



Development Traps in Latin America and the Caribbean

Vital Transformations
and How to Manage Them



Fortieth session
of ECLAC

Lima, 9–11 October

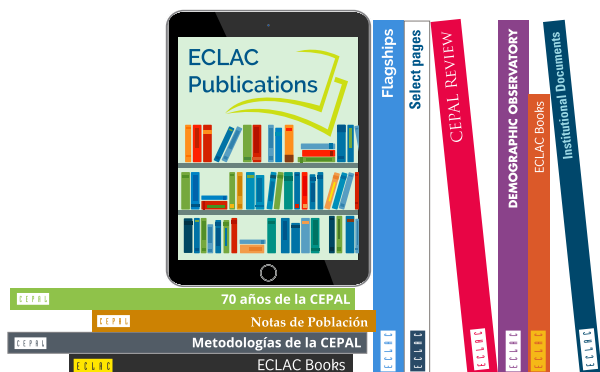
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Foreword

This report posits that Latin America and the Caribbean faces three development traps: low capacity for growth; high inequality and low social mobility and cohesion; and weak institutional capacities and governance. These traps pose significant obstacles to a more productive, inclusive and sustainable future; it is, therefore, no exaggeration to say that the region is in a development crisis. Added to these traps are the challenges of climate change and fostering environmentally sustainable development.

This development crisis coincides and is interwoven with an international context that has changed considerably in the last decade—both on the geo-economic and geopolitical fronts—and which is shifting towards a new set of rules for trade and investment. This new context presents challenges and opportunities for the countries of the region.

The confluence of the reshaping of globalization—and its attendant technological, demographic, climate-related and geopolitical trends—and the three development traps as well as the legacy of gaps the region has not yet bridged highlights the need for new and creative thinking on how to break from these traps and close these gaps. While a “business as usual” approach may help in some areas where policies are yielding results, there is a great need to rethink policies, not only in terms of what to do but also how to do it.

For its fortieth session, the Economic Commission for Latin America and the Caribbean (ECLAC) is presenting countries with some innovations with regard to the analysis of and the ways to address regional development challenges.

In its analysis, ECLAC identifies the three abovementioned traps and a decalogue of development gaps, some of which are related to the traps. In terms of “what” must be done, 11 great transformations deemed vital for moving towards more productive, inclusive and sustainable development are suggested. Of these, three have been selected for in-depth analysis, with an emphasis on ‘how’ to achieve them: (i) the great productive transformation for higher, sustained, inclusive and sustainable growth; (ii) the great transformation to reduce inequality and foster inclusion and social mobility; and (iii) the great transformation to boost sustainability and combat climate change.

Latin American and Caribbean countries have a long history of reforms designed to transform different aspects of their development patterns, from State-led strategies to strategies relying more on markets, deregulation and economic opening. The State-market dichotomy does not offer adequate solutions, but potentially even a harmful way of thinking about the conditions and processes of transformation, because it oversimplifies the complexity of these processes and can lead to discussions that are more ideological than practical.

For this reason, in answer to the question of “how”, instead of a discussion centred on the State-market dichotomy, a more pragmatic conversation is being encouraged on how to manage transformations, in particular looking at the forms and characteristics of governance of the transformation in each area; the technical, operational, political and prospective capabilities of the institutions leading these transformations; the spaces for social dialogue; and the political economy of the reforms.

International experience shows that the process whereby policies are designed, adopted and implemented is as important as their content, since they are formulated and implemented in specific contexts with certain institutional capacities shaped by the challenges posed by global economic and geopolitical conditions. Therefore, States’ institutional capacities and the interaction and dialogue between State and non-State actors affect the efficacy of policies and the success of transformations.

The task of building a new regional consensus on how to approach development challenges and how to overcome them may be an ambitious objective, but it is without a doubt a necessary and desirable one. Moving towards a more productive, inclusive and sustainable future requires long-term vision and strategies, the real participation of all stakeholders and a competent State and institutions with the capacity to guide, mobilize and provide quality services.

A country's development is a complex process that happens over the long term and is not automatic owing to market forces, which nevertheless can play a major role with appropriate forms of governance and regulation.

If we are to overcome traps and close gaps, if we are to realize the often-delayed dream of more productive, inclusive and sustainable development, the time to act and work together is now.

José Manuel Salazar-Xirinachs

Executive Secretary

Economic Commission for Latin America
and the Caribbean (ECLAC)

Introduction

For its fortieth session, the Economic Commission for Latin America and the Caribbean (ECLAC) is putting forward a new proposal for the consideration of the governments of the region, which examines a number of gaps and the transformations needed to close each one in order to advance towards more productive, inclusive and sustainable development. This proposal not only offers a list of recommendations on what must be done, that is, which transformations are indispensable (the “what”); it also seeks progress in terms of how to carry out these transformations, that is, how they should be managed with a view to overcoming the development traps affecting the region (the “how”). Thus, beyond mere goals and aspirations, this document offers analyses and recommendations to systematically address challenges linked to governance, institutional capacities and social dialogue to manage the great transformations required.

The document has seven chapters:

- Chapter I examines the changes that globalization has undergone and the challenges and opportunities that they present for Latin America and the Caribbean.
- Chapter II presents the three development traps and the 10 structure gaps identified by ECLAC, as well as the 11 major transformations deemed vital for moving towards more productive, inclusive and sustainable development.
- Chapter III presents a conceptual and methodological framework for analysis of how to manage these vital transformations. It takes into account the forms and characteristics of governance of each transformation; the technical, operational, political and prospective capabilities of the institutions leading these transformations; the spaces for social dialogue; and the political economy of the reforms.

- Chapter IV focuses on the first of the transformations selected for in-depth analysis: the great productive transformation. It discusses how to achieve stronger, sustained, inclusive and sustainable growth, emphasizing the importance of having a productive development policy and improved approaches to such policies.
- Chapter V analyses the second great transformation selected, concerning how to reduce inequality and foster social inclusion and mobility. A reduced but still significant number of causes of high inequality and low social mobility are identified, and emphasis is placed on the importance of taking an integrated approach and strengthening governance, technical, operational, political and prospective capabilities and social dialogue to address these causes.
- Chapter VI addresses the third great transformation selected, regarding how to foster sustainability and the fight against climate change, highlighting the sectors that ECLAC considers fundamental to achieving productive transformation and the big push towards sustainability.
- Chapter VII considers strategies for mobilizing financing for development, both domestically and internationally.

I. Globalization redefined

A new globalization is emerging, characterized by major geoeconomic and geopolitical change. This transformation of the global landscape presents challenges and opportunities for the regional development strategy.

Public policy has swung away from the model of the previous era, in which the market reigned nearly supreme in determining the allocation of resources, not just among sectors and activities but also in terms of remuneration and the geography of production. Interdependence was prized, and the global pursuit of lower production costs was championed as a way to lower costs for the benefit of consumers.

Scepticism has replaced confidence in interdependence, now considered a high-risk proposition. Security, associated mainly with military concerns in the post-war period, is now applied to a range of concepts, including food, energy, supply chains and strategic high-technology industries. The prevailing strategy is to reduce dependence on trading partners perceived to have diverging interests. This confluence of circumstances is changing the rules of trade, investment and globalization.

The transformation of the global landscape presents challenges and opportunities for the regional development strategy.

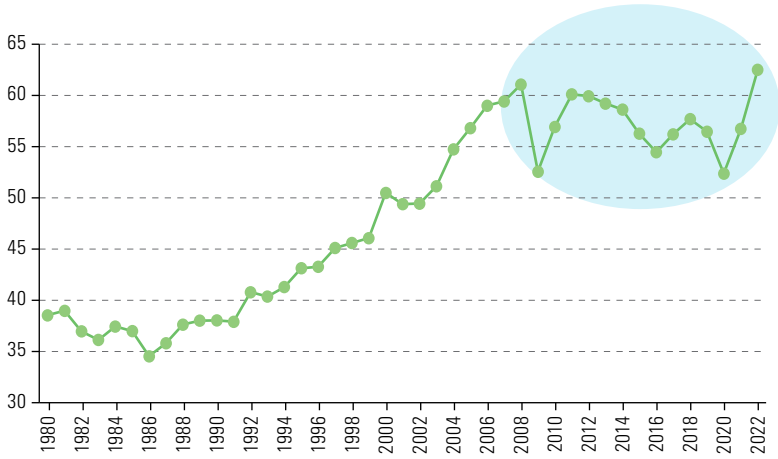
The redefinition of globalization and its ground rules can be summed up by a few central elements, set out below.

First, global goods trade and foreign direct investment (FDI) flows are growing more slowly than in the years preceding the global financial crisis of 2008–2009, and their structure in terms of origin and destination is changing; meanwhile, trade in services is growing rapidly. As shown in figure I.1, the percentage share of total trade in goods and services

in global GDP grew at an accelerated pace from the mid-1980s to 2008. It cycled through periods of decline and recovery from 2009 to 2022, when it finally (and only slightly) surpassed the level recorded in 2008.

Figure 1.1

Total trade in goods and services as a share of global GDP, 1980–2022
(Percentages)



Source: World Bank database, World Development Indicators (WDI).

Second, the geography of global value chains has also changed, with nearshoring, reshoring and friendshoring cropping up in both the United States and Europe.

Third, industrial policy based on large-scale subsidies, which had been broadly discarded during the era of hyperglobalization and the Washington Consensus, has regained favour in western developed economies and is a central component of China's economic policy, with the major trading powers increasingly providing subsidies and imposing technology-related protectionist trade measures against one another.

Fourth, in the wake of the global financial crisis of 2008–2009, a reform of international corporate taxation rules began in order to curb the erosion of the tax base and the transfer of profits to jurisdictions with tax mechanisms that favour multinational corporations but which are away from the locus of the underlying economic activity. These changes are limiting some traditional public policy areas, such as tax incentives to promote and attract FDI.

