources in disaster risk reduction (DRR) in Latin America and the Caribbean" and "Support to the Suriname Agricultural Health and Food Safety System". The general objective of the first of these projects is to strengthen human resource capacities and networks for disaster risk reduction in Latin America and the Caribbean and involves the following agencies: in Chile, the National Emergency Office (ONEMI), the University of Chile, the Pontifical Catholic University of Chile, the University of Valparaiso, the Pontifical Catholic University of Valparaiso, the National Fire Academy, the National Forest Corporation (CONAF), the Ministry of Health and the Chilean Agency for International Development Cooperation (AGCID); in Japan, the Japan International Cooperation Agency (JICA); and also 4,000 government officials and disaster risk reduction researchers from Latin American and Caribbean countries. The second project involves implementation of a preventive system to identify contaminated food and interrupt its distribution to the population. It addresses the regulations to be satisfied by production facilities, the adherence to reliable standards by production modes and production management, and proper inspection to monitor compliance with legal requirements. The project involves the following agencies, in Chile, the Agriculture and Livestock Service (SAG), the Chilean Food Safety and Quality Agency (ACHIPIA) and AGCID; in Brazil, the Ministry of Agriculture, Livestock and Supply and the Brazilian Cooperation Agency (ABC); and in Suriname, the Ministry of Agriculture, Livestock and Fisheries. For further information, see [online] <https://www.agci.cl/que-es-la-cooperacion/triangular> [accessed July 7, 2021].

Key social programmes of Cuban South-South cooperation, 1998-2018

Programme	Content
Cooperation programme between Nicaragua and the Russian Federation supported by the Pan-American Health Organization (PAHO) and Cuba.	Technology transfer to create a influenza virus vaccine production plant
"More Doctors" Programme	Medical assistance to low-income populations located farthest from urban centres in Brazil, including the indigenous populations of the Amazon region.
Comprehensive Health Plan	Dispatch of health professionals, for up to two years, to provide training and education, and to facilitate technology transfer.
Operation Miracle	Ophthalmological care and surgery for patients who lack access to these services.
Triangular cooperation programme between Cuba, Libya and Nigeria	Provision of primary medical care. Cuba provides the technical capacity, while other countries provide the funding. The programme has been extended to other African countries.
Triangular cooperation programme between Brazil, Cuba and the World Health Organization (WHO) for the development of vaccines against meningitis.	Low-cost production of the vax-Men-AC vaccine against meningitis A and C for 23 African countries.
Latin American School of Medicine	Training of basic general practitioners for primary health care.
Cuban literacy programme "Yes, I can".	Implementation of a teaching method designed to facilitate the process of learning to read and write. This is based on a primer that combines numbers and letters to teach adults to read and write.
International School of Physical Education	Training of foreign students to promote sports in their countries of origin.

Source: L. Guerra, "Valoración de la cooperación Sur-Sur: el caso de Cuba", *Valoración de la cooperación Sur-Sur en seis países seleccionados de América Latina y el Caribe: desafíos compartidos en la implementación de la Agenda 2030 para el Desarrollo Sostenible*, E. Oviedo (coord.), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), in press, 2021.

Jamaica has a history of South-South cooperation with Latin America and the Caribbean that has expanded since the 1990s. Some of the most effective governance mechanisms for these processes are the joint bilateral commissions that Jamaica maintains with many of its partner countries. Multilateral agencies and partner countries working through triangular cooperation agreements have supported the country in building the capacities needed to implement the 2030 Agenda for Sustainable Development. Local leadership from public sector agencies, along with civil-society actors, have been instrumental in the implementation of South-South cooperation programmes.

Jamaica has an extensive network of partners located in Africa, Asia and the Pacific, and Latin America and the Caribbean. Of particular note are Cuba and the member states of the Caribbean Community (CARICOM). The impact of South-South cooperation has been most visible in the health, education, energy, social protection and other areas of social policy. Jamaica has an emerging profile as a contributor to South-South cooperation in certain areas of specialization, including sports development, election monitoring, tourism development, capacity building in social protection programmes, conducting surveys on living conditions, and accessing financing to tackle climate change.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Byron and J. Laguardia Martínez, "Experience with South-South Cooperation: the case of Barbados", *Valoración de la cooperación Sur-Sur en seis países seleccionados de América Latina y el Caribe: desafíos compartidos en la implementación de la Agenda 2030 para el Desarrollo Sostenible*, E. Oviedo (coord.), Santiago, ECLAC, in press, 2021.

C. Cooperation and strategic alliances for a transformative recovery

As has become clear throughout this analysis, although per capita incomes have risen across the region in recent decades, structural gaps that generate development blockages persist. The variety and heterogeneity of the needs faced by countries in the process of transition to development show that there can be no single ranking based on an inadequate indicator such as per capita GDP. In fact, the identification and ordering of priorities are decisions to be made by each country.

