Latin American Economic Outlook 2019

DEVELOPMENT IN TRANSITION

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Foreword

The *Latin American Economic Outlook* (LEO) analyses issues related to sustainable and inclusive development in Latin America and the Caribbean (LAC). Since the LEO's launch in November 2007, the annual report has compared LAC's performance with that of other regions, analysed main development challenges and put forward policy recommendations, experiences and good practices.

The LEO benefits from the expertise and inputs of co-authors. Since 2011, the LEO has been published in conjunction with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). In 2013, the CAF – Development Bank of Latin America joined the team of authors. Since LEO 2018, the European Union joined as one of its main partners.

This 12th LEO, *Development in Transition*, presents a fresh analytical approach in the region. Latin America and the Caribbean has seen remarkable socio-economic progress since the beginning of the century. The macroeconomic situation of individual countries has strengthened, living standards have improved, and poverty and inequality have declined. Yet large structural vulnerabilities remain and new ones have emerged, many of which are linked to the transition to higher income and development levels. This new approach offers a comprehensive analytical approach that assesses the increasingly complex multi-dimensional challenges facing the region: four development traps relating to productivity, social vulnerability, institutions and the environment. It outlines local opportunities for responding to those traps and seeks ways of improving global public goods to reinforce national agendas, all in the context of the United Nations 2030 Agenda. LEO 2019 calls for improving domestic capacities and adopting a new vision of international co-operation as a facilitator to support those efforts.

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Acronyms and abbreviations

ABC	Brazilian Cooperation Agency
AGCID	Chilean Agency for International Co-operation and Development
AMEXCID	Mexican Agency for International Co-operation and Development
APC	Agency for International Co-operation of Colombia
APCI	Peruvian Agency for International Co-operation
ASEAN	Association of Southeast Asian Nations
BANCOLDEX	Development Bank (Colombia)
BANOBRAS	National Works and Public Services Bank (Mexico)
BEPS	Base Erosion Profit Shifting
BNDES	National Bank for Social and Economic Development (Brazil)
BPI	Public Investment Bank (France)
BRICS	Brazil, Russia, India, China and South Africa
CAF	Development Bank of Latin America
CARICOM	Caribbean Community
CIT	Corporate Income Tax
CNPJ	National Registry of Firms (Brazil)
CNSCC	National Council for Citizen Security and Coexistence (El Salvador)
CO_2	Carbon Dioxide
CORFO	Production Development Corporation (Chile)
CSEC	Caribbean Secondary Education Certificate
CSS	Caribbean Small States
DAC	OECD's Development Assistance Committee
DFID	Department for International Development (United Kingdom)
DGCIN	General Directorate of International Co-operation of the Ministry of Foreign Affairs and Worship (Argentina)
DiT	Development in Transition
DNP	National Planning Department (Colombia)
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FDN	Development Finance Corporation (Colombia)
FINAGRO	Fund for Agricultural Sector Finance (Colombia)
FINDETER	Financial Corporation for the Territorial Development (Colombia)
FO.AR	Fund for South-South Co-operation (Argentina)
FX	Foreign Exchange
G20	Group of Twenty
GAVI	Global Vaccine Alliance
GDP	Gross Domestic Product
GEF-CReW	Caribbean Regional Fund for Wastewater Management
GFTAM	Global Fund to Fight Aids, Tuberculosis and Malaria
GHG	Greenhouse Gases
GNI	Gross National Income
GVC	Global Value Chains
HDI	Human Development Index

HIC	High-Income Countries
ICTs	Information Communication Technologies
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
ITC	International Technical Co-operation
KfW	German Development Bank
LAC	Latin America and the Caribbean
LEO	Latin America Economic Outlook
LICs	Low-Income Countries
LMICs	Lower Middle-Income Countries
MDB	Multilateral Development Banks
MDCR	OECD's Multi-dimensional Country Reviews
MDG	Millennium Development Goals
MERCOSUR	South American Common Market
MILA	Latin-American Integrated Market
MNEs	Multinational Enterprises
MSMEs	Micro, Small and Medium Enterprises
NAFINSA	National Financing Development Bank (Mexico)
NAFTA	North American Free Trade Agreement
NDB	National Development Bank, generic
NDP	National Development Plan, generic
NEET	Not in Education, Employment or Training (Youth)
NGOs	Non-Governmental Organisations
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OFCs	Offshore Financial Centres
PEG	Government Strategic Plan (Panama)
PIFCSS	Ibero-American Program for the Strengthening of South-South Co-operation
PISA	Programme for International Student Assessment
PIT	Personal Income Tax
PM2.5	Fine Particulate Matter
PMP	Policy-Making Processes
PPA	Plurennial Plan (Brazil)
PPP	Purchase-Power Parity
PPPs	Public-Private Partnerships
RCT	Randomised Control Trial
R&D	Research and Development
SDGs	Sustainable Development Goals
SGA	Structural Gap Approach
SIDS	Small Island Developing States
SINACID	National System of International Co-operation for Development (Dominican Republic)
SME	Small and Medium Enterprises
SSC	South-South Co-operation
STEM	Science, Technology, Engineering and Mathematics

TFP	Total Factor Productivity
TOSSD	Total Official Support for Sustainable Development
TrC	Triangular Co-operation
UAE	United Arab Emirates
UMI	Upper Middle-Income Countries
UN	United Nations
UNASUR	Union of South American Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar
VAT	Value-Added Taxes
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

Editorial

This *Latin American Economic Outlook* 2019 (LEO 2019) presents a new approach to continue supporting Latin America and the Caribbean's (LAC) transition to more inclusive and sustainable development. At the core of this approach is the understanding that development challenges and opportunities in LAC have significantly evolved with the region's progress. Consequently, the international co-operation system for development should continue innovating to support countries in pursuing their development objectives and, in particular, the 2030 Agenda and Sustainable Development Goals (SDGs).

We believe various reasons explain the need for this new approach.

First, we are living in times of extraordinary economic, social and political change. Rapid technological progress and digitalisation, ageing, increased migration, better human capital, the greater incidence of climate change, the heterogeneous impact of globalisation across different socio-economic groups and rising social discontent are some of the notable megatrends that have grown stronger in recent years, posing both challenges and opportunities for the region. These tectonic shifts test our shared views and call for innovative solutions to reduce inequalities, improve people's well-being and rebuild trust in institutions, both domestically and at the multilateral level.

Second, after a period of notable socio-economic progress, LAC countries have increased their domestic capacities and also their willingness to contribute to the global development agenda. Yet, they are confronting persistent and new domestic and global vulnerabilities that call for critical transformations to maximise opportunities for development. Potential gross domestic product (GDP) growth has declined to around 3%, and labour productivity, at about 40% the level of the European Union, has been stagnant or even declining in some countries. Access to digital technologies also remains a challenge with only 57% of Latin Americans connected to the Internet. In addition, around 40% of Latin Americans are at risk of falling back into poverty, holding informal jobs and poor social protection. At the same time, around 64% of the population have no confidence in their national governments. All these trends occur in a region that bears a disproportionate environmental burden. LEO 2019 provides new insights into these longstanding symptoms and new challenges by focusing on four structural traps that hinder a successful structural transformation. These are the productivity, social vulnerability, institutional and environmental traps, which interact with each other in self-reinforcing dynamics to limit the region's inclusive and sustainable development opportunities.

Third, greater national income is not automatically leading to higher levels of well-being for all. Income and well-being outcomes gradually delink as countries become richer in terms of GDP per capita. Indeed, income levels in LAC do not necessarily reflect development outcomes across and within countries. For instance, the homicide rate of Bolivia (6 deaths per 100 000 inhabitants), a low middle-income country, is below four of the five LAC high-income countries. Also, income inequality, as measured by the Gini index, in El Salvador (40), a low middle-income country, is lower than in Argentina (42), Chile (47) and Panama (50), all high-income countries. Moreover, cross-country disparities in well-being at a given level of income per capita are significant in LAC.

A new approach for transitioning to more inclusive and sustainable development recognises that no single path to development exists and embraces wide-ranging efforts to upgrade policy responses to this evolving context. Ever more complex issues require development strategies with more sophisticated policy mixes and further co-ordination and coherence. Ambitious efforts must be put in place to overcome the traps and turn

vicious circles into virtuous ones. International co-operation can play a facilitating role in supporting countries in the region in their transition path for inclusive and sustainable development.

What is key for this journey?

A multi-dimensional approach to development in line with the 2030 Agenda. Moving beyond income metrics as the sole indicator of development success and using indicators that actually reflect development levels to inform the design, implementation, monitoring and evaluation of policies is still a global pending issue. Many efforts inside and outside our institutions already exist to build useful alternative indicators, such as the Well-being and Progress Framework (OECD), the Structural Gap analysis (ECLAC) and the Human Development Index (UN). We need to build on these existing efforts for concrete policy action tailored to the specific needs and demands of the region. This requires identifying the dimensions of life that matter most to people in LAC, collecting relevant data on them and plugging them into the decision-making process.

Stronger institutional capacities at the domestic level that effectively translate into comprehensive responses. International co-operation for development should be rooted in the specific needs of each country, not externally imposed. It should place national strategies front and centre and strengthen countries' domestic capacities. That is why National Development Plans (NDPs) are critical tools for prioritising policy actions, adopting a strategic, co-ordinated and comprehensive approach to policy making, and, ultimately, designing, implementing and evaluating plans through specific policies and programmes. Increasing domestic resources for financing development, considering the roles played by taxes, financial markets, development finance institutions and public-private partnerships, as well as improving public spending, are of similar importance.

International co-operation for development should play a relevant facilitating role through an expanded toolbox of modalities and instruments that strengthen South-South, triangular and multilateral co-operation. We should not think of development co-operation in isolation, but as integrated into a broader portfolio of international co-operation. An expanded toolbox means breaking traditional definitions, exploring new structures and building new synergies. As countries progress, this toolbox should include instruments for greater technical co-operation, such as knowledge sharing, multilateral policy dialogues, capacity building, access to technology and collaboration on science, technology and innovation. Expanding countries' ability to tax effectively through targeted capacity building, international agreements against tax avoidance and evasion, new technologies in tax administration, and better enforcement and communications to increase tax morale exemplify innovative co-operation modalities and should be priorities.

A prerequisite to successful international co-operation is that countries at all income levels can build and participate in policy partnerships, as equal partners, and address common concerns. This is not only legitimate, but also beneficial for exchanging lessons and ensuring that the global nature of many development concerns receives necessary global responses. Issue-driven international discussions call for issue-specific partnerships and fora where countries exchange experiences and solutions as true peers. International organisations like ours already work together to provide such spaces for policy dialogue; we stand ready to strengthen our efforts to serve as platforms for these issue-specific debates.

We firmly believe that we can further support LAC countries in their quest to improve well-being for all by continuing to rethink and innovate the international co-operation system for development. We advocate a paradigm shift that does not detract from financial resources or create conflict among countries at different levels of development, but promotes a model of inclusive international co-operation. We believe the LAC region, because of its diversity and progress, is an excellent and fertile arena to innovate and pursue this. LEO 2019 sheds light and presents ways to move forward in that direction.

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Executive summary

Renewed international co-operation can support countries in Latin America and the Caribbean (LAC) to achieve greater inclusive and sustainable development for all. Domestic and global challenges are coalescing in significant ways, while linkages between national policies and the global scenario continue to grow. In the face of this evolving context, the *Latin American Economic Outlook 2019* (LEO 2019) calls for improving domestic capacities and upgrading the international co-operation system for development to better fit new realities. This reflection is necessary to successfully support national development objectives and international efforts to advance regional and global public goods, as well as to pursue the universal goals of the 2030 Agenda for Sustainable Development.

Progress highlights the multi-dimensional nature of development

Greater national incomes are not automatically leading to higher levels of well-being for all in LAC. In the last two decades, some well-being outcomes increased more rapidly than implied by the region's gross domestic product (GDP) growth alone. Conversely, other outcomes increased at a slower pace. The region outperforms expectations for its level of per capita GDP in terms of life expectancy, primary education coverage, social connection and air quality. Yet violence and income inequality remain relatively high, and informality is still a persistent problem. Real wages have also increased at a slower pace than in other countries in the world with similar GDP per capita since the 1950s.

In fact, well-being outcomes gradually delink from income as countries move up along the income ladder. A deeper look at the relationship between multi-dimensional indicators of development and income growth is revealing. It shows that several development dimensions other than GDP per capita become more important in improving people's lives as countries become wealthier. This is the case for most LAC countries. At the same time, LAC has glaring cross-country and within-country regional disparities in well-being outcomes at a given level of GDP per capita. Income thresholds ignore this complex aspect of development, and the diversity and heterogeneity of countries in transition.

Progress in LAC comes with new development challenges

After the remarkable progress experienced at the turn of the 21st century, economic growth and socio-economic advancement in LAC have weakened since 2011. Lower than expected potential GDP growth, at around 3% annually, reflects low labour productivity. Indeed, in recent decades, labour productivity has dropped to about 40% of the European Union rate. In turn, insufficient growth and productivity are holding back further reductions in income poverty and inequality. Alongside these trends, the middle class has expanded to represent one-third of the population. This growing middle class has larger aspirations and demands for better quality public services and institutions; often unmet. For instance, the share of the population satisfied with the education system fell from 63% to 56% from 2006 to 2017, below the OECD levels of 65%. All these trends occur in a region where the impact of environmental challenges, mainly climate change, is already visible.

These symptoms suggest that as LAC countries move towards higher levels of development they face "new" development traps – development challenges that act as vicious circles. These development traps can be transformed into virtuous circles with policy actions to help countries move towards further inclusive and sustainable development. The traps result from the combination of longstanding weaknesses with new problems that emerge as countries advance in their respective development pathways. They are

called traps as they involve circular, self-reinforcing dynamics that limit the capacity of transitioning towards greater development. These four main "new" development traps are:

- **Productivity trap:** LAC has significantly opened up to international trade since the turn of the century. Yet, persistently low productivity seems to be associated precisely with an export structure concentrated in primary and extractive sectors with low levels of sophistication. This undermines the participation of LAC in global value chains and affects further productivity growth.
- **Social vulnerability trap:** Many have escaped poverty in LAC since the early 2000s, though most are now part of a growing vulnerable middle class (40% of the population). This group faces a vicious cycle of low-quality jobs, poor social protection and volatile income that leaves them at risk of falling back into poverty.
- **Institutional trap**: The expansion of the middle class has come with rising social aspirations. Despite improvements in past years, institutions are failing to respond to citizens' increasing demands. Distrust and low satisfaction are deepening. Citizens see less value in fulfilling their social obligations, such as paying taxes. This, in turn, makes raising tax revenues to finance better public services and respond to social demands difficult.
- **Environmental trap:** Many LAC economies are material and natural resource-intensive. The concentration on a high-carbon growth path is difficult – and costly – to abandon. Moreover, natural resources upon which the model is based are depleting, rendering it unsustainable.

Countries need to expand their domestic capacities to respond to these traps. Improving policy making, including building technical capacity to design, implement and monitor National Development Plans (NDPs) as well as to spend better and to create a consensus to overcome the complexities of the political economy of reforms, is key to uncapping LAC's potential. Likewise, better financing for development is needed to mobilise both public and private resources to invest in structural policies.

International co-operation for development needs to continue evolving

This more complex socio-economic landscape calls for wide-ranging efforts, which include a new approach to international co-operation for development. Such an approach comprises international co-operation adopting a facilitator role to respond to the needs of economies and societies in transition in several ways.

First, it would allow countries at all income levels to build and participate equally in policy partnerships. This is not only legitimate, but also beneficial for addressing common concerns more effectively and ensuring that the global multi-dimensional nature of many development challenges receives the necessary global multi-dimensional responses.

Second, it would place national strategies front and centre and strengthen countries' domestic capacities. It could help LAC countries set policy priorities, implement and evaluate development plans, and increase alignment between domestic and international priorities. It could also help them play an active role in the global agenda.

Third, it would include an expanded box of tools for international co-operation that brings in expertise from a wide range of actors. It would pay special attention to assembling public actors of different ministries in a "whole of government" approach. The toolbox would comprise instruments for greater technical co-operation, such as knowledge sharing, multilateral policy dialogues, capacity building, access to technology and co-operation on science, technology and innovation. The international co-operation system for development offers many positive examples, successes and valuable lessons upon which to build.

Overview: *Development in transition* in Latin America and the Caribbean: A new approach for inclusive and sustainable development in the region

The *Latin American Economic Outlook* 2019 (LEO 2019) presents a new approach to support Latin America and the Caribbean's (LAC) transition to inclusive and sustainable development called "Development in Transition" (DiT). This represents an opportunity to advance towards the goals of the 2030 Agenda for Sustainable Development (Agenda 2030) by rethinking the concept of development, the strategies countries should pursue and the role of international co-operation in facilitating these efforts. In the face of significantly evolving domestic and global contexts, DiT calls for improving domestic capacities and adopting more innovative modalities of international co-operation for development. In so doing, it could support both national development objectives and international efforts to advance regional and global public goods.

This new approach is needed for various reasons. First, progress towards higher income levels in LAC is creating new and increasingly complex development challenges – the "new" development traps – which should be transformed into greater development opportunities. Second, LAC is reaching per capita levels of gross domestic product (GDP) where income loses relevance as a component of well-being. This demands a multi-dimensional approach to development. Third, the global context is increasingly complex. Various megatrends and the emergence of new actors in the global arena have rendered traditional policies outdated. They demand innovative policy strategies to enhance inclusive and sustainable development.

To respond to these evolving domestic and global contexts, the DiT approach stresses the need to achieve the following:

Improve domestic capacities: This will be crucial to address development traps and foster a multi-dimensional approach to sustainable development in LAC. LEO 2019 focuses on two key cross-cutting capacities that are fundamental to exploit untapped opportunities for development:

- Improved *policy making for development* includes issues related to continue building technical capacity to design, implement and monitor strategic National Development Plans (NDPs). It also includes building capacity to spend better, and to create the political consensus and citizens' support to overcome the complexities of the political economy of reforms in LAC.
- Improved *financing for development* focuses on mobilising sustainable domestic financing for development, both public and private, to invest in structural policies and support the sustainable development agenda.

Strengthen international co-operation as a facilitator for LAC: International co-operation needs to be more innovative to adapt to a complex and multipolar global context. It needs to serve as a facilitator of countries' efforts to respond to the needs of economies and societies in transition in several ways:

- Allow for countries at all income levels to build and participate in policy partnerships, as equal partners, and address common concerns.
- Place LAC national strategies front and centre, and strengthen countries' domestic capacities. It could help LAC countries set policy priorities, implement and evaluate development plans, and increase alignment between domestic and international priorities. It could also help them play an active role in the global agenda.
- Include an expanded toolbox of international co-operation modalities and instruments that brings in the expertise from a wide range of actors, and sectors, promoting a "whole of government" approach. This toolbox comprises instruments

for greater technical co-operation, such as knowledge sharing, multilateral policy dialogues, capacity building, access to technology and co-operation on science, technology and innovation.

These recommendations present ways forward for LAC countries to overcome their development traps and transform them into broad opportunities. In this sense, they can support LAC countries to achieve a scenario of greater openness to the world economy, commitment to the global sustainable agenda (e.g. the Agenda 2030 and the Sustainable Development Goals [SDGs]), agreement on the reduction of climate change, reduction of poverty and a consolidation of the middle class.

Four development traps stand in the way of further inclusive and sustainable growth. Although countries are climbing the income ladder, they still face both old and new challenges, which are linked to the transition to higher income levels. These traps are the productivity trap, the social vulnerability trap, the institutional trap and the environmental trap.

Policy actions are needed to move from vicious circles to virtuous circles of development. Policy actions should address key structural challenges, including poor productivity, increasing vulnerability levels, persistent inequality rates and rising citizen discontent. Strengthening domestic capacities in close partnership with international co-operation is fundamental to face the region's vulnerabilities under more complex international conditions. And this must be done while considering the relevance of preserving global public goods and the importance of co-ordinating domestic strategies with the broader sustainable development agenda. The path to sustainable and inclusive development must embrace development's multidimensional process. It requires a new vision for international co-operation as a facilitator to make progress inclusive for all.

Latin America and the Caribbean as a region in *development in transition*

The world is going through a period of major transformations. Ten years after the economic crisis, the global economy is still facing structural challenges that call for new development strategies. Awareness of the social, environmental and economic limits of the prevailing models has generated a deep feeling of dissatisfaction. This has called into question conventional wisdoms on development and international co-operation for development.