Fifth, in recent decades, the world has witnessed rapid technological changes that have brought about profound economic, social and political transformations. New technologies have had a profound social and economic impact, transforming entire sectors and creating new opportunities for growth and development. Technological transformations extend beyond merely boosting economic growth by improving productivity; they encompass the establishment of an environment that fosters convergence towards more developed economies through significantly improved living conditions.

Sixth, mounting technological and industrial rivalry between the world's major economies is no longer viewed exclusively as a matter of economic policy but as a matter of national security as well. This rivalry has moved on from political declarations to actual restrictions on the export of strategic products and technologies, as well as on the use of technologies produced by strategic rivals.

Seventh, the economic and social costs and consequences of climate change continue to grow, in particular for developing countries and those most vulnerable to climate change, which have fewer resources and lower capacity to address its effects.

Leveraging the challenges and opportunities that this redefined globalization represents will require profound changes in the region's development pattern.

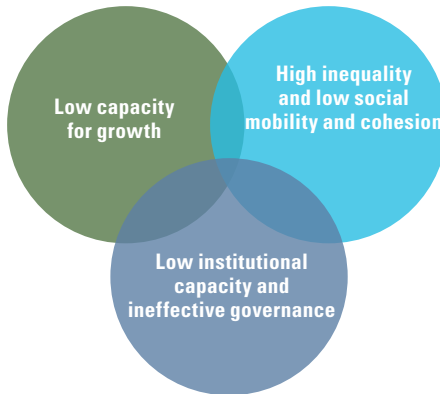
The redefining of globalization poses challenges for the region, including how to compete for FDI and stimulate national investment in key sectors; how to navigate geopolitical and trade conflicts in a way that prioritizes the interests and needs of the region; how to reconcile aspirations for technological and productive development with potential technological decoupling between blocs; and how to maximize opportunities to trade with and attract FDI from different blocs.

This process also offers significant opportunities for the development of Latin American and Caribbean countries. However, these opportunities will not come to fruition alone; they will require not only FDI attraction policies but also productive development policies, which are addressed in the chapters of the position document.

II. Development traps in Latin America and the Caribbean and vital transformations

Latin America and the Caribbean is in the midst of a development crisis, reflected in three main traps (see diagram II.1): (i) low capacity for growth; (ii) high inequality with low social mobility and weak social cohesion; and (iii) low institutional capacity and ineffective governance. These traps are compounded by the challenges of addressing climate change and fostering environmentally sustainable development, and they are linked to the 10 structural gaps in the region's development model identified by ECLAC (Salazar-Xirinachs, 2023).

Diagram II.1
Development traps



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

Latin America and the Caribbean is in the midst of a development crisis, reflected in three main traps.

The development trap concept refers not only to a series of negative medium- and long-term trends; it also points to the existence of vicious circles that limit the ability to achieve

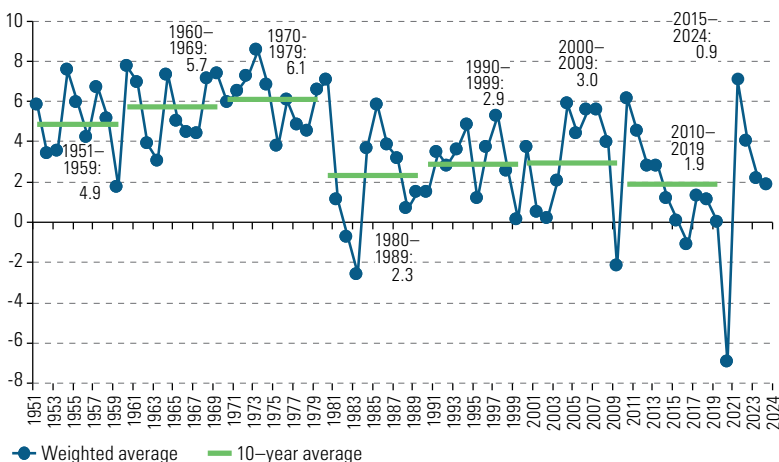
higher levels of development (OECD and others, 2019). This feedback loop leads to stagnation, and in some cases, deterioration of economic, social, institutional and environmental conditions, among others.

The trap of low capacity for growth

Between 2015 and 2023, the economies of Latin America and the Caribbean grew at an annual rate of 0.9% (weighted average), less than half of the 2.3% registered during the “lost decade” of the 1980s (see figure II.1). This low growth has not been restricted to the last decade, but is rather a long-term trend. Average growth in the region fell from 5.5% in the almost 30 years from 1951 to 1979 to 2.7% in the following 30 years (1980 to 2009) and just 1.6% from 2010 to 2024. As a result, average per capita GDP in the region was the same in 2023 as in 2013 (ECLAC, 2024a).

Figure II.1

Latin America and the Caribbean: growth in GDP, 1950–2024
(Percentages, on the basis of dollars at constant 2018 prices)



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

The trap of low growth capacity that the region is battling is primarily associated with three factors that have a negative feedback loop: (i) low productivity growth, (ii) low investment and (iii) low quality of human resources.

Between 1950 and 1980, Latin American and Caribbean economies more than doubled their labour productivity levels. Although 43 years have passed since what was called the debt crisis, the region has not regained its previous productivity levels: in 2023, its average labour productivity (in dollars at constant prices) was 4% lower than the figure recorded in 1980.

The trap of low growth capacity is associated with three factors that have a negative feedback loop: (i) low productivity growth, (ii) low investment and (iii) low quality of human resources.

The annual rate of change in investment, measured through gross fixed capital formation, has slowed considerably in Latin America and the Caribbean in the last 70 years. In the 1960s and 1970s, investment grew at average annual rates of 5.6% and 6.3%, respectively. In the 1980s, investment contracted at an average annual rate of 2.1%. In the 1990s and 2000s, growth was 3.6% and 3.4%, respectively, while in the 2010s it averaged a mere 0.8%.

There is a strong correlation between low growth and a low rate of employment generation. The lowest average annual rate of job creation in the last 70 years (1.5%) was registered in the period 2011–2019. To ensure and sustain a higher growth rate, continuous improvement in education and in the quantity and quality of human talent is also essential. Average years of schooling has increased in Latin America and the Caribbean, but the quality of learning is generally low and has been deteriorating in recent years, as suggested by Programme for International Student Assessment (PISA) test scores.

The trap of high inequality, low social mobility and weak social cohesion

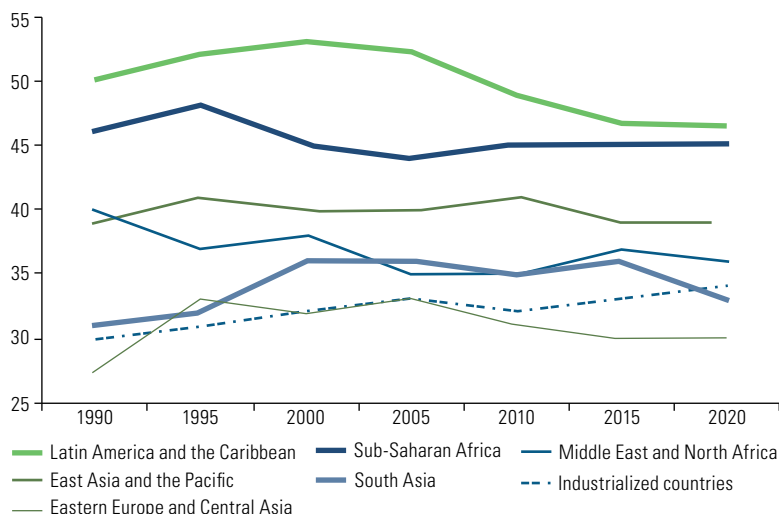
The high level of multiple types of inequality in the region is a trap that hinders progress towards sustainable development. Inequality is unacceptable from the point of view of the effective enjoyment of rights and the basic concepts of social justice, and is also inefficient for growth and corrosive for social cohesion and for the stability of social pacts (Salazar-Xirinachs, 2023).

Latin America and the Caribbean has been the world's most unequal region for the past 30 years (see figure II.2). Although income inequality has fallen during this period, the region still has the most concentrated

income distribution in the world. In 2022, income inequality measured by the Gini index was 44.9, lower than in the early 1990s (when it was close to 50.0) (ECLAC, 2023a).

Figure II.2

Latin America and the Caribbean and other world regions: inequality levels and trends, Gini index, 1990–2020



Source: F. Alvaredo and others, “Seventy-five years of measuring income inequality in Latin America,” *IDB Working Paper Series*, No. IDB-WP-01521, Washington, D.C., Inter-American Development Bank (IDB), 2023.

ECLAC has identified six main factors that explain inequality and low social mobility and cohesion in the Latin American and Caribbean countries: (i) low growth, which leads to sluggish and highly informal labour markets, and large disparities in productivity, which generate segmented labour markets with large pay disparities; (ii) regressive tax systems; (iii) weak social and social protection policies that do little to reduce the effects of production-based inequality; (iv) education systems with serious deficiencies, not only in terms of high dropout rates in secondary education, but also in relation to poor learning outcomes that are unequal to the new needs arising from the technological revolution and the labour market, and that are too segmented to act as the powerful mechanisms of social mobility they ought to be; (v) gender inequality; and (vi) large inequalities and spatial segregation in urban areas, where 80% of the region’s total population lives.

In the region, high inequality encompasses other domains in addition to income, such as the exercise of rights, the development of capabilities and access to power and decision-making. In turn, it is associated with low social mobility and weak social cohesion, in a vicious circle. The extent and variability of inequalities between individuals and population groups are amplified and exacerbated by several factors that operate as interrelated axes, such as socioeconomic level, gender, race and ethnicity, age, territory, disability status, migration status or sexual orientation and identity.

High inequality is associated with low social mobility and weak social cohesion, which are mutually reinforcing.