Consequently, recipient countries must play an active role in setting their development objectives. In line with the vision of development in transition, it is up to them to identify the priority areas in which they require greater support to reduce their structural gaps. This would enable them to implement the strategies, policies and instruments needed to advance toward a higher level of development. This is a key first step in ensuring that the international cooperation system supports all countries. The most active role should be based on the establishment of dialogue mechanisms and the forging of consensus and agreements at different levels of the international cooperation system, so that cooperation flows are channelled efficiently and respond to the real needs of the countries. Such mechanisms should operate at various levels, both political and technical; they should involve all actors and institutions, public and private, civil society and the academic sector; and they should address social, economic and productive, cultural, institutional, environmental and territorial development issues. Special attention should be paid to the conditions for promoting the development of public-private partnerships, as these are essential mechanisms for building mutual trust and identifying synergies among public, private and civil society actors, and for formulating and implementing common visions and medium- and long-term strategies.

Subsidiary, less asymmetrical forms of cooperation need to be strengthened to ensure the commitment and full participation of developing countries in transition. The strengthening of South-South and triangular cooperation allows for less exclusion and fosters greater ownership by the recipient countries. In this context, the existence of a shared responsibility that generates a twin benefit for the donor and the recipient, by stimulating the development of technical capacities between both parties. This type of partnership contributes to strengthening capacities, institutions and policies for sustainable development, care for the environment, social justice and inclusion, full exercise of the civil, political, economic, social, cultural and environmental rights of all people, without distinction, and the reduction of structural inequalities between people, territories and countries.

To move forward in this effort, the Economic Commission for Latin America and the Caribbean (ECLAC), provides the countries of the region with a robust intergovernmental platform to address the challenges of international cooperation for development (see table V.3). This platform fosters open dialogue with sectoral authorities through wide-ranging and active participation. It also reviews public policies and facilitates cooperation and peer-to-peer learning based on comparative experiences; and it approves regional agreements and generates mandates for the Commission. A broad range of individuals are convened to share lessons learned, exchange experiences and identify areas for mutual technical assistance and international cooperation on urgent issues and aspects defined by the governments. Those invited include high-level authorities, delegates from the countries of the region, representatives of United Nations funds, programmes and specialized agencies, United Nations resident coordinators, international experts, academics and private-sector and civil-society representatives, among others.

The key factors for success in the development process and in the shaping of more egalitarian societies with greater well-being include the promotion of structural transformations that make it possible to move toward competitive strategies based on knowledge and innovation, and to generate more and better jobs. This type of competitiveness, accompanied by support plans for the most needy, means that the pattern of specialization must change and shift towards more dynamic sectors in which national and international demand allows for higher levels of productivity and employment. This must be complemented by changes in energy consumption patterns and adequate environmental protection.

Table V.3
Subsidiary bodies and intergovernmental meetings of ECLAC

Subsidiary bodies and Committee of the Whole
Committee of the Whole
Committee on South-South Cooperation
Caribbean Development Cooperation Committee (CDCC)
Conference on Science, Innovation and Information and Communications Technologies
Statistical Conference of the Americas of the Economic Commission for Latin America and the Caribbean
Regional Conference on Social Development in Latin America and the Caribbean
Regional Conference on Women in Latin America and the Caribbean
Regional Conference on Population and Development in Latin America and the Caribbean
Regional Council for Planning of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES)
Inter-governmental meetings
Ministerial Conference on the Information Society in Latin America and the Caribbean
Regional Intergovernmental Conference on Ageing and the Rights of Older Persons in Latin America and the Caribbean
Forum of the Countries of Latin America and the Caribbean on Sustainable Development
Meetings of the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean (Escazú Agreement)

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

The transformation of growth and development models involves both cross-cutting and sector-specific components, in which international cooperation is called upon to play a fundamental role, not only through financing but also by facilitating access to knowledge, technology transfer and best practices, and technical cooperation.

The cross-cutting elements involve strengthening management capacities for the development and implementation of public policies in various fields of action (political, economic, social and institutional) and the generation of regional and global public goods, including access to knowledge and technology.

With respect to the specific sectoral components that should be considered by development cooperation, ECLAC has identified a non-exhaustive set of dynamic sectors for an environmental big push, which would enable progress towards more inclusive and sustainable development, and in which the creation of spaces for coordination, collaboration, financing, investment and exchange of experiences and best practices is essential. These include: non-conventional renewable energies, urban electromobility, the universalization of digitalization, the health-care manufacturing industry, the bioeconomy, the care society, the circular economy and sustainable tourism. In these sectors there are spaces to generate quality jobs, pursue innovation and incorporate technological progress, diversify exports, adapt to and mitigate the effects of climate change and undertake regional cooperation efforts with other countries and regions (ECLAC, 2020).