The Agenda 2030 and the SDGs represent a renewed consensus for a new development paradigm and an important political step forward. They restore the multidimensionality of development needs and the principle of shared but differentiated responsibilities among the countries in the environmental, economic and social spheres. This ambitious development agenda cannot be achieved in isolation of each other or by merely improving financial aid. It sets commitments for the entire international community, demanding national, regional and international policy actions.

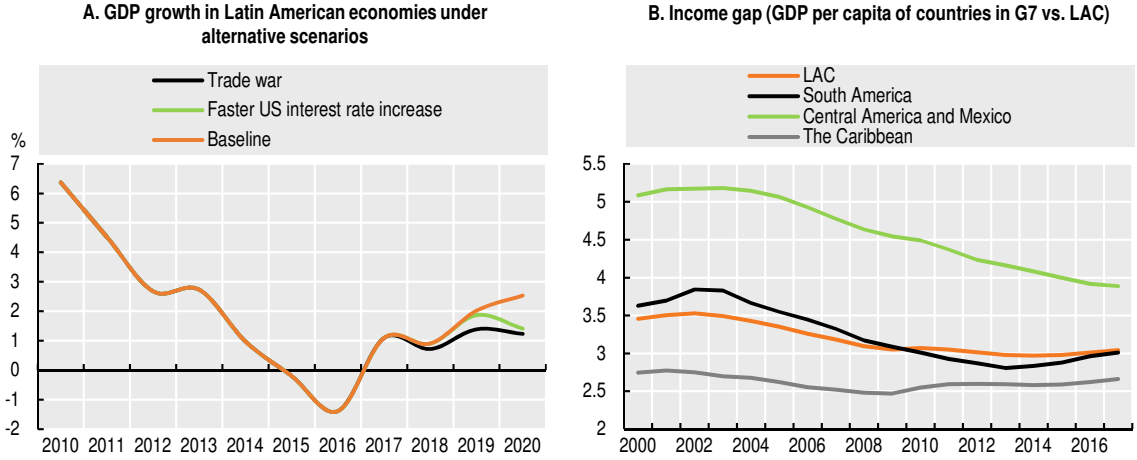
LAC faces evolving and complex development challenges that call for a DiT approach. Universally, the DiT approach stresses the need to rethink both domestic policies and international co-operation. Ultimately, it seeks to help countries turn income gains into lasting development gains. LAC's state of development presents some features that largely resonate with the DiT approach. Although these features are not exclusive to this region, they deserve particular attention. Indeed, they are critical for defining the role of international co-operation as a facilitator for the region's future development.

Macroeconomic and socio-economic performances are symptoms of structural challenges in the region

Economic growth in LAC is expected to improve, but it remains relatively weak. Macroeconomic conditions point to different "*Americas Latinas*", with significant heterogeneity across countries. This highlights differences in exposure to external shocks, main trade partners, differences in policy frameworks and idiosyncratic supply shocks. In 2018, as global and idiosyncratic shocks affected output dynamics in the region's major economies, recovery stalled on average (Figure 1, Panel A). Though activity is expected to regain some momentum in 2019-20, growth performance would be subdued compared to the previous decade. Current and expected growth is insufficient to close the income gap relative to the most advanced economies. Since 2011, GDP growth has been below the high rates achieved in the mid-2000s; the gap in terms of GDP per capita with advanced economies has remained considerable (Figure 1, Panel B). In the long term, evidence indicates that potential GDP annual growth at 3% is lower than previously expected. Low potential growth is a matter of concern because of its economic and social effects.

The region is vulnerable to a complicated global context. In 2018, LAC economies benefited from still-solid global activity, but for 2019 and 2020 a soft landing is expected. Following a rebound in 2017, global trade slowed in 2018 and will continue to soften in 2019 (OECD, 2018a; IMF, 2018). Moreover, commodity prices are expected to ease, leaving behind the slump between 2014 and 2016. Geopolitical tensions boosted oil prices in the first half of 2018. However, fears about a trade war and tighter credit conditions in the Chinese economy curbed the uptrend. At the same time, global liquidity tightened in 2018. Capital flows to emerging markets receded, widening spreads, depreciating currencies against the US dollar and sinking stock market values. The external context, then, is volatile. It could include global financial tightening and escalating trade tensions between the United States and China that could derail economic recovery in LAC (Figure 1, Panel A).

Figure 1. **GDP growth and income gap in Latin America and the Caribbean**



Notes: For Panel A, weighted average for Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela. An interest rate increase scenario contemplates an additional and cumulative 0.25 basis points (bp) rise on short-term interest rates in the United States compared to the baseline (where interest rates plateaued after 2019). This implies a cumulative rise of 200 bp by 2020 compared to the baseline scenario. Trade war scenario is modelled on Oxford Economics projections for the impact of American and Chinese GDP trade tariffs on USD 250 billion (25% for 50 billion and 10% for 200 billion) of Chinese exports to the United States with a similar response from the People's Republic of China (hereafter "China"). Between 2018 and 2020, GDP would decline 0.37 bp in China and 0.26 in the United States with respect to the baseline.

Source: ECLAC (2018a), *CEPALSTAT* (database); IMF (2018) and World Bank (2018).

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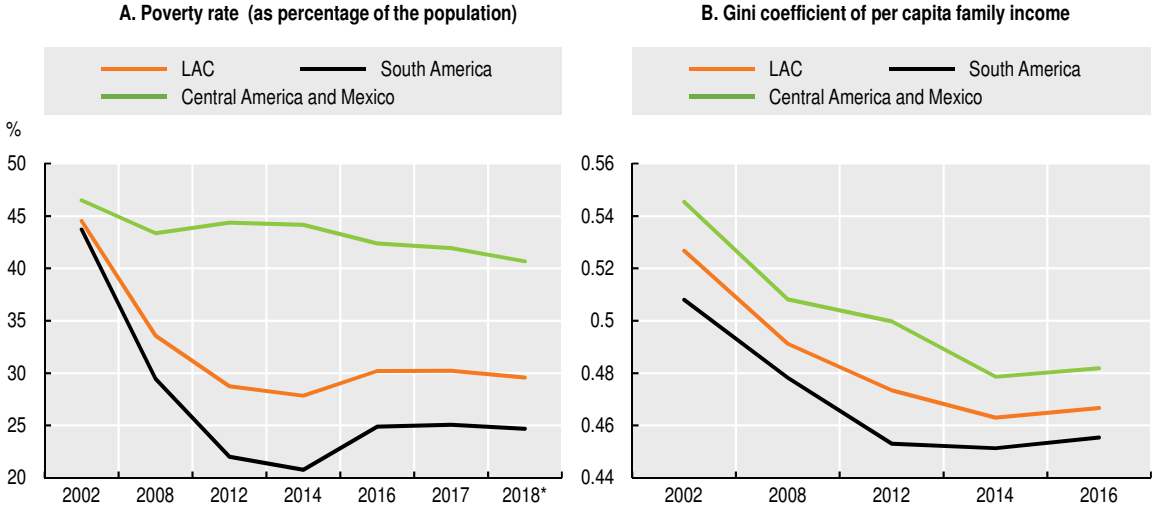
Insufficient economic growth in LAC is holding back reductions in poverty and income inequality (Figure 2). Poverty is closely linked to the business cycle in LAC. Consequently, the economic slowdown entails that poverty and extreme poverty levels should be similar to those of 2016, although with differences across countries. Moreover, considering population growth, the number of people who are poor and extremely poor is likely to increase by approximately 1 million (ECLAC, 2018a). Income inequality recorded an unprecedented drop between 2002 and 2014. However, for 2016 (the latest figures available), inequality increased slightly for the first time since 2002, with significant heterogeneity across countries.

Figure 2. **Poverty and income inequality in Latin America and the Caribbean**



Note: * Poverty data for 2018 are estimates. Circa years for the Gini coefficient.
Source: ECLAC (2018a) and ECLAC (2018b).
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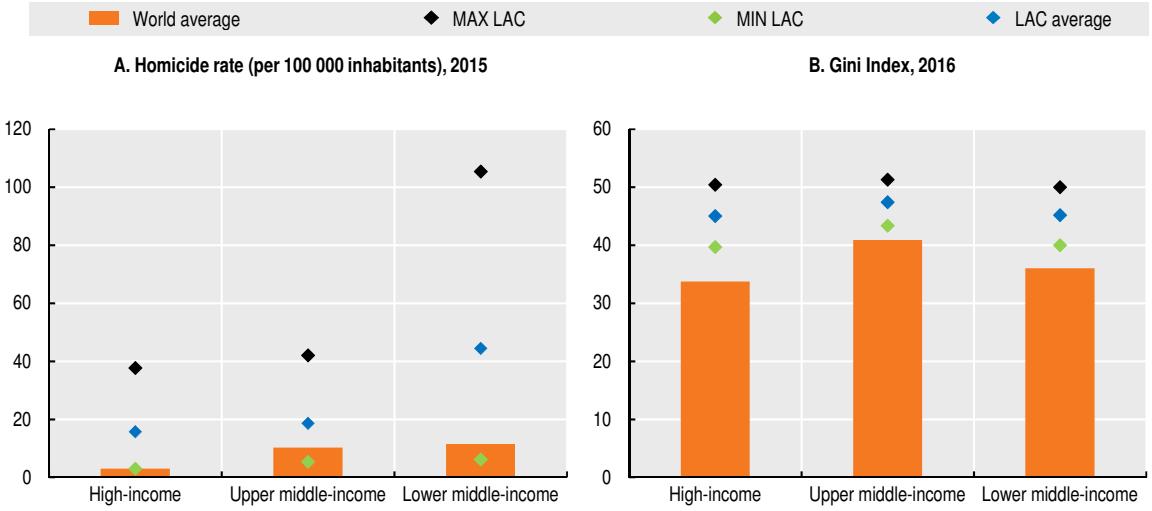
Greater national income is not automatically turning into greater well-being for all Latin Americans

A single universal path to development does not exist. Development processes are not marked by a succession of stages characterised by linear increases in per capita GDP, homogeneous elements and similar policies. Indeed, while income per capita and well-being are associated, outcomes gradually delink as countries become wealthier in terms of GDP per capita. As economies grow, several development dimensions other than GDP per capita become more important in improving people's lives. This is the case of most LAC countries. Using an average income, such as GDP or gross national income (GNI) per capita, as a measure of development can provide a ballpark idea of the development challenges. Yet, it fails to draw the detailed roadmap that policy makers need to achieve inclusive and sustainable development since it can hide strong disparities across and within countries in different essential aspects of people's lives.

The region has undoubtedly registered progress in terms of higher per-capita income; however, a deeper look at multidimensional indicators of development presents mixed results. LAC over-performs for its level of per capita GDP in terms of life expectancy, employment, social connections, air quality and overall life satisfaction. For example, primary school enrolment has increased considerably beyond expectations given countries'

income level. However, quality education lags behind. Violence and income inequality remain relatively high and informality is still a persistent problem. Furthermore, real wages have increased at a slower pace than in other countries in the world with similar GDP per capita since the 1950s.

Figure 3. **Selected development indicators by country income groups**



Note: Simple averages are used for both LAC and world averages. LAC lower middle-income countries include Bolivia, El Salvador, Honduras and Nicaragua. LAC upper middle-income countries include Belize, Brazil, Colombia, Costa Rica, Cuba, Ecuador, Grenada, Guatemala, Guyana, Jamaica, Mexico, Paraguay and Peru. LAC high-income countries include Argentina, Bahamas, Barbados, Chile, Panama, Puerto Rico, Trinidad and Tobago, and Uruguay.
Source: Calculations based on World Bank (2018).
StatLink https://doi.org/10.1787/888933936539

Additionally, cross-country disparities in well-being outcomes at a given level of GDP per capita are glaring in LAC. For instance, the homicide rate of El Salvador is 17 times that of the Plurinational State of Bolivia (hereafter "Bolivia"), although both countries are lower middle-income economies (Figure 3). Similarly, there is almost a 40 percentage point difference between the best- and worst-performing upper middle-income countries in LAC in terms of vulnerable employment (49.7% in Peru compared to 10.3% in Cuba). Furthermore, heterogeneity is also large across countries with different levels of income. Several development outcomes in lower-income countries in LAC are better than in middle-income and even high-income countries. For instance, Trinidad and Tobago, and Uruguay, both high-income countries, present homicide rates greater than Bolivia, a lower middle-income country.

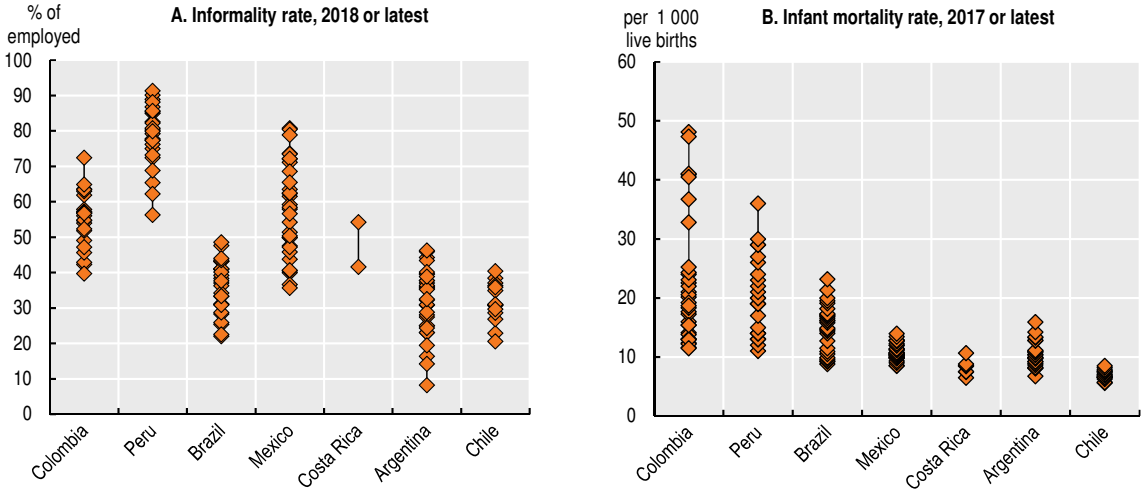
National measures of GDP per capita generally hide large diversity across sub-national regions in all continents, but the pattern is especially pronounced in LAC. Territorial disparities are large for several dimensions, including education, health, citizen security, poverty and informal employment (Figure 4). For instance, in Mexico only 14% of the population of Nuevo León lives below the poverty line, while the poverty rate of Chiapas is 77%. Within some countries in the region, informality rates jump from 8.2% in Ushuaia-Río Grande (Argentina) to 91% in Huancavelica (Peru).

In line with the Agenda 2030, a multidimensional approach to development is needed that moves beyond income metrics as the sole indicator of success. GDP per capita is

not the only feature shaping development. In particular, as countries grow, quality jobs, health, education, democracy, personal security and inequality are equally important. Looking at development through a multidimensional lens serves as a good compass to design, monitor and evaluate policies to improve people's lives. Yet it requires measuring for a broad range of development outcomes. This includes data on how well-being outcomes are distributed across a population and local areas, as well as on sustainability.

Figure 4. **Sub-national disparities across selected development indicators, selected Latin American and Caribbean countries**

Each diamond represents a sub-region



Note: Countries are ordered by GNI per capita levels in current values.
Sources: CONAPO (2018), DANE (2018), IBGE (2017), INDEC (2018; 2017), INE (2015), INEC (2016), INEI (2015).
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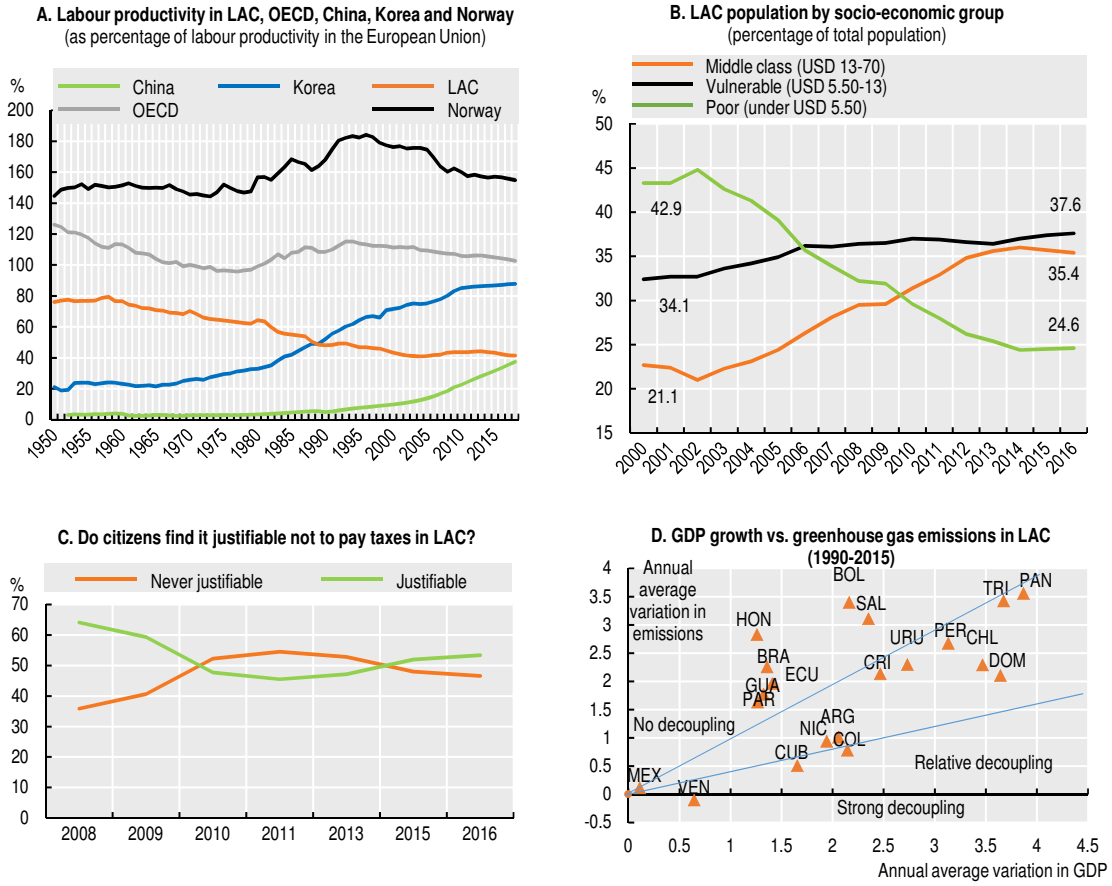
As Latin America and the Caribbean countries climb the income ladder, they face new development traps

Following socio-economic and institutional improvements in the past decades, LAC countries are facing a number of "new" development traps that stand in the way of further inclusive and sustainable growth (Figure 5). Progress towards higher income levels is bringing development challenges to the surface, and creating new ones. These are mainly the result of longstanding weaknesses that have been exacerbated. They are becoming more relevant as countries advance in their respective development pathways. Several indicators suggest that former drivers of progress are no longer sufficient. These include stagnant – or even declining – levels of productivity; the persistent and increasing vulnerability of large segments of the population, with unequal access to public services across socio-economic groups; the growing dissatisfaction of citizens with public institutions; and the visible impact of climate change.

These development traps involve circular, self-reinforcing dynamics that limit the capacity of LAC countries to move towards greater levels of development. In this sense, and following the literature on development economics, LEO 2019 highlights the self-fulfilling nature of these traps, and how better co-ordination and/or collective action can overcome them (Myrdal, 1957; Hirschman, 1958).

Figure 5. **Main symptoms of the "new" development traps in Latin America and the Caribbean**



Note: In Panel B, socio-economic classes are defined using the world classification: "Poor" = individuals with a daily per capita income of USD 5.5 or lower. "Vulnerable" = individuals with a daily per capita income of USD 5.50-13. "Middle class" = individuals with a daily per capita income of USD 13-70. Poverty lines and incomes are expressed in 2011 USD PPP per day (PPP = purchasing power parity). The LAC aggregate is based on 17 countries in the region for which microdata are available: Argentina (urban), Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay (urban). In Panel C, unweighted average for Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. The specific question is: "Please tell me for each of the following statements whether you think it can always be justified to cheat on taxes, never be justified, or something in between". For practical purposes, we classify those as "never justifiable" to the share of respondents that answered 10 (the highest note); "slightly justifiable" is the fraction of respondents who answered between 9 and 6; and "justifiable" is the fraction of answers between 1 (the minimum possible) and 5.

Source: Own calculations based on The Conference Board (2018), The Conference Board Total Economy Database for Panel A; LAC Equity Lab tabulations of *SEDLAC* (CEDLAS and the World Bank, 2018) for Panel B; Latinobarómetro (2015) for Panel C; ECLAC (2018a) for Panel D.