The low level of social cohesion is reflected in high interpersonal and institutional distrust, with adverse effects on governance and efficiency, a widespread sense of vulnerability, helplessness and injustice among the population, low expectations for future social mobility, little sense of belonging based on the effective enjoyment of rights, and a tenuous attachment to democracy as the best form of government (Corporación Latinobarómetro, 2022).

The region is also characterized by a low level of social mobility, or considerably rigid social stratification, which makes it harder for people in the most disadvantaged strata to achieve greater well-being for themselves and their descendants. The percentage of the population in vulnerable situations (i.e. medium-low income and below) changed little in recent years, decreasing from 77.4% in 2010 to 76.2% in 2020. Low social mobility is linked to, among other factors, problems concerning two significant drivers of upward mobility: education and the labour market. Deficits in education access and quality are among the most significant mechanisms for the perpetuation of social class and generational inequality, as they limit access to decent jobs and, by extension, lifetime income. Low economic growth is another factor inhibiting social mobility, keeping labour markets sluggish and quality job creation low. These are some of the factors that contribute to low intergenerational social mobility in the region.

The trap of low institutional capacity and ineffective governance

In Latin America and the Caribbean, the combination of low institutional capacities and ineffective governance creates yet another development trap. Weak institutional capacities, which include administrative inefficiency, poor bureaucratic quality, poor public administration quality, weak capacities for long-term and foresight planning, and deficiencies in

Weber's characteristics, such as meritocratic recruitment processes, job stability and professionalization, limit the ability of governments to implement effective policies and respond efficiently to the needs of society.

Weak institutional capacities limit governments' ability to implement effective policies, while ineffective governance exacerbates the situation, resulting in weak capacities to guide the economy and society, low private sector and citizen participation, and inadequate accountability.

Ineffective governance exacerbates the situation, resulting in weak capacities to guide the economy and society, weak management and execution capacities, low private sector, civil society and citizen participation, and inadequate accountability on the part of authorities. In addition, the region is experiencing political instability, an increase in organized criminal activity, reduced government effectiveness, low-quality regulations, and uncertain rule of law with significant judicial insecurity, as well as inadequate control of corruption.

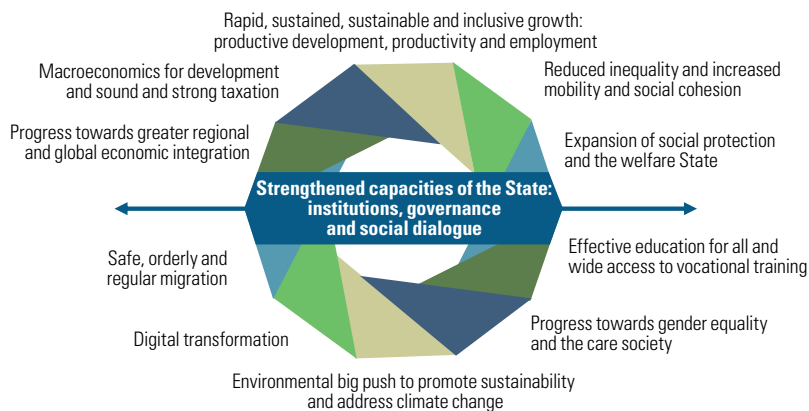
The State capacity index, developed by Hanson and Sigman (2021), provides a comprehensive methodology for measuring the ability of States to deliver effective public services, implement policies and maintain public order. The majority of the Latin American and Caribbean countries included in the index report having weak State capacities.

The World Bank's Worldwide Governance Indicators, meanwhile, are a consolidated set of indicators combining data from 30 sources, with expert views and survey results from public, non-governmental and commercial organizations. In general, high income Organisation for Economic Co-operation and Development (OECD) countries are around or above the eighty-fifth percentile in all selected indicators, while Latin American countries are concentrated around the sixtieth percentile. The trend in the region is worrying: with the exception of political stability, all indicators declined between 2012 and 2017 and again by 2022.

Facing the gaps and escaping the traps in the current international context requires profound transformations in the development model, which ECLAC has summarized in 11 great transformations (see diagram II.2) (Salazar-Xirinachs, 2023). The remaining chapters address the following matters in detail: (i) the great productive transformation to achieve higher, sustained, inclusive and sustainable growth; (ii) the great transformation to reduce inequality and increase social mobility and cohesion; and (iii) the great transformation for greener, more sustainable growth and combating climate change. The final chapter addresses the challenge of mobilizing the financial resources needed to achieve these transformations and make progress towards the SDGs.

Diagram II.2

Eleven great transformations in the development model



Source: J. M. Salazar-Xirinachs, "Rethinking, reimagining and transforming: the 'whats' and the 'hows' for moving towards a more productive, inclusive and sustainable development model," *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

III. The challenge of managing transformations

Unlocking progress in the transformation of development models in Latin America and the Caribbean will involve not only identifying the requisite actions but also addressing what may be an even greater challenge: how to manage transformations. This challenge involves guiding progress in the desired direction and ensuring that reforms and transformations proceed at a suitable pace that allows for course-correction and acceleration as necessary. This will entail tackling the technical dimensions of policy but also the capacity to lead and coordinate collective action.

Chapter III proposes that addressing the challenge of managing transformations will be supported by examining four distinct but interrelated themes and their concepts: (i) governance (what is it and how can it be improved?); (ii) institutional capacities (what are they?); (iii) the political economy (how can coalitions that can overcome resistance to change be built?); and (iv) social dialogue (what types of social dialogue can be developed and which are most suitable for what purposes?). Although other themes may arise, these four touch on key aspects for successfully fostering meaningful change and effectively managing transformations, not only as challenges for the public sector but for society as a whole, which transcend any one government administration, and indeed, are perennial.

The analysis of transformation management focuses on four key concepts: (i) governance, (ii) institutional capacities, (iii) political economy and (iv) social dialogue.

Experience has shown that policy design, adoption and implementation are as important as content. Implementation does not occur in a vacuum, but rather in a context that is shaped by a country's institutions and political and cultural traditions. Policy effectiveness will therefore

be shaped by the State's institutional capacity and the actions—and interactions— of a range of State and non-State stakeholders as they design and implement social, economic and institutional policies or reforms in a variety of scenarios. For these reasons, analysing the “how” means not only studying the specific content of policies and their impact on economic and social variables but also State capacity and the critical processes that mould and operationalize it—in short, the steering capacity and effectiveness of public policies.

As regards public policy, governance essentially refers to how the public sector, working with non-governmental and non-political stakeholders, or on its own, is able to steer and control society and the economy (Levi-Faur, 2012). Good governance enhances the capacity of the State to steer change or transformation and to foster such change with non-State stakeholders participating in the design and implementation of public policies, aiming to make governance more efficient and fail-safe. From that perspective, governments would improve governance capacity by strengthening their own institutional capacity and establishing closer ties with non-State stakeholders, an approach that establishes a new way for the government to interact with society to process public policy interests, goals and solutions (O'Donnell and others, 2015; Levi and others, 2015; Acuña and Chudnovsky, 2017).

Chapter III also proposes technical, operational, political and prospective capabilities as a useful conceptual framework for analysing public institutions' capacities to effectively address complex challenges in changing environments. An explanation of each of these dimensions is provided in table III.1. In addition to technical, operational, political and prospective capabilities, institutions must have sufficient funding to develop and maintain these capabilities over time.

Political economy provides an analytical framework to better understand how policies and reforms are defined and implemented, considering power relations, actors' interests and institutional contexts. In particular, it analyses the impact of political forces on the economy, where voters and interest groups play a pivotal role in shaping policy, while also examining the economy's influence on policy, for example, how macroeconomic conditions can facilitate or hinder the implementation of policies and reforms by governments (Frieden, 2020) and how politics influence economic and social policy. Political economy thus emerges as an essential analytical tool for understanding the ways in which policies and reforms are discussed and agreed upon, their degree of acceptability and, ultimately, why they fail or succeed (Juhász and Lane, 2024).

Table III.1

Technical, operational, political and prospective (TOPP) capabilities: institutional capabilities needed to drive transformations in the development model

Capability	Characteristics
Technical	<ul style="list-style-type: none"> - Integration of medium- and long-term strategic planning into the public policy cycle. - Formulation of comprehensive policies with cross-cutting approaches in key areas of development. - Establishment and management of comprehensive information systems to support policy implementation. - Evaluation of policy impact and programme outcomes. - Improvement of coherence between regulatory mandates and the capacity of public agencies. - Establishment of accountability mechanisms to optimize the civil service. - Creation of a culture of continuous learning.
Operational (operating dimension of public management and administration)	<ul style="list-style-type: none"> - Use of modern public management tools for budgeting, planning, performance management and evaluation, and accountability procedures. - Establishment of mechanisms to assess productivity and ensure efficient and effective delivery of public goods and services. - Design of modern interfaces based on digital government, to improve interaction with citizens and the provision of services. - Creation of mechanisms for effective coordination between public entities. - Optimization of meaningful participation by the private sector and other stakeholders. - Implementation of mechanisms for the transparent and honest execution of public resources. - Guarantee of timely access to financial resources for public policy implementation. - Measurement and continuous follow-up of citizen satisfaction with public services and institutions.
Political	<ul style="list-style-type: none"> - Facilitation of spaces for social dialogue between development stakeholders for public policy formulation and implementation. - Development of public leadership that builds trust and enhances coordination and collaboration with civil society, the private sector and academia. - Promotion of effective collaboration and coordination between different levels of government. - Creation of peer-to-peer collaboration networks at local, national, regional and international levels. - Consensus-building within and among communities, government, the private sector, civil society and other relevant stakeholders.
Prospective	<ul style="list-style-type: none"> - Monitoring of global megatrends affecting regional development. - Participatory approach to building desired future scenarios and their adoption by development stakeholders. - Facilitation of the design and implementation of State public policies through the formulation of alternative future scenarios. - Agile and effective responses to unexpected high-impact events that disrupt development. - Promotion of a culture of dialogue to anticipate and manage conflicts between development stakeholders.