To develop these sectors further, regional trade and production integration would make it possible to take advantage of economies of scale and scope. Integration is crucial for supporting recovery in the short term, and to move towards a new, more inclusive and sustainable style of development; to generate endogenous engines of growth and to reduce vulnerability to external shocks. A strategy for integration is even more urgent in the light of certain global trends that have been hastened by the pandemic, which point to an intensification of trade and production regionalization processes.

In short, this document has argued that cooperation that supports transformative recovery among countries in transition to development needs to be tailored to their national strategies, their specific development challenges and opportunities, and their contribution to the production of regional and global public goods. It is based on a reformed multilateralism, with multilevel and multilateral

cooperation involving both traditional and new actors (horizontal, regional, South-South, North-South, South-North and triangular cooperation). Its modalities include a wide-ranging toolbox that contains financing instruments, climate change funds, blended finance, debt-for-environment swaps and domestic resource mobilization, together with innovative cooperation modalities (such as knowledge sharing, capacity building and technology transfers). It is cooperation based no longer on per capita income, but on multidimensional measures of development and well-being.

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Annex

Table A1
Selected indicators of progress towards achievement of the Sustainable Development Goals (SDGs)

Dimension	Indicator
Production and productivity	8.2.1 Annual growth rate of real GDP per employed person (percentage).
	8.3.1 Proportion of informal employment in non-agriculture employment, by sex (percentage). Total. All sectors.
	9.2.1 Manufacturing value added as a proportion of GDP (percentage).
	9.2.2 Manufacturing employment as a proportion of total employment (percentage).
	9.5.1 Research and development expenditure as a proportion of GDP (percentage).
	9.5.2 Researchers (in full-time equivalent) per million inhabitants.
	9.b.1 Proportion of medium and high-tech industry value added in total value added (percentage).
	4.1.1 Proportion of children and young people at the end of lower secondary achieving at least a minimum proficiency level in mathematics (percentage).
	C-4.3 Gross rate of enrolment in tertiary education, by sex (percentage). Total.
	10.4.1 Employment share of GDP (percentage).
	17.8.1 Internet users per 100 inhabitants (number).

Dimension	Indicator	
Vulnerability	11.1.1	Proportion of urban population living in slums (percentage).
	10.c.1	Remittance costs as a proportion of the amount remitted (percentage).
	1.4.1.(a)_t	Proportion of population using basic drinking water services, by location (percentage). Total.
	1.4.1.(b)_t	Proportion of population using sanitation services, by location (percentage). Total.
	7.1.1	Proportion of population with access to electricity, by rural/urban area (percentage). Total.
	2.2.1	Proportion of children moderately or severely stunted (percentage).
	2.2.2.(a)	Proportion of children moderately or severely overweight (percentage).
	3.1.1	Maternal mortality ratio (maternal deaths per 100,000 live births).
	3.1.2	Proportion of births attended by skilled health personnel (percentage).
	3.7.2	Adolescent birth rate (per 1,000 women aged 15–19 years).
	3.3.1_t	Number of new HIV infections by sex and age (per 1,000 uninfected population). Total.
	3.4.1_t	Mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease (percentage).
	C-4.6 (a)	Literacy rate in persons aged 15 and older, by sex (percentage). Total.
Social protection	1.3.1.	Proportion of population covered by social insurance programmes (percentage).
	3.7.1	Proportion of women of reproductive age (aged 15–49 years) who have their need for family planning satisfied with modern methods (percentage).
	3.8.1	Universal health coverage (UHC) service coverage index.
	3.8.2	Proportion of population with large household expenditures on health (greater than 10%) as a share of total household expenditure or income (percentage).
	8.8.1.(a)	Fatal occupational injuries of employees, by sex and migrant status (per 100,000 employees). Total.
	1.a.2	Proportion of total government spending on essential services, education (percentage).
Environmental sustainability	9.4.1.(a)	CO ₂ emissions from fossil fuel combustion (million tons).
	6.4.2	Level of water stress: freshwater withdrawal as a proportion of available freshwater resources (percentage).
	7.2.1	Renewable energy share in total final energy consumption (percentage).
	12.5.1	Recycling of electronic waste (tons).
	15.1.2.(a)	Average proportion of Terrestrial Key Biodiversity Areas (KBAs) covered by protected areas (percentage).
Institutions and governance	5.5.2.(b)	Proportion of women in senior and middle management (percentage).
	8.10.2	Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider, by sex (percentage). Total.
	10.5.1.(a)	Non-performing loans as a proportion of total gross loans (percentage).
	16.1.1	Number of victims of intentional homicide, by sex (victims per 100,000 population).
	16.2.2	Detected victims of human trafficking, by age and sex (number). Total. Both sexes.
	C-5.2	Femicide or feminicide rate (per 100,000 women).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Building forward better: action to strengthen the 2030 Agenda for Sustainable Development* (LC/FDS.4/3/Rev.1), Santiago, 2021.



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