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The four main "new" development traps identified are as follows:

1. **Productivity trap:** Persistently low productivity levels and poor productivity performance across sectors in LAC are symptoms of a *productivity trap*. The concentration of exports on primary and extractive sectors with low levels of sophistication creates a structure that does not generate backward linkages in the economy and presents barriers to entry, given the high capital intensity of

these activities. This, in turn, makes it difficult for micro, small and medium-sized enterprises (MSMEs), which are abundant in LAC, to connect to international markets. Consequentially, the region has poor insertion into GVCs. This is associated with low levels of technology adoption and few incentives to invest in productive capacities. In all, competitiveness remains low, making it difficult to move towards higher added-value segments of GVCs. This fuels a vicious circle that negatively affects productivity. Such a dynamic has gained relevance given the decline of demand for commodities derived from the current stage of "shifting wealth". The stage is marked by two trends. First, China is shifting from an investment-based economic model to one based on consumption. Second, new drivers of growth are needed in LAC to boost productivity.

2. **Social vulnerability trap:** Income growth paired with strong social policies since the beginning of the century have reduced poverty remarkably. Yet most of those who escaped poverty are now part of a new vulnerable middle class that represents 40% of the population. This comes with new challenges, as more people are now affected by a vicious cycle that perpetuates their vulnerable status. Those belonging to this socio-economic group have low-quality, usually informal jobs associated with low social protection and low – and often times unstable – income. Because of these circumstances, they do not invest in their human capital, or lack capacity to save and invest in a dynamic entrepreneurial activity. Under these conditions, they remain with low levels of productivity, and, hence, only have access to low quality and unstable jobs that maintain them vulnerable. This trap operates at the level of the individual, who is locked into a vulnerable status; this contrasts with the productivity trap, which refers to the whole economy.
3. **Institutional trap:** The expansion of the middle class in LAC has been accompanied by new expectations and aspirations for better quality public services and institutions. However, institutions have not been able to respond effectively to these increasing demands. This has created an institutional trap, as declining trust and satisfaction levels are deepening social disengagement. Citizens are seeing less value in committing to the fulfilment of their social obligations, such as paying taxes, as illustrated by the decline in tax morale (54% of the population justified not paying taxes in 2016). Tax revenues are thus negatively affected, limiting available resources for public institutions to provide better quality goods and services, and respond to the rising aspirations of society. This creates a vicious circle that jeopardises the social contract in the region.
4. **Environmental trap:** The productive structure of most LAC economies is biased towards high material and natural resource-intensive activities. This concentration may be leading these countries towards an environmentally and economically unsustainable dynamic for two reasons. A concentration on a high-carbon growth path is difficult – and costly – to abandon; and natural resources upon which the model is based are depleting, making it unsustainable. This has also gained importance in recent years, with the stronger commitment with global efforts to fight the causes and consequences of climate change.

Policy actions should move LAC from these vicious circles to virtuous circles. The growing importance of the development traps has relevant policy implications and demands putting in place a new set of structural reforms that deal with ever-more complex issues. These new reforms require more sophisticated policy mixes and further policy co-ordination and coherence. Among others, policies should: i) go beyond access to education, and focus on quality and skills to improve employability, particularly

in a context of technological transformation; ii) foster the creation of formal jobs and expand the coverage of social protection systems across different socio-economic groups; iii) improve connectivity thanks to more complex logistics infrastructure and support a model of growth that is environmentally sustainable; and iv) improve the credibility, openness and efficiency of public institutions, promoting more co-ordination between sectors and across levels of government.

Policy responses to overcome these development traps in LAC must be designed by considering their interactions, as they reinforce each other. Better understanding the links and common causalities between different policy issues and objectives will be critical to develop responses that address their complex interactions effectively. In this respect, it is critical to identify win-win policies that can promote synergies and help in dealing with trade-offs. An example is the productivity-inclusiveness nexus, which suggests the existence of numerous linkages between these two policy objectives and calls for policies that can boost both at the same time (OECD, 2018b).

Exploiting untapped opportunities for development in Latin America and the Caribbean

The new global context is linked to national strategies and highlights the need to broaden the concepts of development, national planning and international co-operation for development. The increasing interconnectedness reinforces the relevance of including support for regional and global public goods in national development strategies. In particular, engaging in a regional perspective is crucial to tackle global challenges, which is fundamental for greater global economic and social stability.

Strengthening domestic capacities to address development traps

Domestic capacities must be improved to better respond to the development traps, which demand more sophisticated and adapted policy responses. Previous editions of the LEO focused on various public policy issues that are crucial for sustainable and inclusive development in the region. These included fiscal policy; migration; small and medium-sized enterprises (SMEs); infrastructure and logistics; education and skills; trade integration and the relationship with China; youth, skills and entrepreneurship; and the relevance of rethinking institutions to support greater development. These editions analysed some horizontal issues present across all LEOs, such as low productivity, labour markets and the persistence of informality, and the socio-economic implications of the expansion of the middle class.

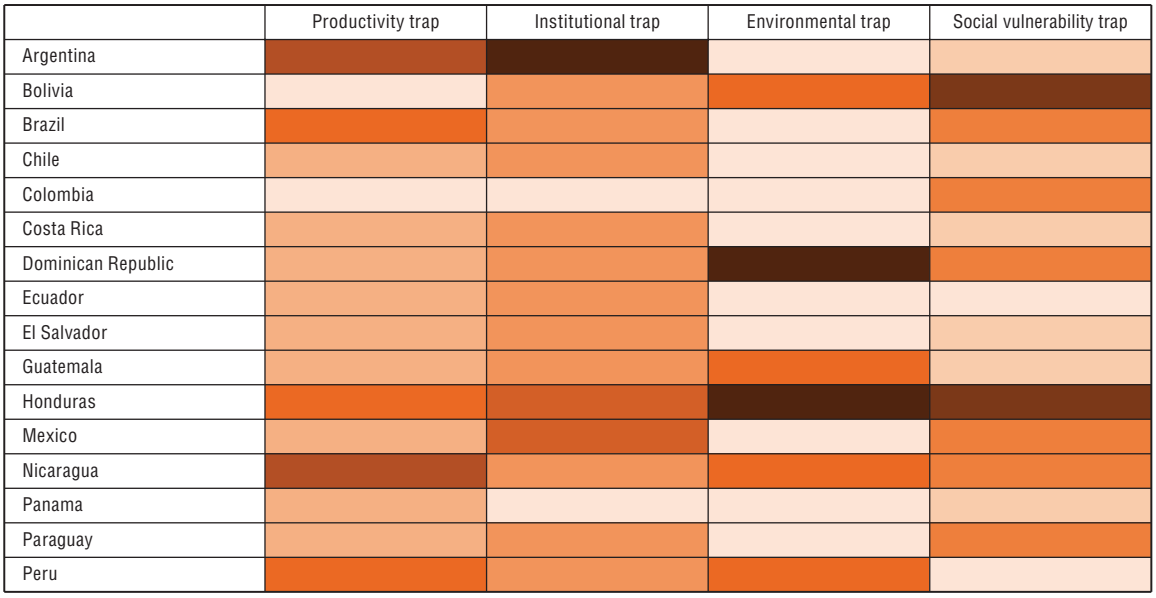
Considering the breadth of sectoral and horizontal challenges for development covered in previous editions, LEO 2019 focuses on strengthening capacities on two cross-cutting issues. These are the policy-making process and domestic financing for development, which are considered to be key elements for a holistic development strategy. First, better policy making for development refers to improving the planning, execution and monitoring of public policies. Ultimately, this connects policies to the objectives of inclusive and sustainable development and ensures capacities are in place to overcome the complexities of the political economy of reforms. In that context, the design and implementation of NDPs, as well as more and better public spending, are fundamental in the development agenda. Second, domestic financing for development refers to improving available financial resources to support structural reforms that can address the development traps. In a region where tax revenues are relatively low and financial markets are not sufficiently deep and inclusive, improving mechanisms to mobilise domestic resources for development will be crucial.

Better policy-making process for development

Development planning has experienced a significant evolution in recent years in LAC, mainly through the adoption of NDPs. Traditional planning focused almost exclusively on fostering economic growth. Contemporary planning promotes a more comprehensive and multidimensional view of development with a strong emphasis on equality, social inclusion and poverty eradication. Development planning today identifies regulations, public investment and private-public partnerships as its preferred policy instruments. Crucially, these strategies underscore the importance of citizen participation and empowerment in planning (ECLAC, 2017a, 2017b: Máttar and Cuervo, 2017).

Based on the four major development traps, LAC countries are prioritising their most pressing policy issues. The first priority is institutional strengthening in terms of modernising public services, citizen security, justice and international co-operation. The second major issue is productivity, including macroeconomic stability, growth and employment, infrastructure development and investments in science and technology. Social vulnerability comes in third place and includes social and human development, inclusion and social cohesion, equity, quality of education and access to basic services. The less-mentioned topics are those related to the environment and the adaptation and mitigation of climate change (Figure 6).

Figure 6. **Intensity of specific topics in development plans in selected Latin American countries**



Note: The colours indicate the intensity of the topics included in the strategic objectives according to the challenges of the development in transition. As a colour darkens, its priority within the plan increases. The figure is based on the latest development plan (or its equivalent) approved by the end of 2018. See Chapter 6 for the Caribbean small states.
Source: Own elaboration based on the information contained in development plans.

As planning becomes increasingly more complex and participative, LAC countries struggle to implement long-term, inter-sectoral and co-ordinated NDPs. They need broad social consensus to ensure that government turnover and political interests do not put continuity at risk. Two main problems have been identified. First, countries lack technical capacity for designing planned reforms and programmes. Second, implementation processes lack sufficient continuity owing to frequent government turnover. Additionally,

there is not enough money allocated for implementing plans and limited co-ordination between plan design and budget. As a result, little value is given to planning as an instrument for effecting change or anticipating unfavourable results (Stein et al., 2005; ECLAC, 2017a; Máttar and Cuervo, 2017).

From a political economy perspective, the design, adoption and implementation of planning strategies are largely the result of the policy making process (PMP). This represents a complex set of bargains and exchanges among political actors with their own interests, incentives and constraints. There are institutions or "rules of the game" where these interactions take place. A specific context affects that particular stage of the life cycle of policy reform (Stein et al., 2005; Stein and Tommasi, 2006; Dayton-Johnson, Londoño and Nieto Parra, 2011). In this perspective, co-operation and agreement among the principal actors in the PMP are the pillars for adoption and implementation of successful and sustainable NDPs.

In most LAC countries, business groups have been influential in the PMP. These groups influence the design and implementation of NDPs through formal or informal associations, bargaining, lobbying, government appointments, political financing and, in some cases, corruption (Schneider, 2010). Technical staff, and effective and transparent interest intermediation may serve to impede rent-seeking.

Actions that contribute to improve the PMP and, in particular, to making NDPs more effective in addressing the region's development traps include the following:

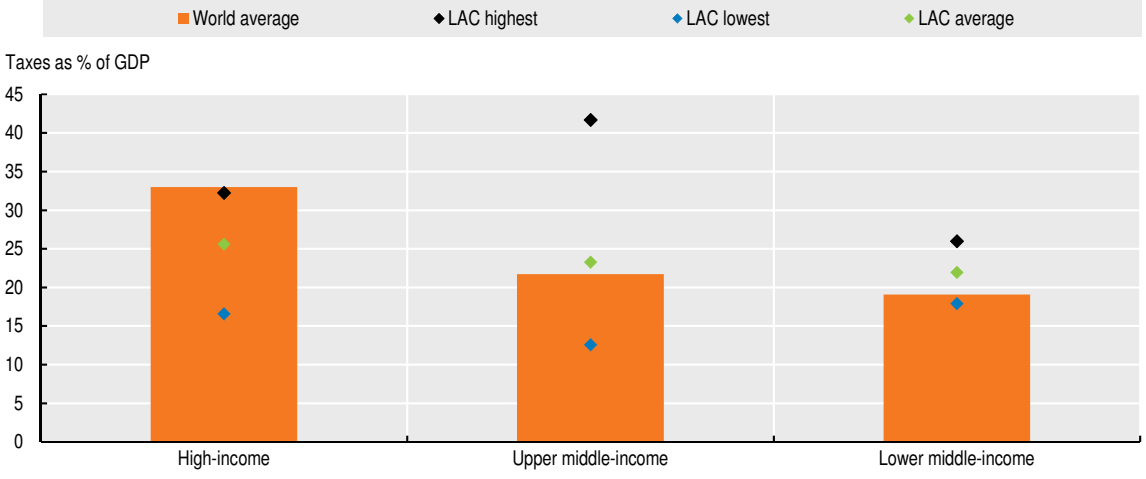
- **Building capacities of key actors in the PMP to develop long-term strategic plans.** Such actors include political parties, as well as executive, legislative, judicial and sub-national authorities. This should be achieved by strengthening public entities (e.g. improvements in human capital and skills of public servants, effective regulatory processes, sound institutional frameworks), which have traditionally served rent-seeking and clientelist behaviour.
- **Improving statistical capacity to better shape NDPs.** If measurement tools are flawed, policy making will be distorted (Stiglitz, Sen and Fitoussi, 2009). Moving beyond GDP metrics as the sole indicator of development success requires measuring development from a multidimensional perspective. This means including data on how well-being outcomes are distributed across a population and local areas, as well as data on sustainability. LAC countries should invest in better data collection to measure and monitor multidimensional metrics that are most important for the region across their territory and population groups.
- **Using digital technologies to develop more effective NDPs in LAC.** These technologies are a powerful tool to improve citizens' participation (including open government) and empowerment in designing planning strategies. They also facilitate the impact evaluation of government programmes and projects connected to the sustainable development agenda. Finally, digital technologies enhance the state's capabilities to develop more accurate and rigorous long-term and forward-looking scenarios that are essential in establishing consistent and sustainable development strategies.
- **Towards more and better public spending for development in LAC.** The levels and quality of spending in the region are insufficient to overcome development traps and accomplish the Agenda 2030. The region needs to increase and improve spending on social components, including health and education. It also needs to boost investment in research and development, and other innovation policies to strengthen competitiveness.

Expanding domestic financing for development

The new development agenda requires mobilising vast resources to finance long-term policy reforms. Several risk factors limit the capacities of LAC countries to achieve this agenda. These include weak mobilisation of domestic revenue, relatively low flows of official development assistance and the difficulty of channelling private flows for development.

The level of taxes in relation to GDP has been increasing in the past years. Yet, most LAC economies need to mobilise further domestic resources to implement their development plans and achieve the Agenda 2030. Despite an increase by close to 2 percentage points in the past decade, tax revenues as a percentage of GDP are, on average, relatively low in LAC economies compared to the OECD. In 2016, the average tax-to-GDP ratio in LAC was 22.7%, compared to 34% in OECD member countries (OECD/ECLAC/CIAT/IDB, 2018) (Figure 7). Some upper middle-income countries in LAC, such as Dominican Republic, Mexico, Panama, Paraguay or Peru, might be unable to meet their financial needs for development; their tax levels are below the lower middle- or low-income world average (OECD, 2018c, 2017, 2015). Similarly, high-income countries, such as Chile, Panama and Uruguay, register levels of taxes over GDP well below OECD and high-income world averages. The same is true for economies expected to graduate to high income during the next few years, such as Colombia or Costa Rica. This reality undermines their capacity to meet socio-economic needs and improve the well-being of their citizens.

Figure 7. **Tax-to-GDP ratios in Latin America and the Caribbean, OECD and world average by income group, latest year available**



Note: Orange bars represent the world average across the 80 countries covered in the *OECD Global Revenue Statistics* (25 in LAC, 18 in Africa, 35 in the OECD and 4 in Asia). In Latin America and the Caribbean, high-income economies include Argentina, Bahamas, Barbados, Chile, Panama, Trinidad and Tobago, and Uruguay. Lower middle-income economies include Bolivia, El Salvador, Honduras and Nicaragua. Upper middle-income economies include Belize, Brazil, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Jamaica, Mexico, Paraguay, Peru and Venezuela. The black diamond represents the country with the highest tax-to-GDP ratio in the LAC region within each income group, while the blue diamond represents the country with the lowest tax-to-GDP ratio in each group. The green diamond represents the simple average of LAC economies depending on their income group. Countries are classified by income groups according to World Bank methodology (https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups).

Source: OECD Global Revenue Statistics (OECD, 2018c) (database).

StatLink https://doi.org/10.1787/888933936596

Most countries in the region need to improve the structure of the taxation system to increase financing for development. As a result, the political economy of fiscal reforms calls for a comprehensive approach to overcoming the "institutional trap". LAC countries need to complement crucial tax measures (e.g. progressivity of the taxation system, measures to reduce tax evasion and avoidance, elimination of tax expenditures that do not contribute to competitiveness) with complementary actions. These additional elements should i) communicate clearly the benefits of such reforms to overcome other development traps; ii) show the efforts made by governments to achieve more effective and efficient public spending thanks, in part, to implementing NDPs; and iii) launch a package of reforms where citizens see and experience tangible benefits.

Public-private partnerships (PPPs), driven by efficiency, quality and sustainability, can complement improvements to the tax system and help the state finance the delivery of public goods and services. PPPs should result not from fiscal budget constraints but rather from a purposeful and sound process built on effective regulatory and institutional frameworks. These include pre-feasibility and value-for-money analyses, independent supervisory bodies for PPPs, a transparent and efficient process for environmental licences and land permits, and dialogue with local communities.

Additionally, most countries in the region identify well-developed and well-functioning financial markets to promote sustainable and inclusive growth, as well as the different dimensions of development, as a policy priority (Izquierdo et al., 2016; Melguizo et al., 2017). Strong financial systems also contribute to economic development and technological innovation (King and Levine, 1993; Jayaratne and Strahan, 1996; Rajan and Zingales, 1998; Levine, 2018, 2005). Access to finance through different modalities is key for bridging development gaps. These modalities include:

- **Developing financial technologies (FinTech),** which apply technology to improving financial activities (Schueffel, 2017). FinTech provides financial services as an end-to-end online process, consisting of new applications, processes, products or business models.
- **Accessing National Development Banks (NDBs),** which can promote financial inclusion and access to certain business segments. These include micro-, small- and medium-sized enterprises in some sectors. Some LAC countries should consider expanding NDB activities and promoting greater innovative frameworks in these banks' business models.
- **Tapping sound and sustainable capital markets,** which requires prioritising the improvements of such markets, including in their quality (e.g. liquidity, low concentration) and inclusion (e.g. number of firms issuing securities) rather than just in their size (e.g. market capitalisation).

International co-operation as a facilitator of the LAC development agenda

The LAC region is fertile ground for rethinking how international co-operation can – and should – facilitate pathways to sustainable and inclusive development. The region faces certain development traps associated with productivity, social vulnerabilities, institutional capacity and environmental challenges. However, it simultaneously demonstrates a firm and mature resolve to address these roadblocks to its greater prosperity. The region is acting on this resolve in three interconnected ways. It is harnessing domestic strengths and development plans. It is engaging globally on mutually relevant development issues, including the achievement of the Agenda 2030 and the SDGs. It is also increasingly linking the domestic and international spheres to sustain development that will make a lasting difference in the lives of its citizens.

Stronger institutional capacities, increasing social aspirations, deeper political will for reform and growing non-dependence on aid are just some of the region's attributes. They confirm the time is ripe to rethink how to rebalance use of various co-operation tools. Indeed, LAC realities and prospects call for a renewed international co-operation with the region. Such co-operation should be holistic, provide integrated approaches and responses to development, consider a larger number of actors and tools, build new synergies from renewed interactions and facilitate the region's own development priorities.

International co-operation facilitates countries' development in several ways. It promotes nationally-driven development processes and aligns countries on an equal footing as peers for exchanging knowledge and learning. It also builds on a country's capacities and creates new ones to spur national and global reforms, and supports aid as a catalyser for additional and varied sources of funding. While ensuring continued engagement with countries in the region at all levels of development, international co-operation helps create the domestic conditions that will drive LAC countries towards achieving the SDGs.

Still, moving towards international co-operation as a facilitator for sustainable development needs to be a gradual process. It entails working inclusively, building stronger domestic capacities and operating with a different and broader set of knowledge tools.

First, by working inclusively, international co-operation as a facilitator seeks to engage countries at all development levels on an equal footing. As peers, countries can build and participate in policy partnerships, tackle development challenges with multilateral and multidimensional responses, and enhance the participation of key actors, such as the private sector and civil society. The world needs new partnerships, new finance approaches and new governance arrangements to face an increased array of development challenges. This is not only legitimate, but also beneficial for addressing common concerns more effectively and ensuring that development challenges receive the necessary global multidimensional responses.