Source: J. M. Salazar-Xirinachs, "Rethinking, reimagining and transforming: the 'whats' and the 'hows' for moving towards a more productive, inclusive and sustainable development model", *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

Lastly, social dialogue —understood as the process of interaction between different social, economic and political actors to seek common objectives and solutions to emerging challenges, drawing on broad support— plays a pivotal role in managing transformations. The field may be narrowed down to four areas or modalities of dialogue: (i) social dialogue for macroeconomic stabilization; (ii) social dialogue on labour policies; (iii) social dialogue for productive development; and (iv) social dialogue for territorial development (Salazar-Xirinachs, 2023).

Chapters IV–VII focus on the question of how to use this conceptual framework to manage each transformation.

IV. How to achieve stronger, sustained, inclusive and sustainable growth?

As explained in chapter II, the first of the three traps is low growth capacity. Between 2014 and 2023, the annual growth rate in Latin America and the Caribbean (weighted average) was just 0.9% —less than half the rate recorded in the “lost decade” of the 1980s. As a result, per capita GDP in the region grew at an average annual rate of just 0.1% between 2014 and 2023, which has weighed heavily on the population’s well-being. This low growth has not been restricted to the last decade, but is rather a long-term trend.

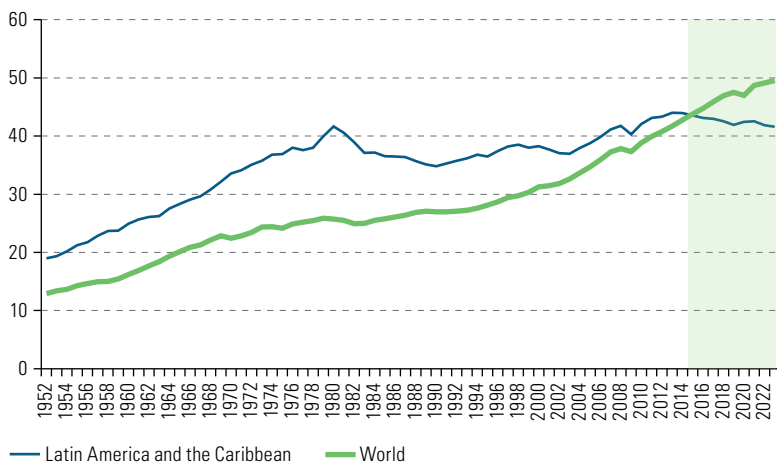
The region’s low growth capacity is associated with low investment, an insufficiently skilled work force and, most importantly, stagnant or falling productivity, which in turn reflects inadequate efforts to incorporate greater knowledge and technology into the production sphere and to achieve a structural shift towards higher-productivity activities (ECLAC, 2019 and 2024b).

A range of studies have shown that the region’s labour productivity grew at a reasonable rate between 1950 and 1980 but, from that point forward, was either stagnant or in decline (ECLAC, 2024b). The poor performance of labour productivity in the region, coupled with remarkable productivity growth in Asian countries, made 2015 the first year in which labour productivity in the region was below the average for the rest of the world (see figure IV.1). Another factor behind the region’s poor productivity performance is the great heterogeneity in the level and trends of productivity in three dimensions: across different sectors of economic activity, different firm sizes and different subnational territories within the same country.

Figure IV.1

Latin America and the Caribbean (13 countries) and world (133 countries):
labour productivity, 1952–2023

(Thousands of international dollars at 2022 prices and at purchasing power parity)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of The Conference Board.

A great productive transformation driven by the new vision of productive development policies is needed to overcome the low-growth trap.

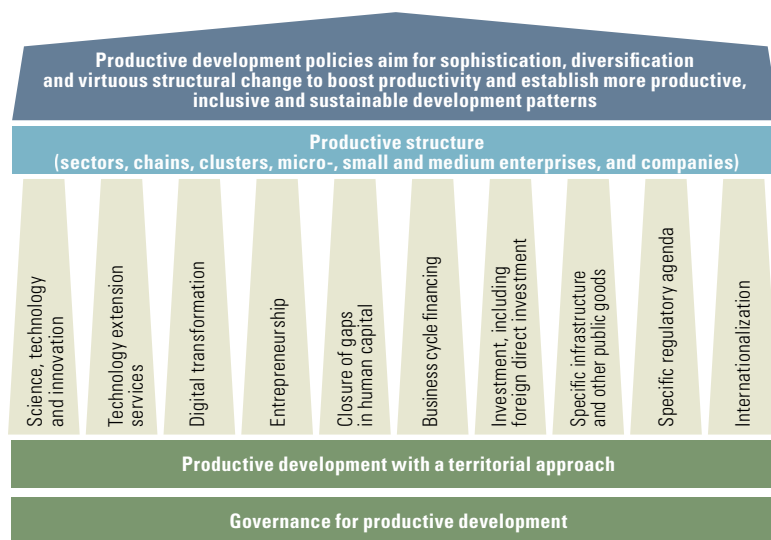
The low-growth trap can only be overcome by fostering a great productive transformation which, in turn, can only be achieved if productive development policies are made more ambitious and broader in scope under the modern vision of these policies. This vision defines a wide

range of driving sectors, and is not limited to industrialization; it considers these policies to be primarily collaborative efforts among key actors; combines horizontal and vertical efforts, i.e. in specific sectors, the latter through methodologies such as cluster initiatives; emphasizes the need to balance “top-down” policies with ones that are “bottom-up”, i.e. localized; and adopts an internationalization approach.

Diagram IV.1 describes the top 10 policy areas included in productive development policies (Salazar-Xirinachs and Llinás, 2023). It gives an idea of the number of fronts that need to be combined and coordinated in the framework of these policies. The areas are: science, technology and innovation; technology extension services; digital transformation; entrepreneurship; the closure of gaps in human capital; financing over the whole life cycle of businesses; investment, including foreign direct investment; specific infrastructure and other public goods; a specific regulatory agenda; and internationalization.

Diagram IV.1

Definition and scope of productive development policies

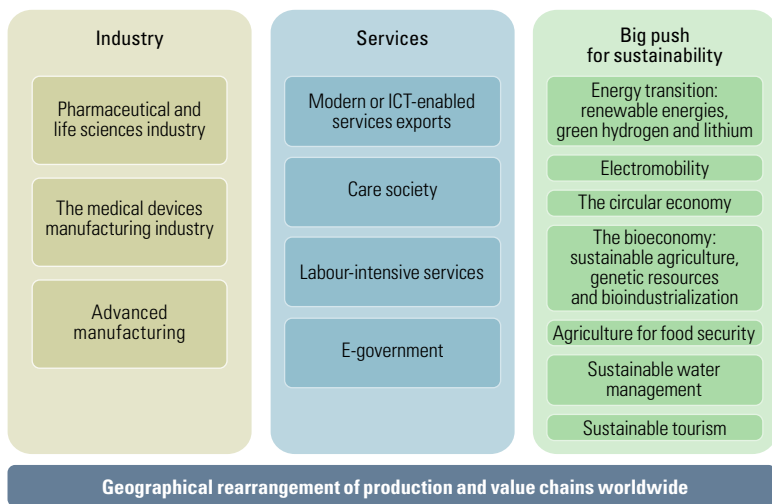


Source: J. Salazar-Xirinachs and M. Llinás, “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies” *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

Selecting a portfolio of driving sectors is key. ECLAC has defined 14, which are shown in diagram IV.2. They are grouped into three categories: industry, services and big push for sustainability, which the countries of Latin America and the Caribbean and their territories can prioritize in the productive development policy framework. The opportunities presented by the geographical rearrangement of production and value chains worldwide are a cross-cutting area, a key trend spanning several of the other sectors listed. The growth- and productivity-enhancing characteristics of these sectors give them the potential to make major contributions to a productive transformation in the desired direction, including an orientation towards greater inclusiveness and environmental sustainability. This list is illustrative; each country and territory should prioritize not only these but also other sectors relevant to their situation. It is important for both countries and regions to have a vision of sectoral priorities for the great productive transformation.

Diagram IV.2

Great productive transformation for productivity, inclusion and sustainability; portfolio of driving sectors



Source: J. Salazar-Xirinachs and M. Llinás, “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies,” *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

Pursuing productive development policy requires an institutional framework that is capable of effective leadership in the design, administration, monitoring and evaluation processes within each institution’s respective area of authority and that has sufficient technical, operational, policy and prospective (TOPP) capabilities. Technical capabilities include the ability to collectively build and implement productive development policies in strategic synergy with all other dimensions of development, which should all be aligned within a comprehensive development planning framework. Operational capabilities include having mechanisms and systems in place to facilitate the alignment and coordination of efforts. Political capabilities include strengths in establishing and maintaining relationships and interactions among the various relevant stakeholders and managing coalitions in order to recalibrate policy configurations that are holding back productivity improvements. Prospective capabilities include understanding technological and market variations and trends, building future scenarios and designing road maps to realize them, and being able to change course and react to evolving conditions, including disruptions.

ECLAC also envisages an enhanced territorial approach, including the adoption of cluster initiatives or other measures to coordinate territorial production. The report also analyses and proposes the adoption of an experimentalist governance approach and the design of mechanisms that ensure policies' long-term continuity.

The implementation of productive development policies requires a strengthened institutional framework, as well as the adoption of an experimentalist governance approach and the design of mechanisms that guarantee the continuity of policies in the long term.

V. How to reduce inequality and promote inclusion and social mobility?

Breaking free of the trap of high inequality and low social mobility and cohesion calls for an integrated approach that addresses the root causes discussed in this document simultaneously. Six causes of this development trap were identified.

First, inequality is rooted in the region's low growth and productive heterogeneity, which is linked to a weak labour market with high levels of informality and significant variation in productivity across sectors, firms of different sizes and territories. Hence the importance of productive development policies for reducing inequality and fostering social mobility.

Second, tax systems need to be made more progressive and generate additional resources to fund transformations, by means of strengthening direct taxes on income, property and wealth; this would both increase revenue and leverage the redistributive potential of the tax system. This structure biased towards indirect taxes significantly limits the redistributive power of the tax system in the region.

Breaking free of the trap of high inequality and low social mobility and cohesion calls for an integrated approach that addresses the six root causes of this trap.

The successful design and implementation of reforms to improve tax collection and progressivity depends largely on strengthening the technical, operational, political and prospective capabilities of finance ministries and tax administrations. In addition, social dialogue is a prerequisite for lasting fiscal compacts. It is indispensable when it comes to garnering the broad consensus needed for reforms to be politically and socially viable and establishing governance mechanisms to support implementation and follow-up.

Third, social protection systems are a key arena for reducing inequality and increasing social mobility and cohesion. Often, these systems are interconnected with various instruments and institutions, which amplifies the impact of their technical, operational, political and prospective capabilities. The analysis of active labour market policies, contributory and non-contributory pension systems and health systems reveals structural deficits in the region. Social institutions must be strengthened in these and other areas.

Informality is a structural feature of the labour markets of Latin America and the Caribbean. In 2023, more than half of all persons employed in the region were working informally. Informality is intersected by the axes of social inequality, involving significant age, territorial, gender and socioeconomic gaps. Informal employment is more prevalent among young people (51.6%) and in the population aged 65 and over (71.7%); and it is concentrated mostly in rural areas (69.8%) (see figure V.1). Although there are no significant differences between men and women in the aggregate (a difference of around one percentage point), women are overrepresented in the most vulnerable jobs in the informal economy, for example as domestic workers, contributing family workers or digital platform workers providing services in private households (ECLAC, 2023b). There is also a larger proportion of informal workers in the lowest income quintiles. Owing to the low productivity of their occupations, informal workers are four times more likely than formal ones to belong to low-income households (ECLAC, 2023b).

Closely linked to informality, the region has limited access to social protection. For example, despite having increased in Latin America since 2000, effective pension coverage amounted to 47.9% in 2022. In other words, only one in every two persons in the economically active population was contributing to a pension system in that year.

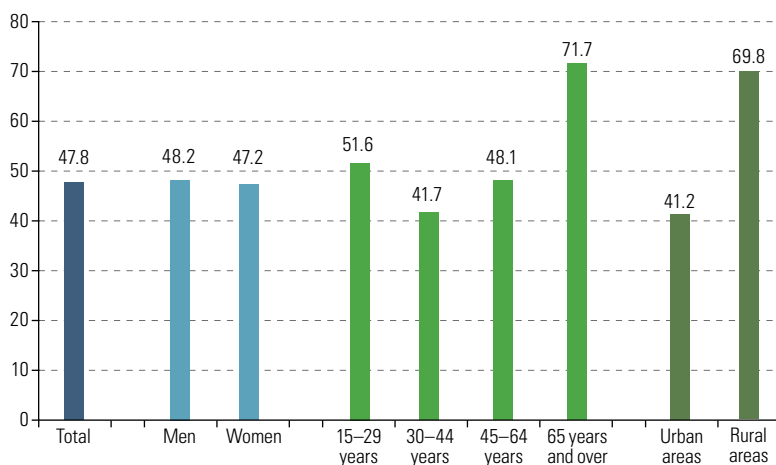
In order to strengthen social policies and social protection, there is a growing need to coordinate between sectors and levels of government and to strengthen the functions of planning, implementation, coordination and foresight.

In order to strengthen social policies and social protection, there is a growing need to coordinate between sectors and levels of government and to strengthen the functions of planning, implementation, coordination and foresight. With regard to technical capabilities, planning measures must be strengthened to strategically guide the implementation of the policies that collectively form the social protection system; this includes, for example, improving comprehensive information systems and social registers of potential recipients. Operational capabilities include human resources with the training, skills and commitment necessary to confront

the multiple challenges and requirements of social protection policies, as well as mechanisms like single windows that facilitate citizens' access to a range of social protection programmes and entitlements through a single channel. Political capabilities are key for advancing social protection policies through the broad agreements these require. Prospective capabilities are essential for anticipating the implications of a changing social risk structure in the context of demographic, epidemiological and nutritional transitions, the increased frequency of disasters and the effects of climate change, as well as technological and labour transformations.

Figure V.1

Latin America (9 countries):^a informality rates, by sex, age group and geographical area, third quarter 2023
(Percentages)



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

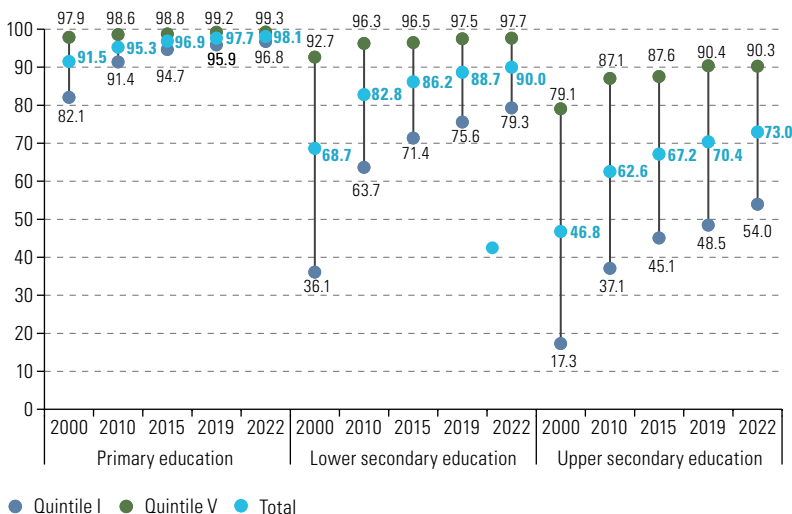
^a Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Paraguay, Peru and the Plurinational State of Bolivia.

Fourth, realizing the potential of education to serve as a conduit for social mobility requires higher enrolment rates and improved learning quality. Despite the significant progress that has been made over the last two decades in school education in the region, in terms of access, progression and completion, major coverage and quality challenges remain. Moreover, the rate of improvement observed in schooling indicators is flagging. Socioeconomic inequality significantly affects opportunities for access to education and, above all, its completion. Differences between income quintiles are still very marked in secondary education (see figure V.2).

Figure V.2

Latin America (14 countries):^a completion rates in primary, lower-secondary and upper-secondary education,^b in the extreme income quintiles, 2000, 2010, 2015, 2019 and 2022

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Weighted average of the following countries: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

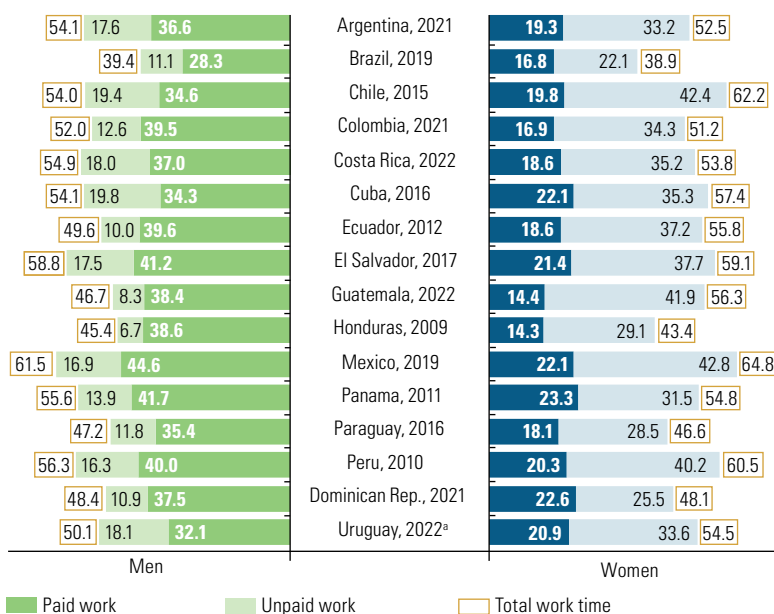
^b Primary school completion among population aged 15–19 and lower and upper secondary school completion among population aged 20–24 were reviewed.

The coverage of both vocational and professional postsecondary education should be expanded and complemented by minimum quality standards that encourage the development of cognitive, socio-emotional and digital skills, with a view to designing more productive and higher-income careers. A lifelong learning approach to education and professional training is also important. This approach should span the entire life cycle, from childhood to adulthood, with a focus on developing the necessary skills and knowledge to thrive in a labour market increasingly characterized by uncertainty and change. Thus, to make education a true engine for upward social mobility, education ministries must strengthen their technical, operational, political and prospective capabilities. The ministries responsible for education policy need vision and leadership to create a broad coalition of public and private stakeholders with a view to achieving political, social and fiscal consensus that recognizes and strengthens the role of education in inclusive social development.

Fifth, a fundamental cause of inequality is gender inequality. The care society is an essential transformative proposal to reduce inequality and promote social inclusion. In 2022, 50% of women in Latin America and the Caribbean participated in the labour market, compared to nearly 75% of men (ECLAC, 2023a). According to time-use measurements in various countries of the region, women spend three times as many hours as men on unpaid domestic and care work (see figure V.3).

Figure V.3

Latin America and the Caribbean (16 countries): average total time spent by men and women aged 15 years and over on paid and unpaid work, latest year with information available
(Hours per week)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Repository of information on time use in Latin America and the Caribbean.

Note: No regional average is presented because methodological differences mean that the data are not comparable between countries.

^a Preliminary data.