Second, it would place national strategies front and centre and strengthen countries' domestic capacities. By building stronger domestic capacities, international co-operation as a facilitator would help LAC countries design, implement and evaluate their own development policy priorities. This, in turn, would place these priorities at the core of their actions and encourage their alignment with shared global challenges and global public goods. It will also support LAC countries to better align planning with international co-operation. In this way, they can make planning more efficient and facilitate an active participation of countries in the region in the global agenda.

Third, it will take holistic and integrated approaches. As LAC countries develop, they require a different balance between financial transfers and other modalities of co-operation. By transcending traditional tools and actors, and mobilising wider policy experiences, international co-operation as a facilitator fosters a more technical co-operation among partners. Such co-operation is based on knowledge sharing, including policy dialogue, training, technology transfer and co-operation for joint R&D. Most prevalently, it is based on capacity building, including in key areas of science and technology. It uses the potential of South-South and Triangular co-operation as a stepping stone for harnessing this broader box of tools. In addition, placing these tools in the hands of a wider range of actors, including those across various ministries in a whole-of-government approach, might create richer interactions. Ultimately, co-operation benefits from access to diverse sources of expertise needed to tackle complex social, economic and environmental sustainability issues.

Table 1. **Key dimensions for rethinking international co-operation as a facilitator for sustainable development in LAC**

Dimensions	Description
Working inclusively	Engaging countries at all development levels on equal footing as peers, to build and participate in multilateral and multi-stakeholder partnerships to tackle shared multidimensional development challenges with multidimensional responses.
Building domestic capacities	Strengthening countries' capacities to design, implement and evaluate their own development policy priorities and plans, encouraging the alignment between domestic and international priorities, and ensuring integrated approaches to more complex and interlinked challenges.
Operating with more tools and actors	Expanding instruments for greater international co-operation, such as knowledge sharing, policy dialogue, capacity building, technology transfers, and embracing more actors, including public actors in a "whole-of-government" approach.

Source: Own elaboration.

The universality and comprehensive approach to the shared global challenges of the Agenda 2030 calls for the world to adapt how it looks at development and how it uses tools for co-operation. In short, this requires flexible and dynamic approaches to development, and a commitment to put principles immediately into practice.

Drawing on its many positive examples, successes and valuable lessons, the LAC region can be the testing ground to respond to this call for action. Now it is critical to put the above-proposed principles into practice. A robust dialogue with stakeholders in the LAC region and beyond can analyse how to implement this holistic vision and machinery for international co-operation as facilitator. Ultimately, these efforts may well be the starting point for a stronger, more powerful, more participatory and more inclusive multilateralism.

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Chapter 1

Socio-economic risks and challenges: A macro-perspective

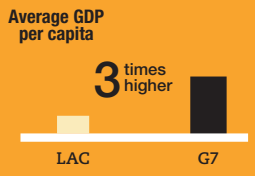
Latin America and the Caribbean (LAC) is experiencing a subdued recovery. Current growth rates are below the previous decade and will be insufficient to close the income gap with advanced economies. The general macroeconomic outlook still points to significant heterogeneity across countries. This highlights differences in exposure to external shocks, main trade partners, policy space and frameworks, and idiosyncratic supply shocks. The international context presents several risks for the region and current economic growth is insufficient to defend the socio-economic achievements of the last decade, with poverty and inequality reductions on hold. This socio-economic performance highlights both new and persistent structural challenges in the region. Low potential economic growth, persistent high inequality rates and increasing poverty levels are all symptoms of key development traps.

LAC's performance is constrained by structural factors

Socio-economic progress has stalled in the past years

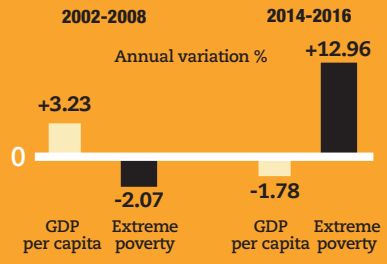
GDP

The gap between average GDP per capita of G7 countries and that of LAC has stayed the same since 2008



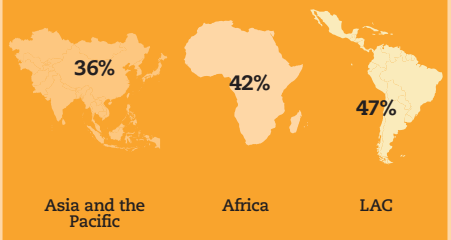
Poverty

Bad economic performance dramatically affects poverty



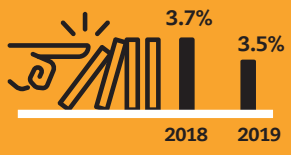
Inequality

LAC's GINI index of family income remains high compared to other regions

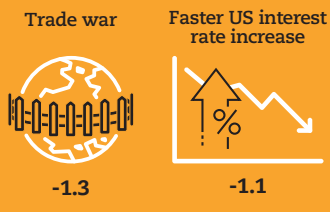


The international context presents several risks to the region

World GDP growth is expected to slow down in 2019



Loss in GDP growth in LAC under alternative scenarios in 2020



Space for demand-side policies to boost inclusive growth is limited

Fiscal space is restricted as primary balances are below the level necessary to stabilise debt

Inflation is under control in the majority of LAC economies, but the space to use expansionary monetary policy is reduced

Introduction

The macroeconomic outlook in Latin America and the Caribbean (LAC) is expected to improve, but remains weak compared to the mid-2000s. Recovery stalled in 2018, as global and idiosyncratic shocks affected output in major economies in the region. Activity is expected to regain some momentum in 2019 and 2020, but growth performance would be subdued compared to the previous decade. The region is still characterised by an uneven performance, so it is still about "Americas Latinas" in terms of cyclical positions, exposure to external shocks and policy options.

The region will navigate under a complicated global context. In 2018, LAC economies benefited from a backdrop of improved commodity prices and solid global activity. However, for 2019 and 2020, a soft landing is expected in world gross domestic product (GDP) and trade growth. Furthermore, the risks of a more disruptive financial tightening and escalating trade tensions between key partners of the region – the United States and the People's Republic of China (hereafter "China") – may cloud the LAC regional outlook that continues its external adjustment.

As a result of low economic growth, prospects for socio-economic progress are dimmer, with the reduction of poverty and inequality on hold, with possible reversals. Since 2014, poor economic performance has been accompanied by poverty and extreme poverty increases in some countries. Projections for 2017 suggest no appreciable changes in this trend. Similarly, after strong decreases in inequality during the commodity boom, inequality has been stagnated since 2014 in the most unequal region in the world.

Sluggish progress in various socio-economic dimensions in LAC, coupled with a complicated external context, highlights ongoing and new structural challenges. Symptoms such as low economic growth, persistent inequality rates and rising citizen discontent suggest key development traps. These must be addressed by increasing domestic capabilities and rethinking development strategies and international co-operation.

This chapter is organised as follows. First, it presents the economic outlook for LAC, highlighting the heterogeneity in the region and the low space for demand policies. Second, it examines the global context, with a focus on key partners of the region, and the global financial and commodity markets. This section identifies the main external risks for Latin America, and their possible impact on regional GDP growth and balance of payments vulnerability. Third, it analyses recent trends on inequality and poverty reduction and their relationship with the economic cycle. The final section presents the main conclusions.

An insufficient economic recovery with limited policy space and low potential growth

Since the turn of the century, LAC has made socio-economic progress that includes a narrower income gap relative to most advanced economies, lower poverty and inequality, and a more stable macroeconomic environment. Nevertheless, the region has experienced low economic growth due to structural factors and a challenging external context in the past five years. This has led to stagnation in socio-economic improvements and some reversals.

Latin America is experiencing a modest economic recovery with low potential growth

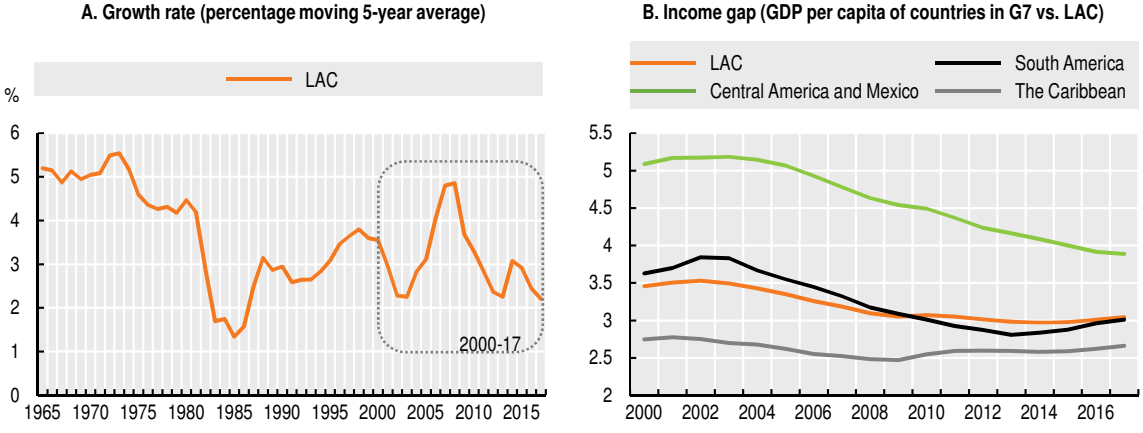
Recovery in LAC will likely be subdued. Activity in LAC rebounded in 2017 following a substantial deceleration since 2011 that ended with a two-year contraction. However, negative surprises from two major economies, Argentina and Brazil, dragged regional

output down. This, in turn, stalled recovery in 2018. The macroeconomic outlook in LAC is expected to improve, but remains weak compared to the mid-2000s. Activity is expected to regain some momentum in 2019 and 2020, but growth performance is likely to be subdued compared to the previous decade.

Since 2011, GDP growth in LAC has been below the high rates of the mid-2000s. High growth took place in a favourable global context and booming commodity prices during the mid-2000s. LAC´s average annual GDP growth rate reached 5.1% in 2004-07 (Figure 1.1, Panel A). South American economies experienced higher growth rates during the commodity boom. Those countries grew at an average annual rate of 6.3% between 2004-07. None of them grew less than 2.1% in any year of that period. The Caribbean and Central American economies and Mexico also grew at a fast pace, boosted by the United States. Over 2004-07, on average annual growth in the Caribbean countries was 4.1%, while in Central America and Mexico it was 5.3%.[1] Countries such as Antigua and Barbuda, Dominican Republic, Panama, and Trinidad and Tobago stood out owing to their high growth rates.

Current growth is insufficient to close the income gap relative to the most advanced economies. In 2000, average GDP per capita[2] of the G7 countries was 3.5 times larger than the average of the region. In 2008, the gap had decreased to 3.1. Over the same period, GDP per capita of G7 countries relative to that of Central America and Mexico fell from 5.1 to 4.6 and from 3.6 to 3.2 in the case of South America. Since 2011 the gap has declined in Central America and Mexico and, in the case of South America and the Caribbean, has recorded a slight increase (Figure 1.1, Panel B).

Figure 1.1. **Latin America and the Caribbean: Growth and income gap**



Note: Simple averages.

Source: ECLAC (2017a), *CEPALSTAT* (database), IMF (2018) and World Bank (2018a).

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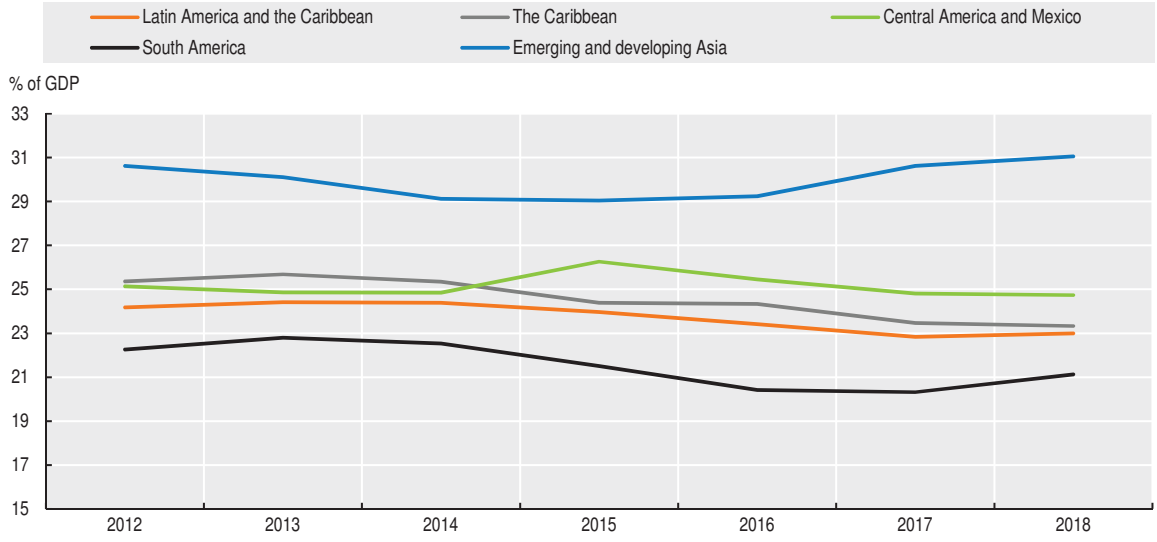
Potential output has slowed since 2011 across the board and is lower than expected. Medium-term growth projections suggest that potential output in Latin America is less robust than previously thought. Evidence indicates that potential growth is 3% – lower than expected. This stands in sharp contrast to the 5% average annual growth rate that characterised the mid-2000s, as highlighted in previous editions of the Latin American Economic Outlook. Low potential growth is a matter of concern for the region's macroeconomic and social effects, which are related to slow job creation and lingering unemployment. Investment rates tend to fall in tandem with growth as has been the case in the three sub-regions since the 2011 slowdown. This, in turn, complicates structural

change and thus export performance. On average in LAC, investment fell to 23.0% of GDP in 2018, a drop of 1.2 percentage points from 2012. This represented almost 10 percentage points difference with emerging and developing Asia (IMF, 2018), although with strong variation among sub-regions (Figure 1.2).

Figure 1.2. **Total investment**

(Percentage of GDP)



Note: Simple averages. Excludes Venezuela. Forecast for 2018.
Source: IMF (2018).
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Heterogeneity persists across the region

The macroeconomic outlook still points to different "Americas Latinas", with significant heterogeneity across countries. This highlights differences in exposure to external shocks, main trade partners, differences in policy frameworks and idiosyncratic supply shocks.

Argentina, Nicaragua and the Bolivarian Republic of Venezuela (hereafter "Venezuela") are estimated to contract in 2018. Argentina was hit by a currency crisis in the second quarter of 2018 and the combination of massive fiscal and monetary tightening will keep the economy in recession during 2018 and 2019 (OECD, 2018). The widening of the current account deficit, the real exchange rate misalignment and the gradual approach to fiscal consolidation rapidly increased external debt accumulation in the previous years. This growing debt played against the economy in the midst of global financial turmoil. Peso depreciation weighed on activity by deteriorating expectation, holding investment and consumption back, and by pushing inflation up and reducing real incomes. Given the negative impact of the drought on agriculture, the economy contracted in 2018. Growth is expected to resume in 2020, but below previous expectations as fiscal consolidations and tight monetary policy weigh on spending. In the case of Nicaragua, output is projected to contract in 2018 and 2019 owing mainly to social and political unrest. Finally, Venezuela is expected to remain in recession in both 2018 and 2019, afflicted by hyperinflation, high fiscal deficit and increasing public debt.

Growth has remained resilient in a group of economies, but still below 3.0%. In Brazil, external vulnerabilities are modest – a low current account deficit (1.3% of GDP), ample reserves (18% of GDP) and a low fraction of external public debt (5%). However,

the Brazilian real tumbled against the US dollar during the market turmoil, as the large fiscal imbalance and incomplete fiscal consolidation process catalysed market concerns. With inflation well below the target, the central bank did not tighten monetary policy in the midst of the turmoil. The truck drivers' strike further dented activity, marking the weaker than expected performance in 2018. Activity is expected to recover in 2019 and 2020 supported by improvements in the labour market, but the new administration must design a pension reform to recover sustainability (OECD, 2018). Activity in Mexico remained resilient, despite uncertainty surrounding presidential elections and the North American Free Trade Agreement; it strengthened among Central American economies. Growth is expected to remain relatively stable in 2019 and 2020. As an uptick in growth in 2017 was hard to sustain, economic growth in Ecuador will soften as fiscal consolidation progresses over the next years.

In economies such as Chile, Colombia, Peru and to some extent the Plurinational State of Bolivia (hereafter "Bolivia"), GDP growth gathered momentum compared to 2017. On the back of solid consumption, stronger investment and the recovery of commodity prices, output growth is expected to remain relatively solid in 2019 and 2020.

Fast-paced growth is likely to continue in the Dominican Republic and Panama, the two countries in the region growing the most. Growth is based on services (trade and financial) in Panama and on infrastructure development in the Dominican Republic.

The Caribbean countries could face some challenges as interest rates increase and the US dollar appreciates. Barbados' new government is undergoing a fiscal adjustment programme to avert a twin crisis, which should weigh on activity. Most countries maintain negative output gaps, which are expected to continue closing in the years ahead. Despite some heterogeneity across countries, the Caribbean is among the world's most indebted sub-regions. As a result, the high cost of its debt service has greatly reduced countries' fiscal space (see Chapter 6).

There is low or non-existent policy space across countries to boost inclusive growth

Under the current slowdown, there is reduced space for demand-side policies in Latin America. In many cases, the space for both fiscal policy and monetary policy is either relatively low or non-existent. Nevertheless, different growth performance and distinct policy frameworks also imply significant differences across the region in terms of policy space.

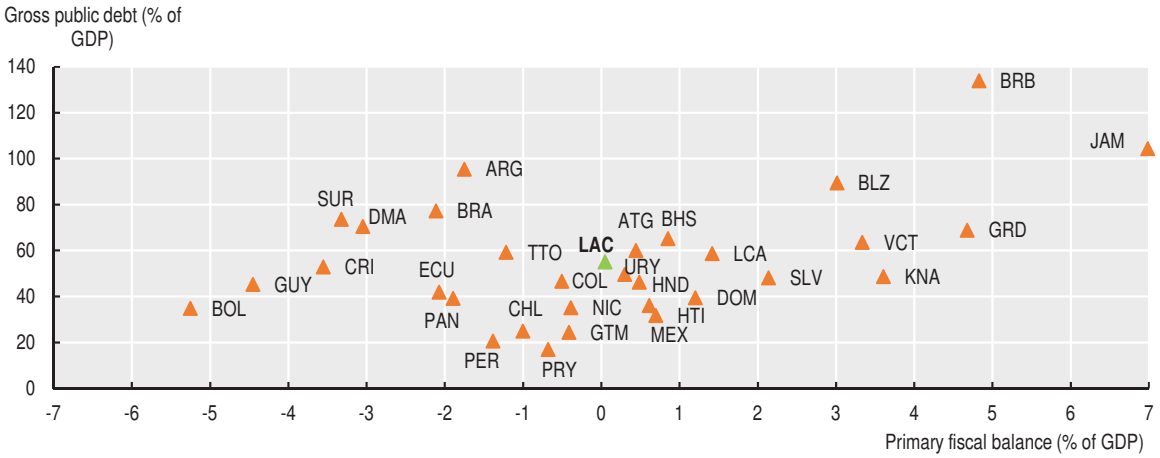
The little space for monetary easing is ending in countries where output gaps are closing and inflation bottoming. Central banks are likely to start increasing rates in 2019, particularly in the face of further currency depreciation affecting expectations and second-round effects on the price-setting process. This is the case in Brazil and other South American economies. In Mexico, where inflation is still above target, monetary policy is still tight. However, inflation expectations and core inflation remain stable and within the central bank's band (OECD, 2018). Currency depreciation may delay the move towards a neutral stance. In Argentina, adjustments in regulated prices, supply shocks and, most importantly, the sharp currency depreciation in the second and third quarters of 2018 derailed expectations. These factors fuelled inflation levels well beyond the already adjusted target of the central bank. This highlights that the pass-through is probably still large in Argentina; expectations are not yet solidly anchored to targets.

Fiscal space remains restricted as primary balances remain below the level necessary to stabilise debt. The average deficit diminished in 2017, but debt levels continued to

increase as imbalances remained quite substantial in some major economies. Performance was uneven across countries, highlighting different cyclical positions and advances in fiscal consolidation reforms (Figure 1.3).

Figure 1.3. **Gross public debt and primary fiscal balance in selected Latin American and Caribbean countries**

(Central government, percentage of GDP in 2016)



Note: LAC is a simple average for the 17 economies used. For Mexico, primary balance refers to non-financial public sector, for Peru to general government. For Ecuador, this is net debt (with the private sector), while in Argentina it is gross debt. For Trinidad and Tobago, and Barbados, both figures refer to general government.