Robust institutions with strong capacities are needed to build the care society. The proposal for a structural transformation towards a development model that is built on care and the sustainability of life is the product of analysis, information-gathering and systematization of years of research on gender and women's autonomy, all indicating

a need to strengthen technical capabilities. A strengthened care society also requires the development of operational capabilities, including management tools; georeferenced information on available care services; and the systematization of the sociospatial aspects of demand for care using digital platforms that facilitate decision-making on the implementation of care policies. The development of political capabilities is also key in driving and effectively managing transformations towards the care society. This includes fortifying democratic governance, fostering social dialogue and building consensus. Prospective capabilities, meanwhile, are relevant in terms of the projection of demographic trends and changes, the capacity of the care society to create jobs and the costs of building care networks, among other aspects.

The transformative proposal for a care society is essential to reduce inequality and foster social inclusion. Robust institutions with strong capacities are needed to build the care society.

Sixth, Latin American and Caribbean cities tend to be breeding grounds for inequality, with high levels of informal occupancy and non-compliance with building regulations, spatial segregation with high transport costs for poor segments of the population, residential overcrowding and poor access to basic services, such as water, sanitation and electricity. Taken together, these conditions produce high levels of social exclusion. Thus, moving towards inclusive cities is a critical component of the agenda to reduce inequalities and improve social cohesion in the region. This agenda calls for a participatory scenario-building process that goes beyond the extrapolation of current trends.

A new narrative is needed, taking into account the multidimensional nature of urban development, recognizing the existence of institutional paths and incorporating scenario-building of potential futures from a political economy perspective. This narrative, too, must be complemented by technical, operational, political and prospective capabilities. Technical capabilities include integrating the various dimensions of urban, economic, social and environmental policy. Operational capabilities include broadening urban planning capacities and using technology and big data to optimize the provision of public services. Political capabilities include leadership in developing a comprehensive vision and leveraging public consultation and participation mechanisms in planning processes. Prospective capabilities include identifying trends in the demand for urban services based on sociodemographic shifts, and updating urban architecture and design to meet the needs of the twenty-first century.

Working on one or two of these causes of high inequality and low social mobility and cohesion is not enough to move the needle; in order to achieve the great transformation of reducing inequality, improving social mobility and strengthening social cohesion, there is need of a comprehensive approach to address all causes simultaneously. This is perhaps one reason why inequality has been one of the best-known characteristics, yet also one that is most resistant to change in the countries of the region —along with the interests and power balances that oppose improvement in many of these issues.

VI. How to promote sustainability and address climate change?

The third great transformation proposed by ECLAC pertains to sustainability and climate change. It requires an approach that is both cross-cutting and sector-specific. This report has presented an analysis of the following sectors: (i) the energy transition, (ii) e-mobility, (iii) critical minerals for the energy transition and e-mobility, (iv) sustainable water management, (v) sustainable tourism, (vi) the bioeconomy and (vii) the circular economy. A modern approach to productive development policy is needed to manage the transformation of these and other sectors. As with the other two transformations, the sustainability transition presents challenges related to governance, strengthening institutions' technical, operational, political and prospective capabilities, and social dialogue.

The impacts of climate change and the responses to this phenomenon are shaping the global economy. The transition to a low-carbon economy will require a structural transformation of unprecedented scale, scope, and speed (IPCC, 2023). In 2022, the world emitted an average of 0.6 tons per thousand dollars of 2015 GDP, compared to 0.8 tons in 2000. This indicator is a measure of the economy's carbon footprint. Globally, between 2000 and 2014, the economy decarbonized at a rate of 0.7% per year; and the rate has doubled since the Paris Agreement was signed in 2015. Latin America and the Caribbean generate practically the same amount of emissions per unit of GDP as the global average. Nonetheless, while the region decarbonized at the same rate in the period prior to the Paris Agreement, it has not kept up with the world as a whole in accelerating its rate of decarbonization; on the contrary, the pace slowed between the two study periods (see figure VI.1).

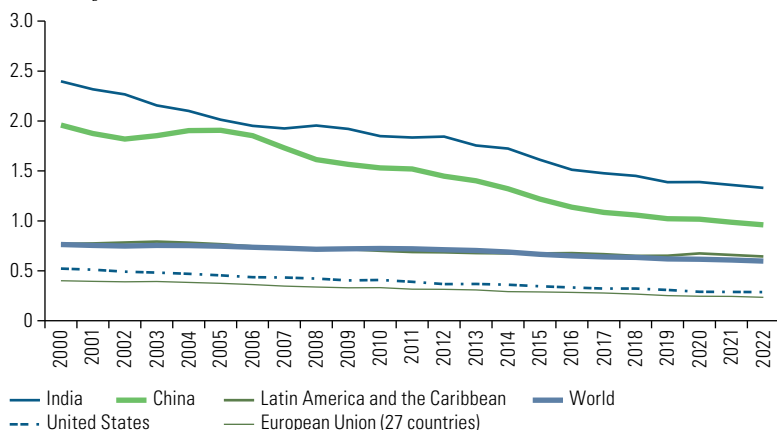
The third great proposed transformation is linked to sustainability and climate change, with emphasis on seven specific sectors.

Figure VI.1

Selected countries and regions: carbon footprint and speed of decarbonization of economy, 2000–2022

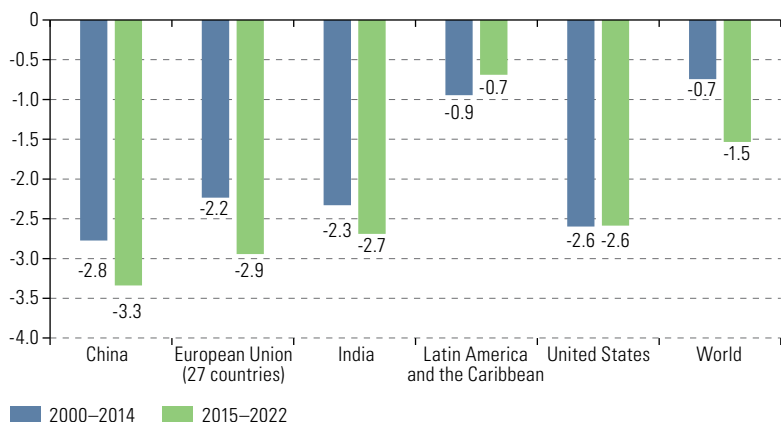
A. Carbon footprint

(Tons of CO₂ equivalent per thousand dollars of 2015 GDP)



B. Speed of decarbonization

(Rate of change of carbon footprint)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, “World Development Indicators” [online] <https://databank.worldbank.org/source/world-development-indicators> and M. Crippa and others, *GHG emissions of all world countries*, Luxembourg, Publications Office of the European Union, 2023.

Note: Emissions exclude land-use change.

Recent estimations (NGFS, n.d.) show that if the world embarks on an immediate and rapid transition to low-carbon economies (orderly transition scenario), by 2050 the GDP of Latin America and the Caribbean could be some 8% larger than it would be under current policies. These net gains are achieved by avoiding the damage caused by climate change, even considering the potential costs of emission reduction policies. The transition to low-carbon economies will require the creation of new sectors while reducing or eliminating others. This is an example of the Schumpeterian concept of the “creative destruction of technical progress”, but this time it is occurring on a massive, systemic scale.

As with the other two transformations, the sustainability transition presents challenges related to governance, strengthening institutions' technical, operational, political and prospective capabilities, and social dialogue.

Energy transition

Although the region possesses huge potential for renewable energy generation, only 30% of its hydroelectric potential is currently being harnessed (10% in the case of wind energy and just 1% in the case of solar energy) (OLADE, 2023), and its distribution varies greatly. Sectors that have high potential for productive transformation and for business models that contribute to the energy transition also include green hydrogen and derivatives, such as methanol, ammonia and synthetic fuels.

Increasing regional energy interconnection and integration is also essential for speeding up the energy transition, while also strengthening security and resilience to climate shocks. Although the region has immense potential for energy integration, which could multiply transmission capacity sixfold by 2050 and facilitate the spread of renewable energies, announcements of new projects under study or under way are not very encouraging. There is need of active public policies, investment incentives, infrastructure development, institutional strengthening, clear regulatory frameworks and cooperation that facilitate energy exchange.

Along with the opportunity presented by renewables and energy integration, energy efficiency has the potential to reduce systemic vulnerability and dependency on imported fossil fuels and derivatives, make energy services more affordable, postpone investments in energy infrastructure, mitigate adverse local environmental impacts, and reduce emissions levels.

To achieve a just and sustainable energy transition, planning processes must be in place, and the State must take an active role with the support of various international organizations and bodies and the multilevel participation of private sector stakeholders, including firms, civil society and academia. Effective implementation and continuous monitoring and evaluation of policies are crucial for achieving planned objectives. The energy transition will entail profound changes, including in how energy is produced and consumed. Given the scale of these changes, democratic processes for citizen participation in policymaking must be established or strengthened to ensure effective governance of the energy transition.

E-mobility

Mobility is fundamental for productivity, equity and sustainability in cities. In Latin America and the Caribbean, which is a highly urbanized region, it is one of the activities that generates greenhouse gas emissions. For this reason, transportation has been a pillar of mitigation strategies and is usually included in city climate action plans and national plans, including nationally determined contributions. Action on mobility must incorporate technological change and exploit possibilities for interlinking this service in a complex governance environment. While abandoning fossil fuels would improve the quality of life for urban residents, the disorganized supply of public mobility services, the weak institutional framework and, above all, the uncertain financial sustainability of the systems cast doubt on the effectiveness of the investments planned to remodel the vehicle fleet beyond reducing emissions. A systemic approach to electromobility entails acting on its elements, in order to enhance the impact of the investments needed for electric vehicle purchase, the generation and transmission of renewable energy, and the provision of recharging points.

E-mobility will also require a paradigm shift, moving beyond the sectoral approach to transport and adopting a comprehensive strategy for sustainable mobility. This has important implications for the technical, operational, political and prospective capabilities of institutions and for governance. Technical capabilities include pursuing integrated public policy on e-mobility and generating data on the interlinkages and cross-media effects across economic, social and environmental dimensions. Operational capabilities include deploying technology and big data to incentivize the use of public transport, taking into account the role of mobility in care tasks. Political capabilities include pursuing a comprehensive approach to e-mobility that builds trust among all key stakeholders and fosters

cooperation. Prospective capabilities include technological foresight to predict the availability and penetration of different energy sources (ethanol, biogas, electric, hydrogen), as well as identifying trends in the demand for public e-mobility services. Fluid communication and planning is essential, both among State institutions at the national level and between national institutions and local authorities, who are more familiarized with trends and opportunities in their cities. Governance includes clear and formal relationships with the private sector and civil society, led by the public sector, to take advantage of the window of opportunity for e-mobility. Understanding e-mobility as a system will enable precision leveraging of massive investments in renewing public (and private) automobile fleets and their potential impact on cities.

Critical minerals

A key component of the big push for sustainability is the responsible management of the mineral supply chain, which is critical to ensuring a just, effective, inclusive and sustainable energy transition. The transition towards renewable energy sources and the spread of electromobility are fuelling burgeoning demand for key minerals such as lithium, copper, cobalt, graphite and nickel. The global demand for lithium could thus grow by more than tenfold by 2050, and demand for cobalt could triple; there could also be very significant increases in demand for the remaining minerals in an International Energy Agency (IEA) net-zero emissions scenario. Latin America and the Caribbean has the mining potential to contribute to the global supply of several of these critical minerals, because it has large reserves of lithium, copper, silver, tin, molybdenum, graphite, and other minerals (see figure VI.2).

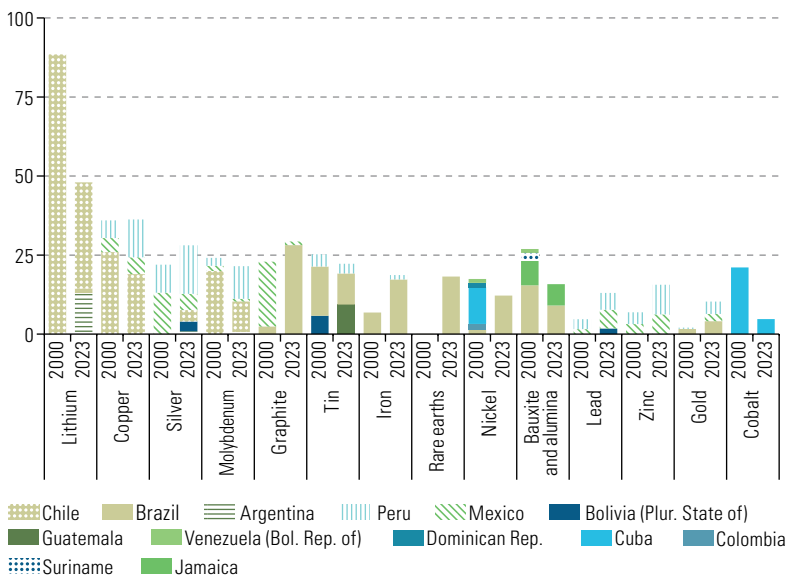
Mineral production and refining present significant socioenvironmental challenges, which must be well managed. Additional challenges include better managing tax revenues and expenditures associated with the mining sector, including manufacturing and value added. Productive development policies for critical minerals are essential to prevent countries from limiting themselves to the extractive phase of the process. In the future, with the likely expansion of renewable energy and green hydrogen, countries with critical mineral reserves and new renewable energy resources will have a growing advantage in terms of accessing markets that are expected to have stricter environmental requirements. To this end, a new type of governance is needed for natural resources in the region. This new governance must be multilevel, transparent, democratic and effective; it must incorporate the life cycle approach to natural resources and the territorial approach. This new model of governance, which will

include strengthened technical, operational, political and prospective capabilities, will enable countries of the region to develop a long-term strategic vision, with appropriate regulations and improved coordination.

Figure VI.2

Latin America and the Caribbean (13 countries): share of selected world mineral reserves, 2000 and 2023

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United States Geological Survey (USGS), *Mineral Commodity Summaries 2024*, Reston, 2024.

Sustainable water management

Extreme events associated with climate change and deforestation strongly affect the hydrological cycle, disrupting not only human access to safe water and sanitation but also productive activities, including food and energy security, while worsening socioeconomic inequalities and exacerbating migration. Latin America and the Caribbean is the world's second most disaster-prone region. In the last three decades, disasters related to water and climate change have accounted for 88% of the total number, 77% of the reported economic cost and 89% of the people affected in the region (ECLAC, 2024d), and their frequency and severity have been increasing. In addition, the availability of water has been affected by a decline in its quality, partly because of increased pollution, affecting both human and ecosystem health.

Advancing the water transition in the region requires action across four pillars: achieving universal access; reducing water poverty; containing negative externalities (including climate change adaptation measures); and introducing new technologies and approaches, such as the circular economy. In addition, regulatory frameworks must be modified in order to attract new investors, which in turn requires innovative financial instruments and systems. Strengthening water governance and the technical, operational, political and prospective capabilities of institutions in this sector is fundamental to improving water management in the countries of the region.

Sustainable tourism

The tourism sector is a key driver of and has a significant impact on the development of many of the countries and territories of Latin America and the Caribbean. The region received 76 million tourists in 2023, with tourism revenues of US\$ 118 billion. It is estimated that tourism accounts for 10% of employment in Latin America and 35% in the Caribbean. Its sustainability is central to the inclusive and sustainable development of those countries and territories.

The sector's complexity demands coordination between different sectors under the leadership of national tourism authorities. National government capacities are needed to empower local communities to take ownership of tourism strategies and coordinate their implementation with subnational governments. There is also a place for planning and decision-making forums on the future of tourism that engage communities, and for communications strategies and relevant information for communities and firms. To that end, mechanisms should be set up for coordination and data access and exchange between the public and private sectors. Social dialogue and stronger governance are crucial for all these.

Bioeconomy

Another fundamental component of sustainable development is fostering the bioeconomy as an engine for productive transformation. ECLAC (2024d) has highlighted the disruptive power of the bioeconomy to address global problems such as climate change, improve environmental management in agriculture, respond to changes in consumption habits, and diversify and sophisticate production structures and increase value added.

To harness the transformative potential of the bioeconomy, it is necessary to strengthen capacities for developing strategies to foster synergies with other driving sectors of major productive transformation, and strengthen mechanisms for coordination among the sectoral institutions responsible for implementing strategies and action plans. Mechanisms for multisectoral and multi-stakeholder dialogue must be created and implemented to reconcile different visions for the design of regulatory and incentive frameworks, and capacities developed and strengthened to keep abreast of technological developments and changes in consumption patterns that might affect the future development of the bioeconomy.

Circular economy

Lastly, this report presents an analysis of ways of stimulating the circular economy —another essential component of sustainable development. The circular economy applies a new logic of production and consumption involving the optimization and permanence of the use and value of resources in the economy, based on technological innovation and the development of new business models. In this logic, the circular economy is a system in which materials do not become waste and nature is regenerated. Materials are kept in circulation through processes that start with the eco-design of products and prioritize maintenance, repair, reuse, remanufacturing, recycling and composting, seeking to decouple the consumption of natural resources from economic activity.

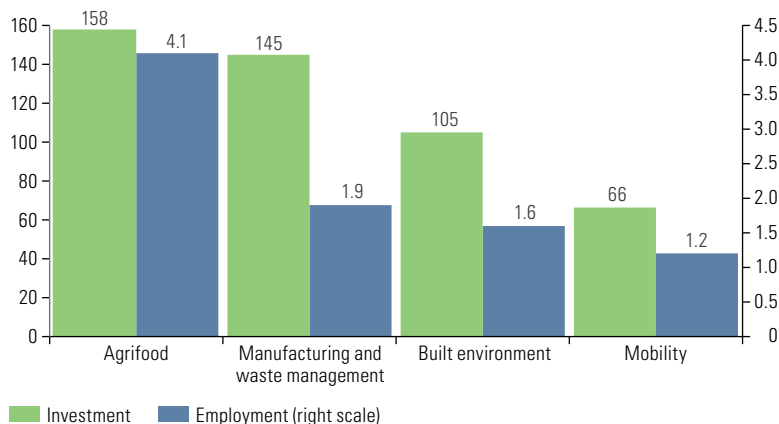
The implementation of circular economy strategies could reduce materials use and the carbon footprint, while also generating significant economic benefits through increased employment and production.

The *Circularity Gap Report: Latin America and the Caribbean* (Circle Economy, 2023) establishes that the implementation of circular economy strategies could reduce materials use and the carbon footprint by approximately 30% apiece. At the same time, the cost of the policies and investments required for this transformation is estimated at some US\$ 474 billion over the

next few years in four key sectors: agrifood, manufacturing and waste management, the built environment, and mobility. This amount would be available if the tax burden in the countries of the region were to rise to the Organisation for Economic Co-operation and Development (OECD) average, and up to 8.8 million formal jobs could be generated (see figure VI.3) (Circle Economy, 2023).

Figure VI.3

Latin America and the Caribbean: estimated gains in formal employment following adoption of circularity policies and associated investments
(Billions of dollars and millions of jobs)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Circle Economy, "The Circularity GAP Report 2023: we live in the overshoot era", 2023 [online] <https://www.circularity-gap.world/2023>.

Moving towards a circular economy entails a major transformation of production and consumption systems, with implications for investment, the adoption of new technologies, demand for new skills and abilities, and the creation of new jobs. This productive transformation contributes to the realization of more productive, inclusive and sustainable development models. In addition to technical solutions, stimulating the circular economy will require adequate governance based on collaboration among stakeholders, the development of metrics, long-term road maps and national strategies, and the creation of economic, financial and regulatory instruments, among other aspects. It also requires strengthening regulatory instruments that contribute to the establishment or expansion of circular business models; aligning economic and financial instruments to redirect investments towards the circular economy; and building solid governance with collaborative platforms that enable the academic, private and public sectors to coordinate their efforts to devise innovative circular solutions.