Source: ECLAC (2018a), *Fiscal Panorama of Latin America and the Caribbean 2017: Public Policy Challenges in the Framework of the 2030 Agenda*; and IMF (2018), *World Economic Outlook* (database).

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There was some progress regarding fiscal consolidation in the region. A part of the consolidation resulted from cyclical improvement in revenues and higher commodity prices. Another part is related to spending cuts (e.g. in Chile, Ecuador and Mexico). Highly indebted countries with elevated tax pressures (Argentina, Brazil and Uruguay) are trying to stabilise debt mainly through spending cuts, as indicated in previous editions of the *Latin American Economic Outlook* (OECD/ECLAC/CAF, 2018). Pension reform in Brazil will be crucial to regain fiscal sustainability. Countries must also focus on efficiency of spending to guarantee and improve public goods. The path towards debt stabilisation and deficit reduction should continue in Chile, Colombia and Peru. Chile and Peru have more space to deviate from the path without derailing sustainability. With its more limited fiscal scope, Colombia passed a financing law at the end of 2018, but further efforts are needed to stabilise debt and finance its ambitious national development plan.

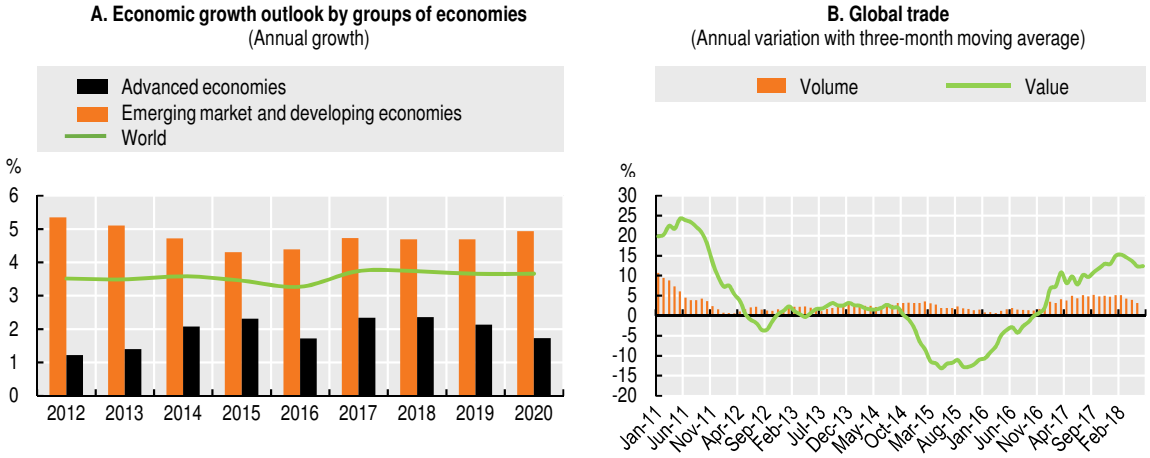
The international context presents several risks to the region

Main external conditions affecting the region

In 2018, LAC economies benefited from a still solid global activity, but for 2019 and 2020 a soft landing is expected. World GDP growth is expected to remain around 3.7% in 2018, before decreasing to around 3.5% in 2019 and 2020 (Figure 1.4, Panel A). This is broadly in line with underlying global potential output growth (IMF, 2018; OECD, 2018). The strong rebound in global trade, still favourable financial conditions and the recovery of commodity prices that supported growth in 2017 began slowing early in 2018. Mounting trade tensions, geopolitical conflicts and rising borrowing costs curbed the appetite for

risk. This, in turn, sparked financial volatility and hit growth prospects, particularly in emerging economies with weaker fundamentals.

Figure 1.4. **Economic growth outlook and global trade**



Source: IMF (2018), *World Economic Outlook*, July www.imf.org/external/pubs/ft/weo/2018/update/01/pdf/0118.pdf; and CPB Netherlands Bureau for Economic Analysis (2018), *World Trade Monitor* (database), www.cpb.nl/en/worldtrademonitor.
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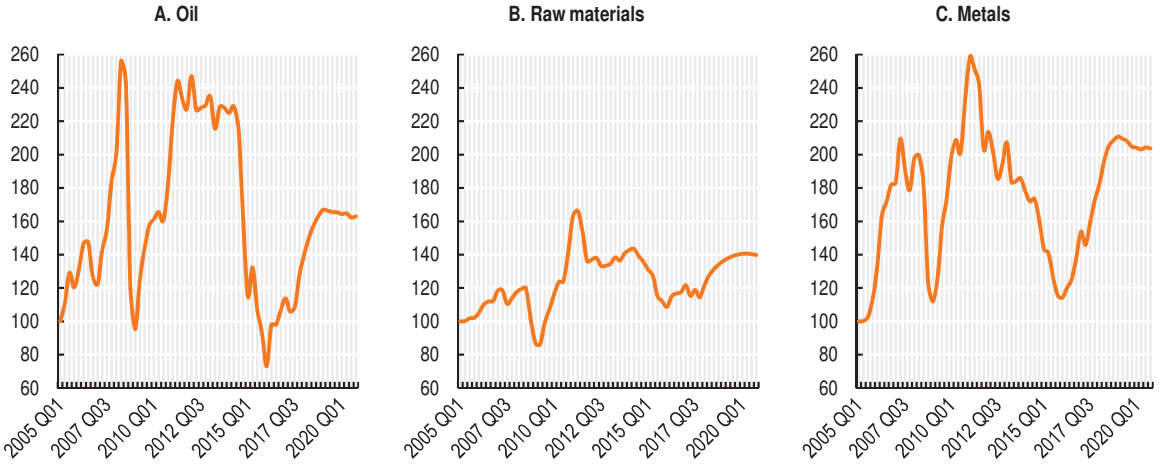
Among LAC's main partners, activity is becoming less synchronised. Economic growth in the United States accelerated in 2018 owing to fiscal stimulus and the strength of the labour market, with the unemployment rate below 4% (OECD, 2018). Activity is expected to slow down in 2019 and 2020, as the fiscal stimulus wanes. Conversely, activity in the Euro Area softened in 2018. For 2019 and 2020, the growth pace will still be moderate (OECD, 2018). Domestic demand will be supported by an accommodative monetary policy and fiscal easing, and strong investment that reflects favourable financing conditions. In the case of China, as exports and investment ease, the ongoing structural deceleration continues (OECD, 2018). For the Asian economy, headwinds started to cloud the outlook in 2018. Trade tensions dampened expectations about the economy, promoting capital outflows and weakening the currency.

Global trade is expected to slow down mildly in 2018 and 2019. Following a rebound in 2017, global trade slowed in 2018. It will continue to soften in 2019, but no major collapse is expected (Figure 1.4, Panel B) (IMF, 2018; OECD, 2018). The effects of the first tariffs introduced by the United States and some of its key partners on global trade have been modest, since measures involved a small fraction of global trade. The United States imposed tariffs on steel and aluminium, washing machines and solar panels, and on imports from China. China retaliated with similar tariffs. However, these actions account merely for 0.89% of global trade and 0.20% of global GDP (Capital Economics, 2018). Even including proposed tariffs – the additional USD 200 billion worth of imports from China – the trade actions would total less than 5% of global trade and about 1% of world GDP (Capital Economics, 2018). In this scenario, GDP growth could register cumulative drops of 0.3% and 0.4% by 2020 in the United States and in China, respectively (Oxford Economics, 2018). Nevertheless, the chances of a larger escalation of tensions increased as negotiations between the two parties broke down. This could cost China up to 1% of GDP growth by 2020 (Oxford Economics, 2018).

Commodity prices are expected to ease. Leaving behind the slump between 2014 and 2016, commodity prices continued to recover in 2018. Geopolitical tensions boosted oil prices in the first half of 2018. However, fears that a trade war and tighter credit conditions would hit the Chinese economy curbed the uptrend. The baseline scenario for commodity markets is of a slight moderation in prices as the cycle matures and global demand loses some steam (Figure 1.5). There are upside risks for oil prices due to possible supply shortages (IEA, 2018). These shocks, however, should be relatively transitory, particularly as global demand moderates. Metal prices also gained ground in 2018 on the back of strong demand, but are expected to ease over the next two years. The sharper slowdown in investment in China and mounting trade tensions with the United States pose downside risks to this outlook, as China is a key player in this market (OECD/CAF/ECLAC, 2015; World Bank, 2018a). In the case of agricultural commodities, prices are expected to remain relatively stable in the next two years.

Figure 1.5. **Commodity prices outlook (2005 = 100)**



Source: Own calculations based on a Global Vector Autoregressive model.
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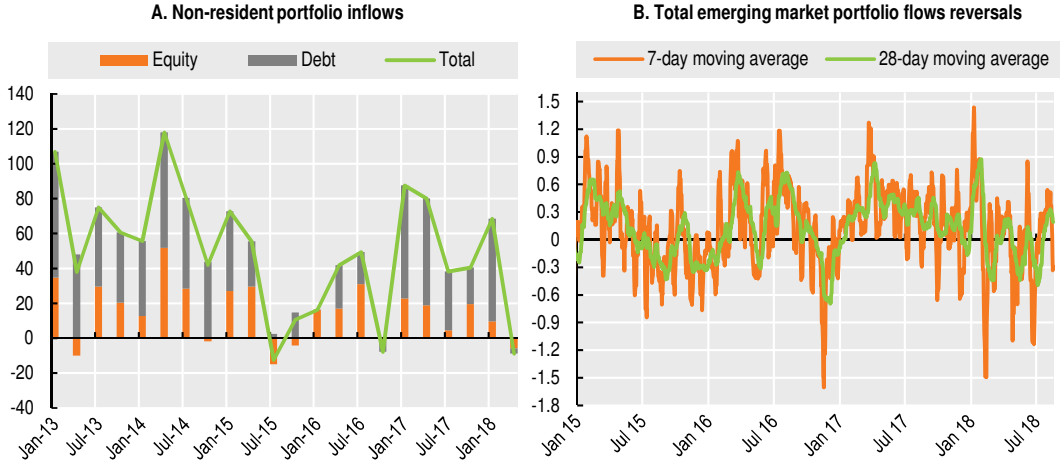
Financial markets go back to risk-off mode and capital flows to emerging economies recede. Global liquidity tightened in 2018. Rising interest rates in the United States and its comparatively stronger growth performance increased the attractiveness of US assets. The combination of monetary tightening (rising interest rates) and fiscal expansion pressed bond yields up (particularly five- and ten-year bonds), contributing to dollar appreciation. Risks are tilted towards a sharper rate increase if core inflation further accelerates. Against this backdrop, uncertainty stemming from increased trade and geopolitical tensions catalysed a comeback of risk aversion. The unwinding of risky positions translated into asset price oscillations not seen since the Taper Tantrum in mid-2013, marking the return of volatility to financial markets. Capital flows to emerging markets receded, widening sovereign bond spreads, depreciating currencies against the US dollar and sinking stock market values.

Following a recovery in 2017, emerging markets reported net portfolio outflows from non-residents in the first two quarters of 2018. In the first six months of 2018, total portfolio inflows to emerging markets plunged from USD 110 billion to merely USD 46 billion during the same period in 2017 (Figure 1.6, Panel A). Reversals in capital inflows affected emerging markets across the board as an asset class, but countries with larger imbalances or more exposed to US trade policy were hit harder (IIF, 2018). Moreover, reversal episodes of portfolio inflows have become more frequent and intense since late

2017 (Figure 1.6, Panel B). Debt accumulation by non-financial corporates is a key source of vulnerability in emerging economies (Box 1.1).

Figure 1.6. **Financial volatility and capital flows to emerging markets**



Note: Panel A USD billion. Panel B Daily USD billion.
Source: IIF (2018) and World Bank (2018b).
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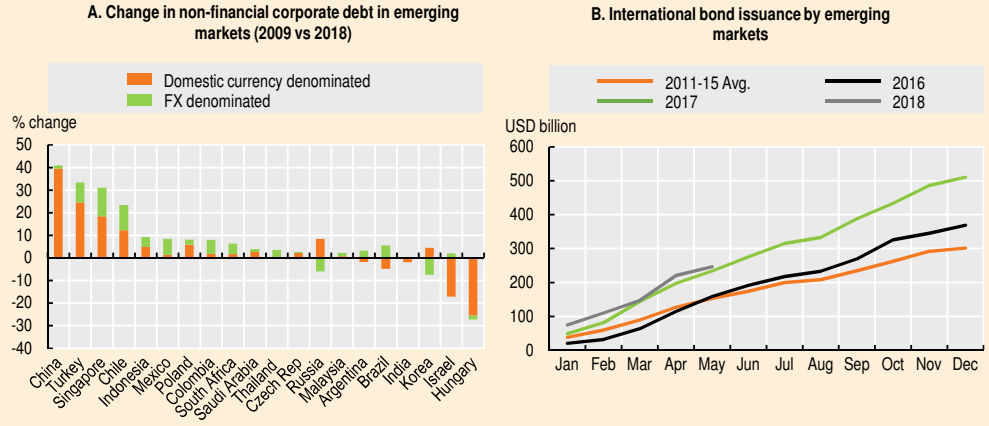
Box 1.1. **Debt accumulation by non-financial corporates, a potential risk**

A potential vulnerability in emerging economies is debt accumulation by non-financial corporates. Over the extended period of ample liquidity and low interest rates in global markets between 2009 and 2019, total debt in emerging markets increased by 55% of GDP (IIF, 2018). Nearly half of that change (23.3% of GDP) corresponded to non-financial corporate issuance. The rest is split between the financial sector, households and governments. While governments and financials largely resorted to domestic currency debt, corporates issued more foreign exchange (FX) liabilities. This made corporates more vulnerable to increases in borrowing costs and US dollar appreciation. On average, about a third of total corporate debt is denominated in foreign currency. There is, of course, ample heterogeneity across countries (Figure 1.7, Panel A). China and Turkey recorded the largest increases in debt, followed by Singapore and Chile. In China and Turkey, new issuances were mostly domestic, while corporates in Singapore, Indonesia and Chile increased issuance in foreign currency, mostly in US dollars. In Latin America, Colombian, Brazilian and Mexican corporates also expanded FX debt, but to a lesser extent than Chile. Moreover, emerging markets continued to issue international bonds at a strong pace in 2018, in spite of market jitters (Figure 1.7, Panel B).

In the case of Latin American countries, there is limited information regarding the coverage or nature of the corporate FX issuance (Powell, 2017). Corporates possibly have some form of coverage (natural for exporters and FX derivatives). This reduces currency- related balance sheet risks, but not the exposure to higher borrowing costs and tighter liquidity. Swings in capital inflows to developing countries are not atypical in the face of interest rate hikes in developed economies, as has been extensively documented in the literature (Calvo, Leiderman and Reinhart, 1996; Reinhart, 2005). As advanced economies continue to normalise monetary policy, such episodes are likely to continue.

Box 1.1. **Debt accumulation by non-financial corporates, a potential risk** *(cont.)*

Figure 1.7. **Non-financial corporate debt in emerging economies**



Source: IIF (2018) and World Bank (2018a).
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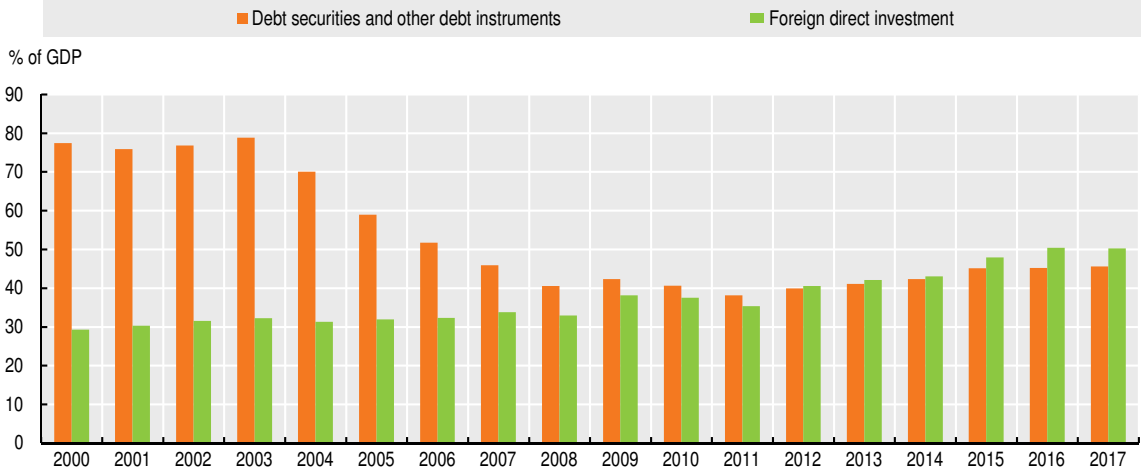
Since 2011, foreign liabilities in Latin America have increased, although they are still below foreign direct investment (FDI) (Figure 1.8). The increase in foreign indebtedness in the region has, as a result, expanded the size of interest outflows as recorded in the current account of the balance of payments. Interest outflows increased from 0.6% of GDP to 1.2% over 2008-17. By contrast, profit remittances have decreased on average since 2012 in a context of slowdown in growth and a fall in terms of trade. This trend was clearer in South American countries, which are more dependent on primary goods exports. On the other hand, some Central American countries recorded an increase in direct investment income outflows in the last years.

Figure 1.8. **Foreign liabilities in LAC, debt versus FDI**

(Percentage of GDP)



Note: Simple average that includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.
Source: IMF (2018).
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Current external risks could derail the recovery in LAC

LAC is expected to overcome its lacklustre performance in 2018 over the next two years, converging to growth rates between 2% and 3%. There are several main risks to this outlook. First, global financial tightening could be faster and more disruptive than expected. Second, the escalation of trade tensions between the United States and China could affect global growth.

A faster and deeper tightening in monetary policy in the United States and the end of quantitative easing in the euro area could intensify the reversal of capital inflows to LAC countries. This is especially relevant for countries that partially rely on portfolio flows to finance large current account deficits, such as Argentina and some Central American and Caribbean countries. It could also have implications for fiscal sustainability in some highly indebted countries in the Caribbean with a large fraction of foreign currency debt. Market jitters in 2018 are indicative of what may happen as financial conditions continue to tighten.

The risk of a fully-fledged trade war between China and the United States is no longer negligible. A decline in activity in China and the United States resulting from trade disruptions would affect LAC economies in several ways. These include sizable spillovers on global demand, lower commodity prices, a decline in FDI, and efficiency losses due to output reallocation (Kose et al., 2017). However, exposure to demand from the two parties is uneven in the region. Cycles in Mexico and Central American countries exhibit larger co-movements with the US cycle than South American countries, which have become more exposed to China (Izquierdo and Talvi, 2011).

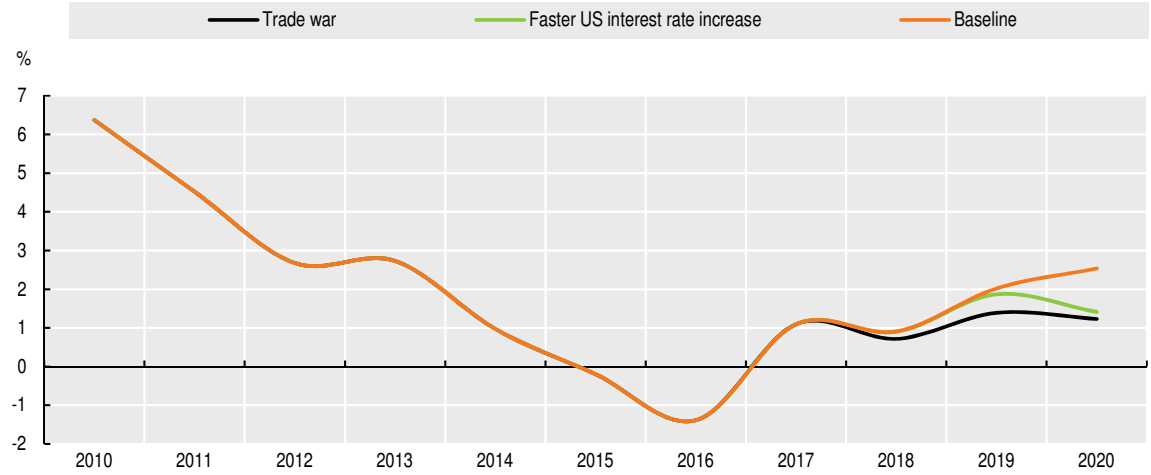
Two scenarios are modelled to illustrate the possible impact of these risks. Under the first scenario, a surge in US inflation prompts the Federal Reserve System to accelerate interest rate adjustment. This would induce a retrenchment of global liquidity, higher borrowing costs and volatility. Growth is hit in all countries, but impacts are more significant in those with larger external borrowing needs. A second scenario of trade tensions between China and the United States, where USD 250 billion of goods are affected, would have negative implications for growth in both nations. This would affect the region via a weakening of global demand and lower commodity prices. This is the most deleterious scenario for the region, deducting around 2.0 percentage points of GDP growth accumulated between 2018 and 2020 (Figure 1.9).[3]

External adjustment is still ongoing in LAC

Current account deficits keep narrowing and are still mainly financed by FDI in most countries (Figure 1.10). Stronger domestic demand in some countries and commodity price stabilisation may slightly increase current account deficits in 2019 and 2020, without necessarily undermining external sustainability. FDI inflows to LAC have subsided since 2014. They will likely continue to recede over the next two years and remain uneven at a country level (ECLAC, 2018b). However, levels of FDI inflows will be enough to finance external deficits in most countries, except for Argentina, Bolivia and some Caribbean countries. Flexible exchange rates contributed to the adjustment of external accounts (Box 1.2).

Figure 1.9. **GDP growth in Latin American economies with alternative scenarios**

(Annual percentage rate)



Notes: Weighted average for Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela. Interest rate increase scenario contemplates an additional and cumulative 0.25 basis points (bp) rise on short-term interest rates in the United States compared to the baseline (interest rates plateaued after 2019). This implies a cumulative rise of 200 bp by 2020, compared to the baseline scenario. Trade war scenario is modelled on Oxford Economics projections for the impact on US GDP and China GDP of tariffs on USD 250 billion (25% for 50 billion and 10% for 200 billion) of Chinese exports to the US with a similar response from China. Between 2018 and 2020, GDP would decline 0.37 bp in China and 0.26 bp in the United States with respect to the baseline.

Source: Own calculations based on a Global Bayesian Vector Autoregression model.

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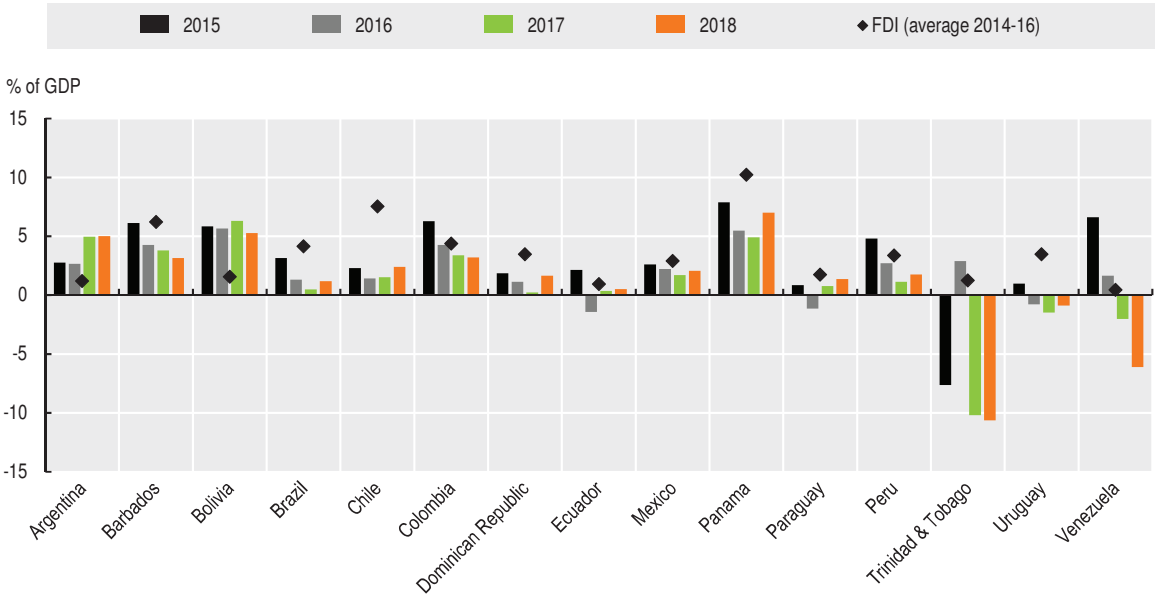
Figure 1.10. **Current account deficits and foreign direct investment**

(Percentage of GDP)



Source: IMF (2018) and OECD (2018).

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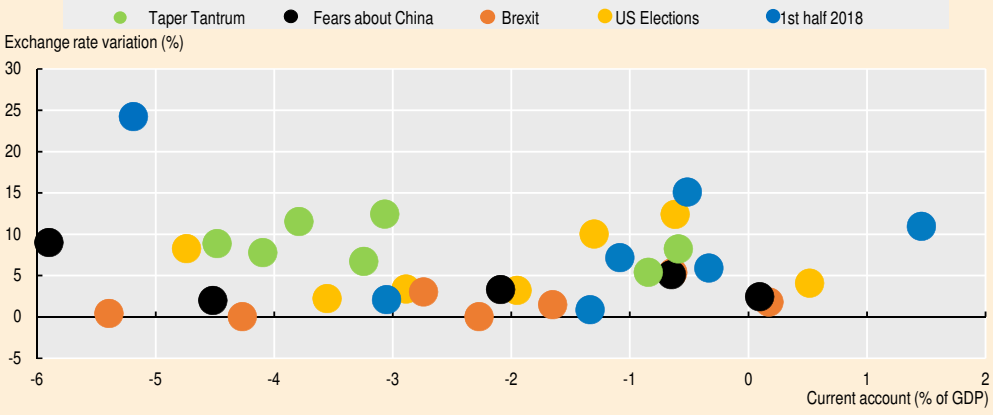
Box 1.2. **Flexible exchange rates and balance of payments adjustments**

Flexible exchange rates contributed to the adjustment of external accounts. These acted as a cushion against negative external shocks, particularly following the decline of commodity prices after 2014. Real depreciation led to a compression in imports, expenditure switching towards local goods and, more recently, to a moderate expansion in exports. Initial lacklustre export dynamics reflected a weaker currency depreciation in real effective terms than the one depicted by depreciation against the US dollar, in a context of subdued global trade growth (Powell, 2017). Since 2017, however, exports contributed to the narrowing of current account deficits, additionally supported by stronger global trade and higher commodity prices.

Exchange rates slid once more in 2018 as higher borrowing costs and the retrenchment of the appetite for risk reduced the attractiveness of Latin American assets across the board (Figure 1.11). In previous volatility episodes, there was no apparent discrimination among markets. In this case, however, currency losses were more severe in countries with weaker fundamentals and higher exposures to certain external developments. Argentina, for example, suffered a currency crisis as markets lost confidence in the face of ample twin deficits; a significant dependence on debt portfolio flows to finance them; currency misalignment; and low FX reserves. Even after the IMF agreements, investors remained nervous and the peso took another blow in mid-August, followed by another agreement. Depreciation of the Brazilian real largely stemmed from political risk, but also from the non-abating fiscal imbalance, in spite of no relevant external vulnerability.

Figure 1.11. **Current account balance, exchange rate variations and financial volatility episodes**



Source: Bloomberg Finance L.P. (2018) and CAF (2018).
StatLink https://doi.org/10.1787/888933936273

Balance of payments vulnerability has intensified in recent years. The growing exposure to international markets helps explain both higher volatility and lower growth. On the real side, low diversification of exports, especially in South American countries, has increased exposure to changes in international commodity prices. Similarly, in the face of a challenging global trading context, LAC regional integration remains an underexploited opportunity. Only 16% of total LAC exports were destined for the regional market in 2015. This is well below the intra-regional trade coefficients of the world's three major "factories": European Union (63.2%), NAFTA (49.3%), ASEAN+5[4] (47%) (OECD/CAF/ECLAC, 2018). On the financial side, mounting external leverage, in particular from non-financial corporate firms, has increased. exposure to the international liquidity cycle.

Income elasticity of exports varied across sub-regions in Latin America. Given the pace of growth of trade partners, economic growth consistent with long-term external equilibrium depends on the ratio between a country's export and import elasticities. Except for Paraguay, the ratio between those elasticities fell significantly in South American countries in recent years, largely because of decreases in the income elasticity of exports (ECLAC, 2017). South America's export volume rose by a mere 1.9% between 2014 and 2018, compared with a growth of 6.4% between 2004 and 2008. The slowdown of exports was therefore caused not only by the stagnation in international trade, but also by a structural decline. By contrast, income elasticity of exports tended to increase in Central America and Mexico (ECLAC, 2017). Those countries' exports grew at an annual rate of 3.5% between 2014 and 2018. This rate was slightly better than in South American and Caribbean countries and higher than the GDP growth of 2.4% in the United States, the main trading partner of Central America and Mexico. The dynamics of foreign trade reveal the persistence of structural problems – pervasive technology gaps, undiversified specialisation patterns, low productivity growth – which affect systemic competitiveness and undermine growth (Box 1.3). In particular, since the beginning of the 21st century, the trend has been towards less diversification in LAC's exports.

Box 1.3. **Latin America: Capabilities, productive structure and external constraint**

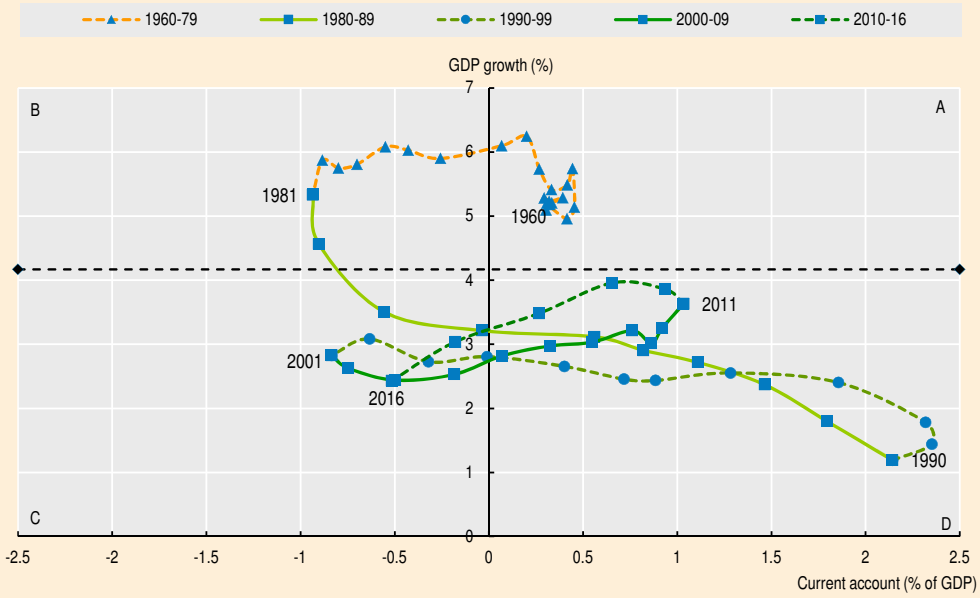
The coevolution between capacities, productive structure and external constraint requires viewing growth through the lens of trade, and thus moving beyond analysis of short-term fluctuations. Figure 1.12 shows the growth rate of Latin America on the ordinate axis and its trade balance on the abscissa axis, from 1960 to 2016. The identified subperiods are associated with different phases in trade and international finance.

Quadrants A and C correspond to results in the trade balance that are unsustainable in the medium term, while quadrants B and D indicate sustainable positions (i.e. a positive trade balance). The countries moving through quadrants A and C are adjusting or should adjust soon to avoid over-indebtedness. These countries have been financed from abroad for some time. However, as in Argentina, they show great vulnerability to changes in expectations or in the liquidity of financial markets.

The 1960s were a period of high and sustainable growth. Expanding world trade helped the peripheral economies to overcome the external constraint, in association with import substitution policies. In the second half of the 1970s, most countries in the region borrowed significantly. Despite the global recession during this period, Latin America's economy grew at high rates at the cost of accumulating high trade deficits. After the remarkable increase in interest rates in the United States in 1979, the debt became unpayable, which generated a strong adjustment process between 1981 and 1990. In these adjustment years, positive trade balances serviced the debt, while investment and growth rates plummeted. The Brady Plan and the return of capital in the 1990s implied relief from the external restriction and opened space for a new phase of growth. Low interest rates in the developed world led to a phase of liquidity and capital flow to emerging countries. In the peripheral economies, this phase combined with exchange rate appreciation policies, often as part of stabilisation programmes that responded to the high inflation that prevailed in the 1980s. The consequent loss of competitiveness alongside the stimulus to indebtedness led to new crises by the end of the 1990s and the beginning of the 2000s in some countries. This closed the second cycle of appreciation, indebtedness, crisis and adjustment.

Box 1.3. **Latin America: Capabilities, productive structure and external constraint** *(cont.)*

Figure 1.12. **Latin America: Phases of external constraint and economic growth, 1960-2016**



Note: 10 year moving average.
Source: ECLAC (2017b).
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By 2003, the pattern of boom (and bust) in natural resources observed between the 1970s and the 2000s had ended. The dynamism of demand for commodity premiums allowed increases in the volumes and prices of shipments. This, in turn, led to compatibility between higher growth rates and external surpluses. The 2008 crisis provoked a temporary decline in this positive trend, but exports continued to expand until 2012. Since then, international trade has slowed, and the region's export performance suffers, especially for exporters of raw materials. The outlook is more favourable for Mexico and the countries of Central America, which export manufactures to the United States. They have recovered from the crisis more rapidly than other advanced economies.

Two structural factors explain the growth rates of the region, which have been low and volatile since 1980. First, low diversification of the productive structure and the increase in the technological gap have slowed the dynamism of exports and increased the external constraint in the long term. In fact, regional exports have increasingly focused on natural resources and manufactures with low local value-added. Second, the absence of macroprudential policies – including control measures on short-term capital inflows – increased vulnerability to liquidity cycles and lowered expectations in international markets.

Vulnerable economic performance affects social dimensions

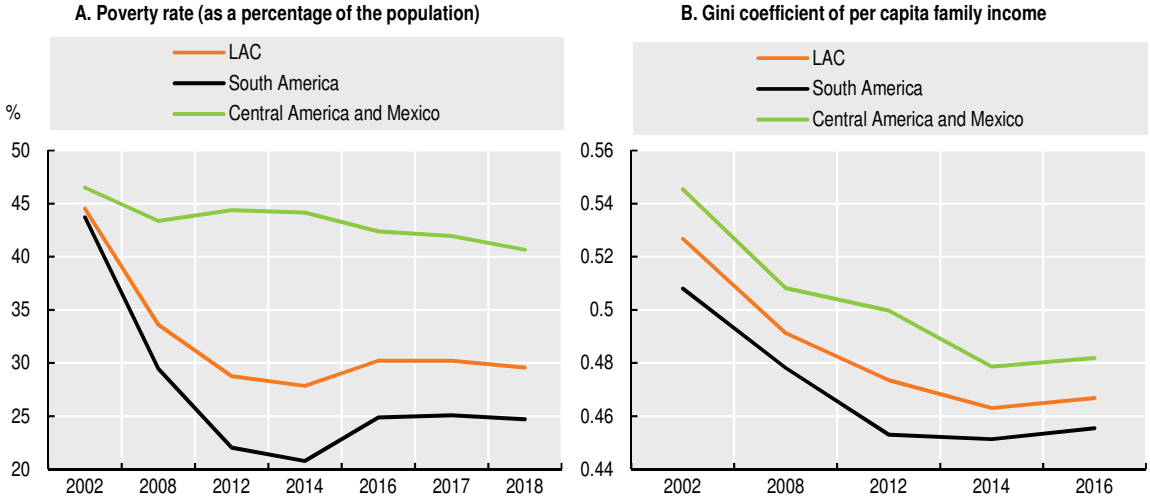
Insufficient economic growth holds back poverty reduction

Since 2014, poor economic performance has been accompanied by poverty and extreme poverty increases, with wide heterogeneity across countries. Poverty reduction is strongly

related to the economic cycle (Box 1.4). In light of the recent economic slowdown, the regional poverty rate climbed by 1.2 percentage points in 2015 and a further 1.1 points in 2016; it remained constant in 2017 and decreased by only 0.6 points in 2018. This meant a total increase of 18 million people living in poverty since 2015. Thus, 186 million people lived below the national poverty line in LAC in 2018, or 29.6% of the population. Extreme poverty also increased by 0.9 percentage points in 2015, 1.3 points in 2016 and 0.3 points in 2017, while it has remained constant in 2018. This represented an additional 17 million people in extreme poverty in those four years, adding up to 63 million people, or 10% of the population.

While the aggregate regional poverty level has risen, this is not the case for many countries in the region. The regional trends of poverty and extreme poverty are particularly influenced by the economic performance of three countries of considerable size for the region, Brazil, Mexico and Venezuela, as well as poverty increases in Ecuador, El Salvador and Paraguay. The rise in projected poverty in these countries outweighs the reduction in the rest of the region, especially in Argentina, Chile and Colombia where poverty fell the most between 2016 and 2018 (ECLAC, 2018c)

Figure 1.13. **Poverty and inequality in Latin America and the Caribbean**



Note: Circa years for the Gini coefficient.
Source: ECLAC (2018c) and ECLAC (2017a), *CEPALSTAT* (database).
StatLink https://doi.org/10.1787/888933936311

This stagnation in poverty reduction comes after a decade of sharp drops in poverty and extreme poverty. The incidence of poverty measured fell from 45.9% to 34.1% in 2002-08 and reached 27.8% in 2014 (ECLAC, 2018c). The decline in poverty was sharper in South American countries where the poverty rate halved between 2002-14 (Figure 1.12, Panel A). In Central America and Mexico, the reduction was not as significant as in South America and improvement occurred mostly in 2002-08, when the poverty rate declined from 46.5% to 43.4%.

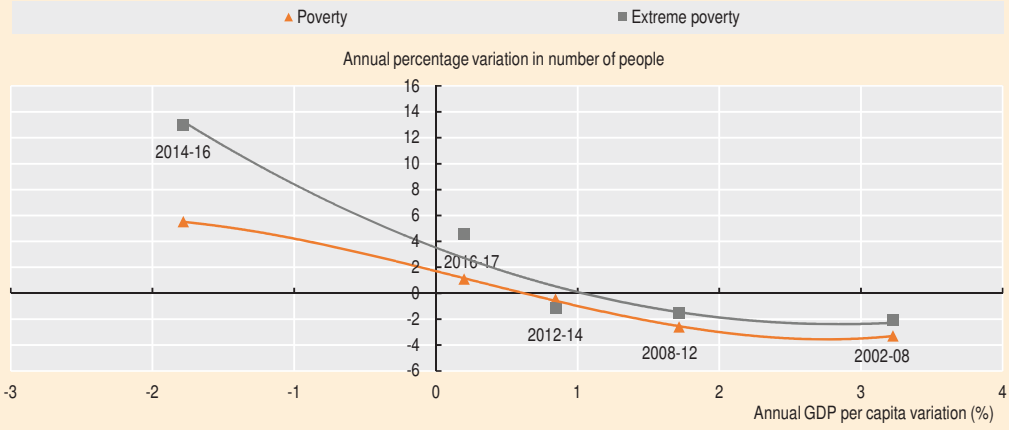
The reduction in poverty rates was closely linked to labour market dynamics. In several LAC countries, improvements in labour income were the main factor behind the fall in poverty during the pre-crisis period (Beccaria et al., 2013). Although the results vary from one country to the next, between 30% and 70% of those who escaped poverty did so on the back of employment-related developments alone (new jobs or wage increases). The second reason for the decline in poverty was the combination of employment-related developments and non-work events (in the domain of social protection). Together, these developments and events accounted for between 60% and 80% of the total number who escaped poverty.

Box 1.4. **Poverty and the business cycle**

Poverty has been linked to the business cycle during the past 15 years. During 2002-08, as per capita GDP grew by 3.2% per year, the number of people in poverty fell at an average annual rate of 3.5%. At the same time, extreme poverty decreased by 2.9% per year. The 2008-14 business cycle downswing phase can be analysed in two sub-periods. In the first, up to 2012, per capita GDP grew at an average rate of 1.7% (half of the rate recorded between 2002 and 2008). In the second, between 2012 and 2014, growth was 0.8% per year (half of the rate corresponding to 2008-12). In the first sub-period, the number of people living in poverty decreased by 2.6% per year, while the number in extreme poverty declined by 2% annually. Between 2012 and 2014, the number of people living in poverty and extreme poverty decreased at annual rates of just 0.2% and 0.4%, respectively. Recently, in 2015 and 2016, the region's per capita GDP contracted by 1.8% each year, while the proportion of people living in poverty and extreme poverty grew by 5% and 12%, respectively (Figure 1.14).