VII. How can domestic and international financing for development be mobilized?

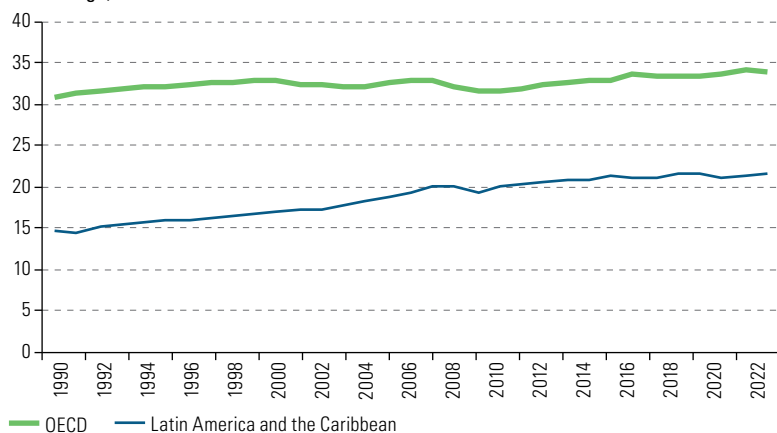
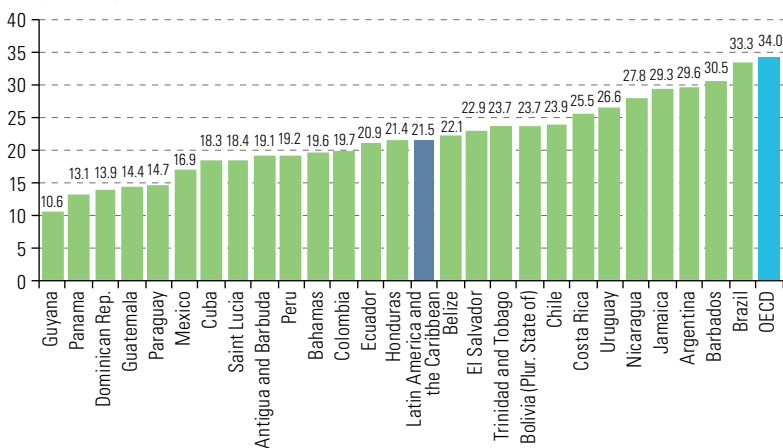
Substantial progress on the transformations proposed by ECLAC in this report and the related SDGs will depend on the mobilization of financial resources at the national and international levels. The Inter-American Development Bank (IDB) (Bendersky, 2019) estimates the financing and investment gap for achieving the SDGs in the countries of Latin America and the Caribbean at around US\$ 650 billion per year. Financing the necessary investments requires a massive effort, both domestically and internationally, to mobilize public and private resources.

Limited capacity to mobilize public resources domestically has tilted the fiscal balance towards deficit, exerting constant pressure on public debt (ECLAC, 2021). This has been exacerbated by steeply declining tax revenue since the global financial crisis of 2008, which contrasts with buoyant pre-crisis collections (see figure VII.1, panel A). The tax gap between the countries of the region and those of the Organisation for Economic Co-operation and Development (OECD) has thus remained relatively constant since the crisis. In 2022, general government tax revenue represented 21.5% of GDP in Latin America and the Caribbean on average, compared with 34.0% for OECD countries (see figure VII.1, panel B).

For the transformations proposed by ECLAC, substantial progress will depend on the mobilization of financial resources at the national and international levels.

Figure VII.1

Latin America and the Caribbean and Organisation for Economic Co-operation and Development: general government tax revenues, 1990–2022 and 2022
(Percentages of GDP)

A. Average, 1990–2022**B. By country, 2022**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online] <https://stats.oecd.org>.

The region's tax structure is biased towards indirect taxes, which are inherently regressive. Tax evasion and avoidance also remain a major obstacle to the mobilization of domestic resources for financing

development. The need to mobilize tax revenue has grown in a context of higher indebtedness. Gross central government public debt in Latin America rose from 29.4% of GDP in 2008 to 55.0% of GDP in 2023, while in the Caribbean, public debt has remained high and was equivalent to 70.3% of GDP in 2023 (CEPAL, 2024c). Increased public indebtedness and rising financial costs have significantly increased interest payments in the region.

It is essential to strengthen public finances by increasing resource mobilization capacity through improved tax collection, but it is equally essential to have in place a sustainable framework for public finances that facilitates efficient management of public debt, thereby reducing fiscal deficits and ensuring macroeconomic stability.

Another essential strategy is the use of macroeconomic stabilization tools, as macroprudential policies can boost financial sector resilience and ease macroeconomic volatility, complementing other economic policies for better management of the economic cycle. Monetary and fiscal policies must be adjusted to support investment and growth, avoiding procyclical measures that exacerbate economic fluctuations. The scope of action should extend beyond the region, with the aim of influencing reforms to the international financial architecture to facilitate access to resources for development.

It is essential to strengthen public finances through improved tax collection and to have in place a sustainable framework for public finances that facilitates efficient management of public debt.

Advancing financial inclusion is also key for the mobilization of development financing. To this end, the public and private sectors must work to improve financial and legal institutional frameworks, strengthen economic stability, and support the establishment of new instruments for managing economic and financial risk. A new approach to financial inclusion is also needed to channel resources towards the productive sector and development targets. Development banks play an important role in spurring innovation in financing, both directly and in coordination with other banks.

When it comes to private international resources, comprehensive strategies should be designed to attract FDI and link it to the rest of the national productive structure, and to increase the productive use of family remittances. The challenge of attracting and retaining FDI that contributes to sustainable and inclusive development in the region remains as relevant as ever, and countries must make efforts to enact the right kind of policies if they are to attract FDI that supports their

development process and the realization of investment potential to build capacities, create quality jobs, transfer technology and enhance the diversification and sophistication of the production mix (ECLAC, 2023c).

Moreover, the international financial architecture falls short in supporting the Sustainable Development Goals and climate action. Disbursements from multilateral financial institutions have been too slow to close the development financing gap, and transfers to developing countries are too low (Summers and others, 2023). Global and regional multilateral development banks committed an estimated US\$ 41 billion to Latin America and the Caribbean in 2023, compared to an annual funding gap estimated by IDB at US\$ 650 billion (Bendersky, 2019).

Rising debt levels, slow growth and tighter international conditions are significantly squeezing fiscal space in the countries of the region. Their debt vulnerabilities have grown and their sovereign credit quality has worsened, which is seriously hampering their capacity to accelerate the achievement of the Sustainable Development Goals.

Thus, the proposals for the reform of the international financial architecture outlined by the Secretary-General of the United Nations (United Nations, 2023) are paramount for building an international environment that is more favourable to the financing needs of developing countries. These proposals include the modernization of global economic governance, sovereign debt resolution mechanisms, increased lending capacity of multilateral banks, recycling of special drawing rights and international tax reform.

They have been discussed in various forums, such as the negotiations on the Pact for the Future and the preparations for the Fourth International Conference on Financing for Development, to be held in Spain in July 2025. Beyond the United Nations, significant work is being done by international financial institutions, informal groups of countries such as the Group of 20 (G20) and Group of Seven (G7), and initiatives led by individual Member States, such as the Bridgetown Initiative for the Reform of the Global Financial Architecture and the Paris Pact for People and the Planet, to step up support for developing countries and foster the achievement of the SDGs.

In sum, the main obstacles to resource mobilization include low economic growth, limited public policy space and high financing costs. A set of strategies organized around three key areas is proposed to address these obstacles and boost financing for key sectors, including energy, water and sanitation, infrastructure, food and agriculture, biodiversity, health, education and other sectors that drive and

stimulate growth. These areas are: (i) strengthening of public finances by increasing resource mobilization capacity through improved tax collection; (ii) comprehensive use of macroeconomic stabilization tools and implementation of macroprudential policies; and (iii) reform of the international financial architecture.

All potential sources of funding need to be considered in mobilizing financing for development. Effective governance must therefore harness and coordinate the efforts of existing institutions and processes that govern the national budget and broader public financial management, such as budget preparation, procurement and public investment; alignment of private financing and investment, for example, through public-private dialogue platforms; development cooperation; and broader economic governance arrangements.

To develop and pursue such strategies, countries must strengthen their existing institutional capabilities, especially operational capabilities and those for policy design, execution and monitoring. Work on strengthening fiscal institutions can thus be structured around the adoption of fiscal rules consistent with debt sustainability and macroeconomic stability, supported by independent fiscal councils and a broad political consensus. Likewise, the development of mechanisms to facilitate the adoption of common regional-level positions concerning the reform of the international financial architecture can improve the prospects for development financing. The Regional Platform for Tax Cooperation in Latin America and the Caribbean is a useful mechanism to coordinate efforts and share good tax practices, thereby creating conditions for efficient tax systems that finance development and reduce dependence on external funding. National-level coordination between ministries of finance and ministries of foreign affairs is also crucial for establishing common positions in international forums.

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Latin America and the Caribbean is facing a number of development traps that pose significant obstacles to a more productive, inclusive and sustainable future. This development crisis coincides with an international context that has changed considerably in the last decade—both on the geo-economic and geopolitical fronts— and which is shifting towards a new set of rules for trade and investment.

For its fortieth session, the Economic Commission for Latin America and the Caribbean (ECLAC) is putting forward a new proposal analysing three transformations that are vital for moving towards a new development model: (i) a productive transformation for higher, sustained, inclusive and sustainable growth; (ii) a transformation to reduce inequality and foster inclusion and social mobility; and (iii) a transformation to boost sustainability and combat climate change. This document includes various proposals for carrying out these transformations, with a focus on how to manage them so as to overcome the development traps in the region. Managing these transformations requires improved governance; strengthening of the technical, operational, political and prospective capabilities of institutions; and the promotion of social dialogue.



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