Figure 1.14. **Variation in the number of people living in poverty and extreme poverty, and variation in per capita GDP, 2002-17**

(Annual equivalent percentage rates)



Note: Weighted average for the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Source: ECLAC (2018c), on the basis of Household Survey Data Bank (BADEHOG) and CEPALSTAT database.

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Other factors can also have an effect on poverty. Households obtain income from various sources, mainly paid work; ownership of assets and transfers from social protection systems; and transfers from other households. Thus, factors such as labour market structure and its policies, the provision of public services, social protection systems and poverty-reduction policies, the tax system and public expenditure policy, among many others, directly affect the level and distribution of household income. Consequently, these factors determine the extent to which economic growth can generate better living conditions for the population. In fact, levels or variations in GDP generate different levels and variations in household income. This effect is due to the various institutional and public policy conditions prevailing in each country of the region. In some countries, household income represents more than 60% of GDP, while in others it is equivalent to 40% or less. Moreover, the annual variations in per capita GDP (in constant dollars) and household income (expressed in real terms) is similarly heterogeneous (ECLAC, 2018c).

Inequality remains a key challenge with a predominant vulnerable class

Income inequality recorded an unprecedented drop but remains high. Between 2002 and 2014, the average Gini coefficient fell from 0.53 to 0.47 (Figure 1.13, Panel B). Meanwhile, the income of the richest 20% in LAC was 19 times greater in 2002 than that of the poorest 20%; in 2014, it was 11 times higher. Like poverty reduction, income inequality has stagnated since then. The average Gini coefficient of the region was 0.46 in 2017, and the vulnerable middle class represents the largest socio-economic group in the region (see Chapter 3).

Most equality improvements are due to labour market conditions derived from economic growth and lower informality, and complemented by social protection policies. Improvements in distributive dynamics have been closely related to the strengthening of labour institutions and the introduction of new tools (e.g. conditional transfers). Economic buoyancy and the re-emergence of key labour institutions in several LAC economies such as minimum wages, collective bargaining and vocational training policies led to rapid job creation and improved employment quality. Social policy saw improvements in social protection systems, especially income transfers targeting the most disadvantaged sectors of the population (Martínez, 2017). Notwithstanding progress in social protection, improvements in labour market conditions were the strongest driver of reduced inequality during the years of strongest economic growth.

Even after improvements, inequality in LAC remains high. In most cases, the wage share in income remains below historic highs of the 1960s and 1970s and much lower than in developed countries: the wage share of most LAC countries lies below the lowest share recorded in the OECD. The same applies to the Gini coefficient. Inequality entails major costs in efficiency, which means it must be overcome to attain development (ECLAC, 2018d)

Conclusions

In the mid-2000s, Latin America achieved high growth rates and strong socio-economic performance. During this period, high growth took place in a favourable global context and booming commodity prices. LAC's average annual GDP growth rate reached above 5% in 2004-07. High growth rates translated into substantial reductions in poverty, falling inequality and the rise of the Latin-America's middle class.

Current economic growth in LAC is insufficient to continue the reduction in poverty and inequality. Recovery stalled in 2018, but activity is expected to regain some momentum in 2019 and 2020. Growth performance would be subdued compared to the previous decade and insufficient to close the income gap with advanced economies. The region is still characterised by an uneven performance: it is still about "Americas Latinas" in terms of cyclical positions, exposure to external shocks and policy options. The region's low economic growth is vulnerable to external shocks hailing from several factors. These include commodity price fluctuations, a complicated global context, a more disruptive financial tightening and escalating trade tensions between key partners of the region – the United States and China. As a result of low economic growth, prospects for socio-economic progress are dimmer. The reduction of poverty and inequality are on hold, with possible reversals in some countries.

The socio-economic performance highlights both new and persistent structural challenges in the region. Some of these structural challenges go beyond income (Chapter 2). Low productivity, persistent high inequality rates, increasing poverty levels and rising citizen discontent are all symptoms of key development traps (Chapter 3). To address them, the region must strengthen domestic capabilities and rethink development strategies and international co-operation (Chapters 4 and 5).

Notes

1. Simple averages. The average of Mexico and Central America includes Costa Rica, Cuba, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama and the Dominican Republic. The Caribbean includes Antigua and Barbuda, Bahamas, Barbardos, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.
2. Gross domestic product per capita valuated in constant prices (purchasing power parity; 2011 international dollar). Source: IMF.
3. These results should not be seen as predictions, but more as illustrations of the potential impact of alternative scenarios over the region
4. ASEAN + 5 includes China; Japan; Chinese Taipei; Hong Kong, China and the ten members of ASEAN.

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Chapter 2

Changing the lens: Development beyond income

This chapter illustrates the weakness of income per capita as a measure of development in Latin America and the Caribbean. Trends in income per capita may not fully reflect changes in other dimensions of development. Countries with similar levels of income per capita display very different development outcomes. This is especially true for those that are middle- and upper middle-income, such as most Latin American and Caribbean countries. This chapter compares current and long-term trends in income per capita with other well-being indicators at regional, national and sub-national levels. It also discusses the importance of developing adapted statistics that better reflect people's living standards to improve the design, implementation and monitoring of public policy for development.

Income does not capture the multiple dimensions of development

Well-being outcomes in LAC diverge from those predicted by its GDP per capita

Years at school

13.5 Predicted ↓ 10 LAC

Income inequality (Gini index)

45 Predicted ↑ 49 LAC

Life expectancy (Years)

73 Predicted ↑ 76 LAC

Countries with similar income per capita have very different development outcomes

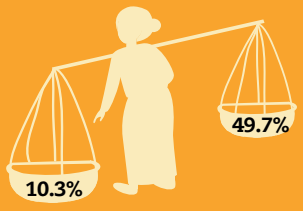
Citizen security

Homicide rates vary between lower middle-income countries

Bolivia — El Salvador

Jobs

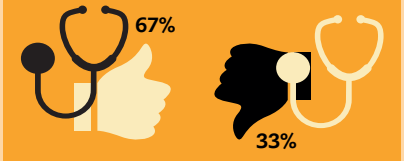
Vulnerable employment rates vary between upper middle-income countries



Cuba — Peru

Health

The share of satisfaction with healthcare systems varies between high-income countries



Uruguay — Chile

National averages hide a large diversity of economic and social outcomes across subnational regions

Mexico

Share of population living under the national income **poverty** line

Nuevo Leon

Chiapas

Peru

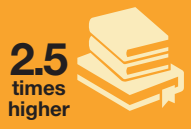
Infant mortality rates

Puno — Tumbes

Colombia

Secondary **education enrolment** rates

Vichada



Santander

Introduction

This chapter provides evidence of the imperfect relationship between income per capita and a range of development outcomes through a series of exploratory analyses. This evidence shows clearly that income per capita and other development outcomes do not always move in sympathy.

There is no standard definition of development. Different actors have continuously argued about their preferred development objectives, such as economic growth, social welfare, political participation, freedom, national independence and environmental integrity. While theorists have favoured some objectives over others at different periods, development strategies have increasingly come to embrace all of them (De Janvry and Sadoulet, 2014).

Development paradigms are the result of external factors and accumulated knowledge. External factors have indeed played a major role in shifting paradigms. The era of economic planning in the 1960s, when economic development was treated as a precise science, demonstrated that development was more than just about the economy. Already in the 1970s, the need to look beyond gross domestic product (GDP) was brought to the fore of development thinking and practice (Seers, 1969). In 1972, the Stockholm Conference on the Human Environment was an important milestone in environmental policy making at the global level, while the 1995 World Summit on Social Development was pivotal on the social side. Both strands were reflected in the 1987 Brundtland Report and the 1992 Earth Summit.

Economic structure and its transformation matter. It was commonly thought that developing countries would have to follow a different path from previously industrialising ones. This view was advocated by the dependency school, for example (Prebisch, 1949). But the oil crisis in 1973 and the debt crises in Latin America a few years later placed macro-stability front and centre for the next two decades.

Today's theorists have built on a vast array of earlier development thinking. They have come up with more holistic approaches, including addressing environmental and climate issues in ways that reflect local conditions, and addressing people's needs and wants (OECD, 2018a).

A consensus is emerging that development should deliver improvements in people's lives. Over 70 years, economic and societal objectives have come and gone. Most have now been included in the policy commitments of the 2030 United Nations Agenda for Sustainable Development through its 17 Sustainable Development Goals to end poverty, protect the planet, and ensure peace and prosperity for all (UN, 2015; EU, 2017; OECD, 2018a).

In this perspective, development is about enlarging people's choices, which requires progress in both material and non-material aspects of people's living standards. Development, in turn, requires inclusive growth. Such a "people-centred growth model" combines productivity growth and structural change with inclusiveness and lower inequalities. It improves potential for the masses through better health, education, workplace conditions, digital access, social mobility, trust in government, political participation, entrepreneurship and environmental quality (OECD, 2018b).

If people are at the centre of the development agenda, improving their well-being is the end-line of such a route.

Around the world, countries with similar levels of income per capita display very different well-being outcomes. This is especially true for those that are middle- and upper middle-income. Indeed, the relationship between GDP per capita and well-being is not constant across the income ladder. As economies grow, other dimensions of people's well-being come to the fore. Moreover, countries' progress in terms of education, health, security, political stability, human rights, environmental protection, employment and

equity can differ from that achieved for GDP per capita. This divergence between GDP and well-being, and more importantly between well-being gains and GDP growth, reflects the multi-dimensionality of development.

Most Latin America and the Caribbean (LAC) countries today are middle-income countries, with high heterogeneities across different development indicators. Cross-country disparities in well-being outcomes at a given level of GDP per capita are glaring in LAC. As in other emerging economies around the world, LAC countries still face high inequalities in terms of income and access to public services, both across all people within a country and across subnational regions, a pattern that has persisted despite the positive per capita GDP performance in the past decade.

The large income gaps between the very wealthy and the rest of society create relative deprivation and rising aspirations that affect people's assessments of their well-being (Graham, 2005). In fact, most well-being indicators vary considerably among LAC countries. Some LAC countries perform worse than low-income economies worldwide in several well-being aspects. These include satisfaction with living standards, share of non-vulnerable jobs, housing facilities, personal security or perceived honesty of public officials. Additionally, within LAC countries, subnational regions present considerable disparities. These disparities can be measured in terms of income per capita, as well as poverty, access to formal employment, education, health and security.

Although large improvements have been made, development data beyond GDP for LAC remain limited. Large data gaps persist especially for certain dimensions such as subjective well-being, governance and inequalities at subnational level. Even when data exist, there are comparability problems. Overcoming these limits will require investment and joint efforts, and a common understanding across countries on the key challenges confronting the region.

This chapter illustrates the imperfect relationship between income per capita and development throughout LAC countries. First, it summarises the seminal literature on the need to go beyond GDP to assess development. Second, it illustrates the wide heterogeneity, both across and within countries, in development outcomes that income per capita might hide, based on the limited comparative information that is available. Third, based on historical estimates, it analyses how the relationship between income per capita and well-being outcomes changes as countries' income per capita increases. Fourth, it analyses income per capita and well-being variations across time. Fifth, it argues that much progress needs to be achieved in the availability of reliable measures for a broad range of well-being outcomes, based on a framework adapted to the specific context of Latin America and its member countries. Finally, it summarises the main messages and insights on how to assess development in the region.

Why do we need to go beyond GDP per capita to assess development?

The pros and cons of GDP per capita as a measure of the success of a development process have been widely discussed in the literature. Until the 1970s, GDP per capita growth was widely viewed as a good proxy for more general development in a country. The general consensus was that economic development should provide the means to improve individual living standards and that GDP could adequately reflect it. Additionally, GDP per capita was a convenient proxy indicator to benchmark human development for two reasons. Apart from its established methodology, economic growth was implicitly linked to changes in more direct measures of well-being (i.e. employment or household consumption). Yet even Kuznets, one of the main originators of GDP, warned against using it as a measure of welfare (Kuznets, 1962; Costanza et al., 2009).

Although GDP growth is a key condition for development, increases in the volume of economic production alone do not necessarily translate into sustained improvements in

well-being. Focusing exclusively on GDP implies ignoring distributional issues, as well as the contribution of non-market goods, services and activities such as health, education, security, governance and the environment.

Attention to other non-income dimensions of well-being is warranted because they enhance opportunities for participating in economic and social life (Stiglitz, Sen and Fitoussi, 2009). For instance, good education and good health improve people's well-being. At the same time, they are a pre-condition for participating in the labour market and benefiting from social relationships. When individuals are well integrated into the job market, their sense of accomplishment contributes to life over and above financial rewards (OECD, 2017).

Likewise, measuring development solely through GDP per capita has proven to be a flawed approach to identify what drives positive and negative changes in people's lives and to guide policy makers. Essentially, GDP per capita measures market transactions without accounting for social and environmental costs, income inequality or environmental sustainability (Stiglitz, Sen and Fitoussi, 2009).

The Stiglitz, Sen and Fitoussi Commission (hereafter "the Commission") argued that GDP cannot be used as a measure of success. For the Commission, GDP fails to encompass the multi-dimensionality of development, as well as the structural changes that have characterised the evolution of modern economies. It called for a broader understanding of development and well-being. Moving beyond GDP metrics as the sole indicator of development requires focus on a range of well-being outcomes, on the distribution of these outcomes across the population and on the resources needed for development to last (OECD, 2011).

A single universal path to development does not exist. Development processes are not marked by a succession of stages characterised by linear increases in per capita GDP, homogeneous elements and similar policies. Instead, development is the process that enlarges people's choices by expanding human capabilities (Sen, 1999). In this perspective, development is inherently more complex and multi-dimensional than income per capita. It also requires analysis of the "dynamics of the development process in the small", i.e. at local level, to determine policy priorities (Hirschman, 1961).

Development encompasses access to the resources needed for a decent standard of living. These include political, social, economic and cultural freedom, a sense of community, opportunities for being creative and productive, self-respect and human rights. It is more than just achieving these capabilities; the process of pursuing them, in a way that is equitable, participatory, productive and sustainable, matters as much as the final results (Sen, 1999).

The notion of well-being is close to that of human development promoted by Sen (1999), among others. It focuses on outcomes and opportunities that are intrinsically important to people (an end) rather than only as an instrument to achieve something else (a means); on the diversity of these outcomes; and on their irreducibility to a single aspect (e.g. no amount of income can offset the lack of basic freedom) (OECD, 2018a).

The complexity of development problems highlights the need to move from a single aggregative yardstick such as GDP (Seers, 1969). In fact, the Commission called for moving from measuring economic production as the sole metric of success towards consideration of outcomes for people. It also stressed the importance of combining GDP with broader metrics of household economic well-being, quality of life and inequality, as well as the sustainability of these outcomes over time (Stiglitz, Sen and Fitoussi, 2009). Since then, several international organisations and other institutions have played a central role in moving this agenda forward by regularly analysing a range of multi-dimensional measures through, for instance, the Human Development Index (UN), the OECD Well-being Framework (OECD), and the Structural Gap approach (ECLAC) (see Chapter 4).

Income per capita and well-being outcomes in Latin America and the Caribbean

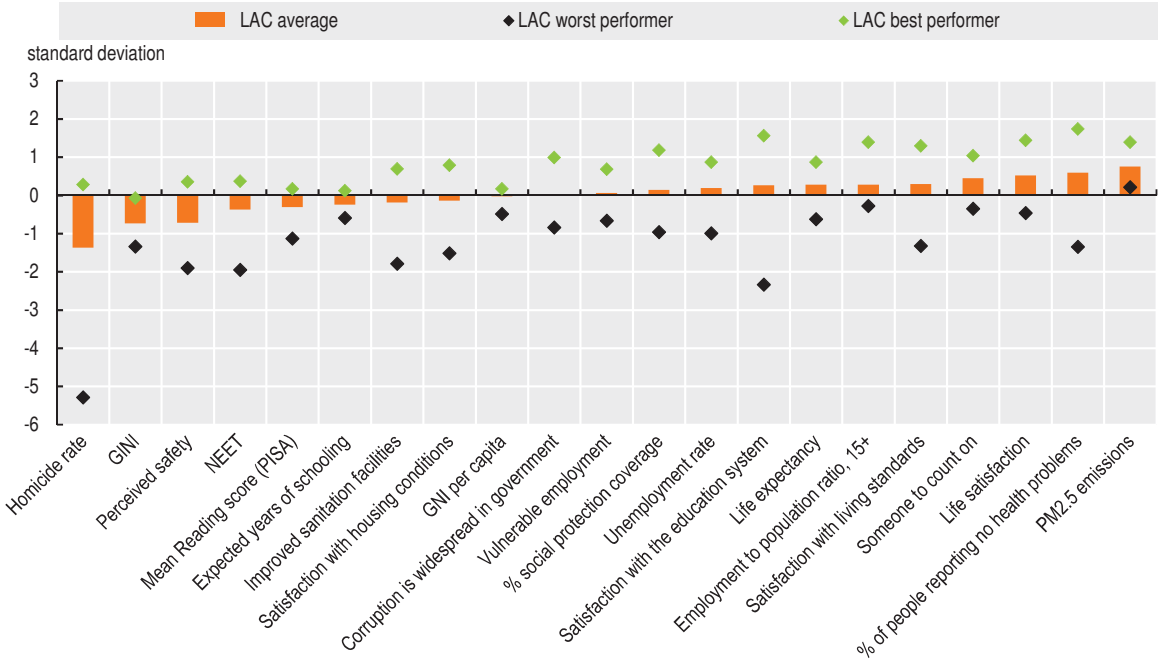
This section looks at well-being outcomes among countries with similar income per capita levels, as well within each country. Lack of data constrains a full analysis of the distribution of well-being. However, even incomplete data show that significant disparities across well-being outcomes persist both within countries and across the region.

Key well-being dimensions have mixed outcomes compared to those warranted by GDP levels

GDP growth has not always translated into similar well-being gains in LAC. Despite countries moving up the income ladder, the region presents a mixed picture in terms of well-being outcomes. Performance in each individual dimension of well-being varies significantly. LAC has better outcomes than warranted by its level of per capita GDP in terms of life expectancy, employment, health services, social connection, the environment and overall life satisfaction. Still, other aspects of well-being are underperforming relative to the GDP per capita of the region. These include quality of education, governance, corruption and, especially, inequality, informality and security (Figure 2.1).

Figure 2.1. **Well-being in Latin America and the Caribbean, selected indicators**

Comparison of actual and predicted well-being outcomes given GDP per capita



Note: This figure is based on a cross-country bivariate regression of each well-being indicator against GDP per capita across all countries in the world with population above 1 million. The coefficient of this regression, alongside the GDP per capita of each country and region, allows computing the expected value that each well-being variable should attain given the GDP per capita of the region or country. Actual values for each variable are compared to expected ones with the difference standardised by the standard deviation of the indicator. In this way, the figure highlights areas of well-being where the region (or individual countries within it) is performing better or worse. GNI is used as a proxy for household income. Mean reading score from the Programme for International Student Assessment is used as a proxy of quality of education. LAC countries include Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela. NEET=Not in education, employment or training. GINI coefficient measures the inequality of levels of income.

Source: Own calculations based on OECD (2015); Gallup (2017); UNDP (2017); UNESCO (2018); UNODC (2018); World Bank (2018).

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There are also significant cross-country differences within the LAC region for each well-being dimension. Gaps between worst and best regional performer values are much larger in the share of people with no health problems, satisfaction with the education system and affected by homicides.

Heterogeneity within income-groups in Latin America and the Caribbean

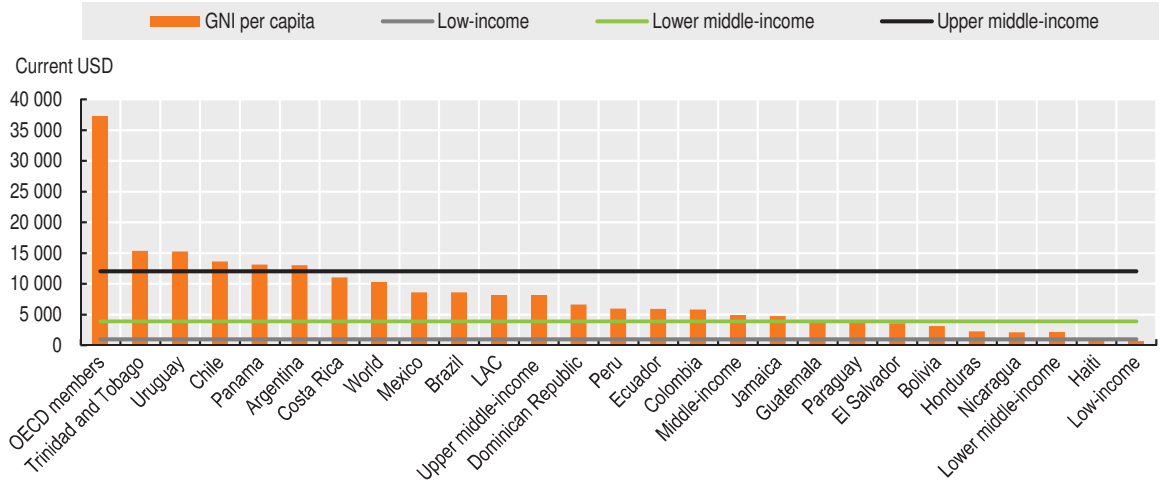
LAC countries with higher income per capita do not always perform better in terms of development outcomes than countries in the region with lower income per capita. Development challenges persist even when countries cross a given income level. Development performance tends to be higher among LAC countries with the highest income per capita. However, high income per capita alone does not guarantee high performance across all development indicators.

Using an average income measure, such as GDP or gross national income (GNI) per capita, can hide strong disparities across countries in different essential aspects of people's lives. At the international level, countries are usually classified in four income groups: low-income, lower middle-income, upper middle-income and high-income according to their level of GNI per capita. The OECD Development Assistance Committee list of official development assistance (ODA) recipients is defined through the GNI per capita.

Most LAC countries are upper middle-income, including Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico and Peru. Other countries, such as Argentina, Chile, Panama, Trinidad and Tobago, and Uruguay, are classified as high-income countries, while only Haiti is a low-income country (Figure 2.2). Although LAC countries in each group share common characteristics, belonging to one of these groups does not necessarily entail similar outcomes across the multiple dimensions of development.

Figure 2.2. **Selected Latin American and Caribbean countries by GNI per capita**

GNI per capita, Atlas method (current USD), 2017



Note: Only countries with more than 1 million population were included. GNI data for Aruba, Cuba, Curacao, St. Martin (French part), Sint. Marteen (Dutch part), Turks and Caicos Islands, Venezuela, British Virgin Islands and Virgin Islands (US) are missing. Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Suriname were not included because their population is below 1 million inhabitants. See Chapter 6 for an analysis on the Caribbean small states.

Source: World Bank (2018), *World Development Indicators*.

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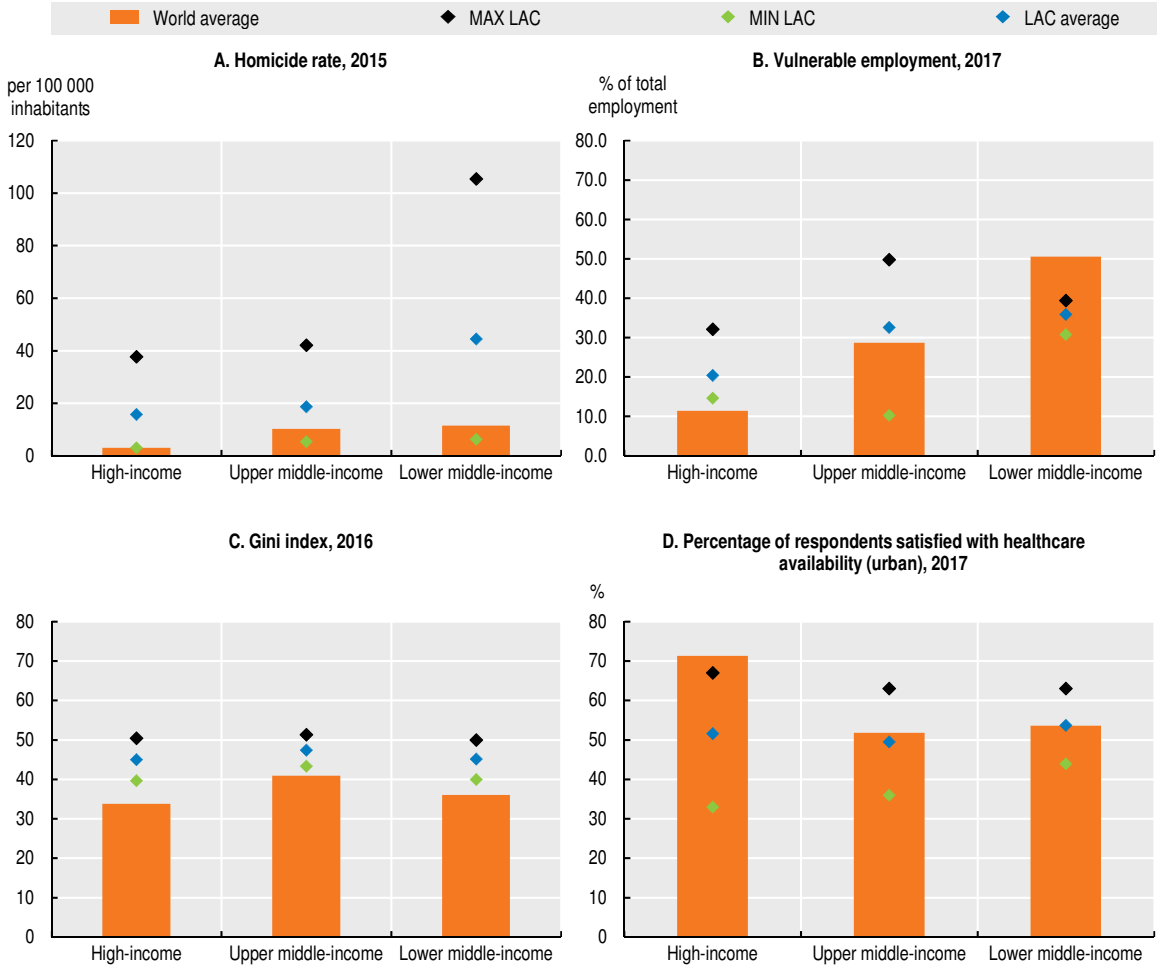
Overall, LAC countries perform poorly in selected development outcomes compared to their worldwide income category peers. This is particularly evident for higher-income countries. For instance, high-income countries in LAC lag behind in terms of homicide rates, inequality, vulnerable employment and satisfaction with healthcare compared to high-income countries worldwide (Figure 2.3, Panels A, B, C and D). At the same time, on average, all three LAC income groups have higher homicide rates than their corresponding worldwide income groups (Figure 2.3, Panel A).

Figure 2.3. **Selected development indicators by country income groups**



Note: Simple averages are used both for LAC and world averages. LAC lower middle-income countries include Bolivia, El Salvador, Honduras and Nicaragua. LAC upper middle-income countries include Belize, Brazil, Colombia, Costa Rica, Cuba, Ecuador, Grenada, Guatemala, Guyana, Jamaica, Mexico, Paraguay and Peru. LAC high-income countries include Argentina, Bahamas, Barbados, Chile, Panama, Puerto Rico, Trinidad and Tobago and Uruguay.

Source: Own calculations based on World Bank (2018), UNODC (2018) and Gallup (2017).

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Among the LAC countries with available data, development outcomes are mixed across income groups. High-income countries do not always perform better than middle-income or lower-income countries. In fact, with respect to income inequality and satisfaction with healthcare, lower-income countries perform better than upper middle-income countries (Figure 2.3, Panels B and D).

The mixed development outcomes occur partially because LAC countries' individual performance across selected indicators varies considerably among countries belonging to the same income group. For instance, the homicide rate of El Salvador (105 deaths per 100 000 inhabitants) is 17 times the homicide rate of Bolivia (6 deaths per 100 000 inhabitants), while both countries are lower middle-income economies (Figure 2.3, Panel A). Similarly, vulnerable employment is 40.6 percentage points higher between the best performing and worst performing upper middle-income country in LAC (49.7% in Peru and 10.3% in Cuba) (Figure 2.3, Panel C). The share of people satisfied with the healthcare system varies considerably among LAC high-income countries, from 67% in Uruguay to 33% in Chile (Figure 2.3, Panel D).

Heterogeneity is so large among income groups that in several development outcomes lower-income countries in LAC perform better than middle-income and even high-income countries. For instance, Trinidad and Tobago, and Uruguay, both high-income countries, present homicide rates greater than Bolivia, the best performer of the lower middle-income group, as well as for the average for all three income groups (Figure 2.3, Panel A). Similarly, inequality in Panama, the worst-performing country of the high-income group, is higher than in Mexico and El Salvador, the best-performing countries of the upper middle-income group and lower middle-income group, respectively. Meanwhile, the share of people satisfied with their healthcare system in Nicaragua (63%), the best performer of the lower middle-income group, is greater than in Brazil (36%) and Chile (33%), the worst-performing countries of the upper middle-income and high-income groups, respectively.

All in all, the income level group for a country does not provide a full picture of its performance across all development dimensions nor its challenges.

Subnational heterogeneity in development outcomes

Subnational regions and cities in LAC display considerable differences in well-being outcomes relative to national averages. National averages generally hide large diversity across subnational regions in all continents, but the pattern is especially pronounced in LAC (OECD, 2016a). The need for a regional lens when considering well-being outcomes is key to better understanding differences in the region and in better designing public policies to address them.

Subnational differences in LAC characterise all well-being outcomes and are evident when considering GDP per capita. LAC's territorial disparities in GDP per capita are striking, and much larger than in OECD member countries. Subnational differences in GDP per capita (as measured by the Gini coefficient in average GDP per capita across regions) in OECD member countries is around 16%. However, in some LAC countries such as Brazil, Chile, Colombia, Mexico and Peru, subnational differences are close to or higher than 30% (OECD, 2016a). Moreover, GDP per capita does not truly reflect average differences in GNI since regions that rely on oil and other commodities can have both high GDP and low average national income.

Subnational regions with high income per capita coexist with lower income per capita regions in most LAC countries (Figure 2.4). This is particularly evident in Colombia, Mexico and Peru where high-income subnational regions coexist with others with upper and lower middle-income (Figure 2.4, Panels C and E). When states and provinces within each country are evaluated based on a proxy of GNI[1], the conventional ODA graduation criterion, their disparities can be measured as "years to graduation". In Mexico, for instance, Ciudad de Mexico became high-income more than 13 years ago when it achieved a GNI per capita of USD 12 056; while Chiapas will achieve high-income status in 60 years assuming the growth rate of its GNI per capita remains constant. Likewise, Chile became a high-income country in 2013, but half of its regions, where one-third of

the country's population live, still have a GNI per capita below the graduation threshold of USD 12 056. Similarly, the capital cities of Brazil, Colombia and Peru have a per capita GNI of more than twice that of half the provinces of their country.

Figure 2.4. **Regional GNI in selected Latin American and Caribbean economies**

(x-axis: % of country population and y-axis: 100 = GNI per capita USD 12 056, high-income economy threshold)

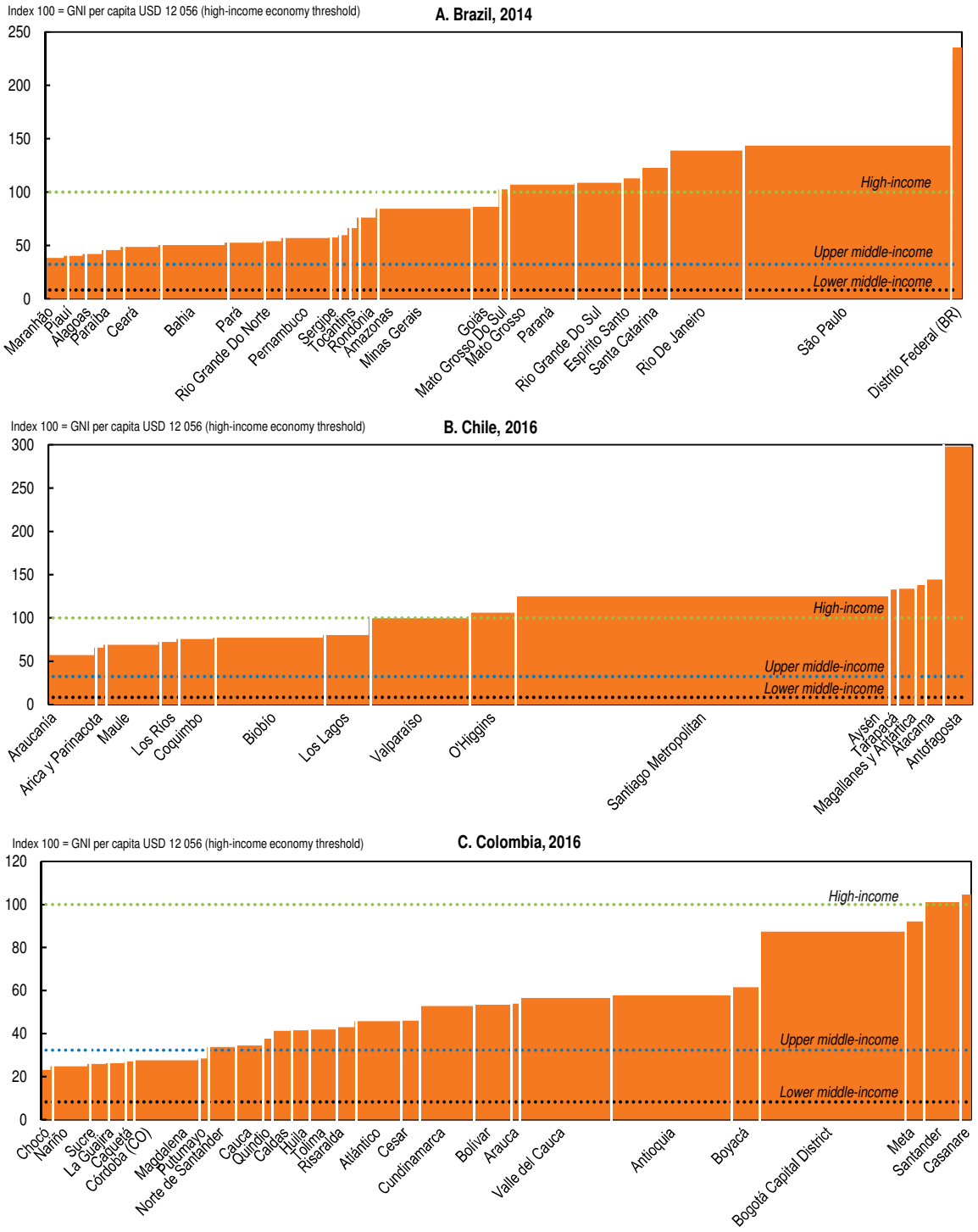
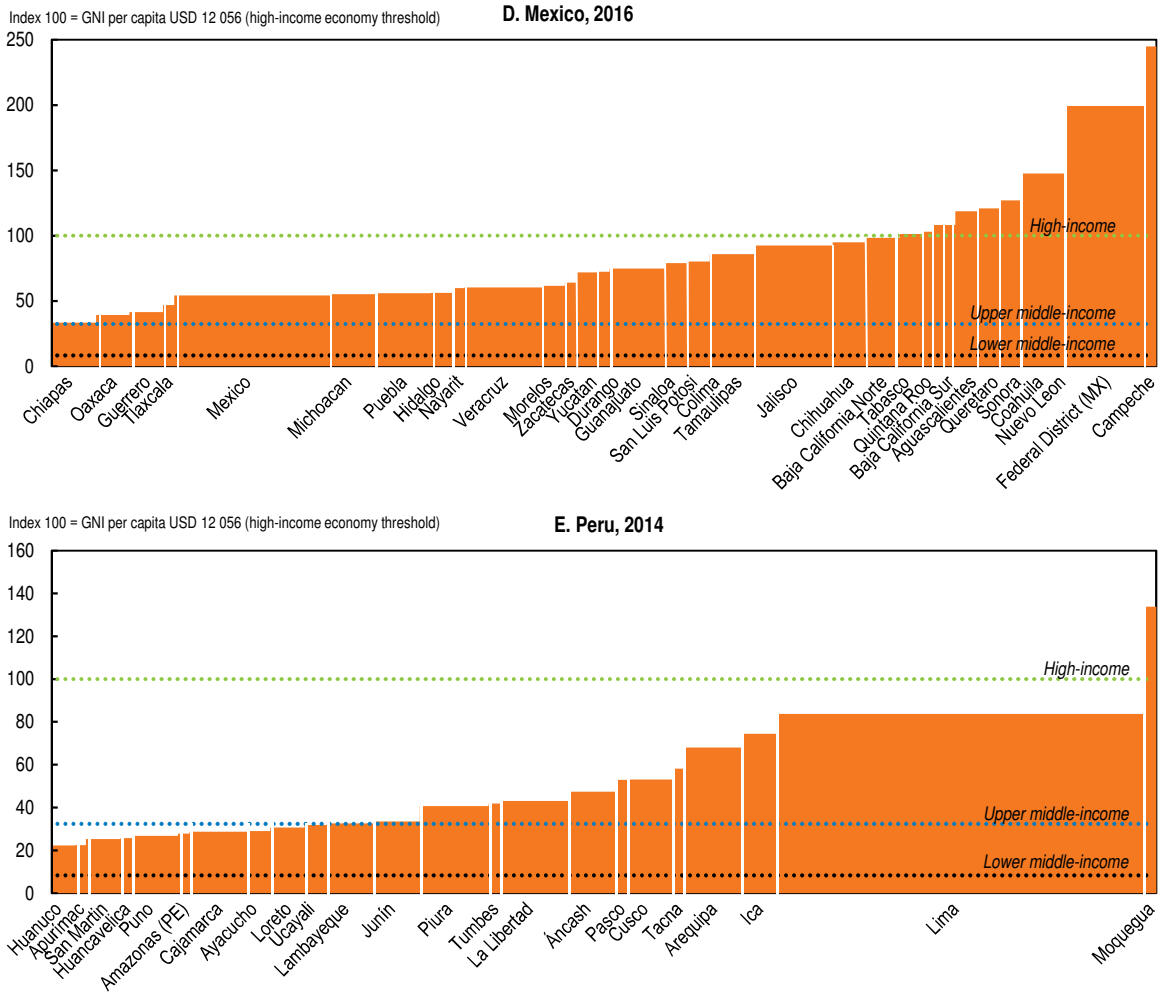


Figure 2.4. **Regional GNI in selected Latin American and Caribbean economies** *(cont.)*



Note: Thresholds are the following: high-income economies (those with a GNI per capita of USD 12 056 or more) index = 100. Upper middle-income economies (those with a GNI per capita of USD 3 896 or more) index = 32.3. Lower-middle-income (those with a GNI per capita of USD 996 or more) index = 8.3. World Bank country classification for 2018-19. Regional GNIs were based on a three-step calculation that assumes GDP and GNI follow the same regional distribution. First, the difference between the national GDP and GNI of each country is calculated. Second, each region's share of this difference is calculated based on its share of national GDP. Third, each region's share of the difference between national GDP and GNI is subtracted from its regional GDP. Regions with a population 1% of the national population were not included. These include Vaupes, Guainia, Vichada, Guavarie, Amazonas and San Andres in Colombia; Madre de Dios in Peru; and Acre, Amapa and Roraima in Brazil.

Source: Own calculations based on OECD (2018e).

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There are also large gaps within LAC countries with respect to other well-being measures. Well-being inequality in LAC countries is closely linked to where people live and work. The "urban advantage" remains strong when looking at other development measures, especially in high-income countries such as Argentina and Chile. Large LAC cities, especially capitals, have better education, employment and health, and lower poverty outcomes than most small cities and rural areas. Many more children in rural areas die before the age of 1 year due to lack of access to basic healthcare

than in urban areas in LAC. For example, infant mortality in Boca del Toro, a rural province in Panama with a share of 1% of the country's GDP, is more than twice that of Panama City, which is responsible for 75% of the country's output. Likewise, on average, youth in states and provinces with large rural areas leave school earlier than those in regions with large urban areas. Conversely, crime and violence are higher in the regions with larger cities.

Territorial disparities are largest for poverty and informality rates. Colombia and Mexico have the largest regional differences in national income poverty. In Mexico, only 14.2% of the population in Nuevo Leon live under the national income poverty line; while 77.1% of the population do so in Chiapas (INEGI, 2018). Likewise, in Colombia, 12.4% of the population of Bogota live below the poverty line, while the poverty rate of Chocó is 58.7%. Regional gaps in terms of informality are also wide across most LAC countries analysed in this section, ranging from 12.6 percentage points in Costa Rica to 45.1 percentage points in Mexico. Most countries have a gap of around 35 percentage points (Figure 2.5).

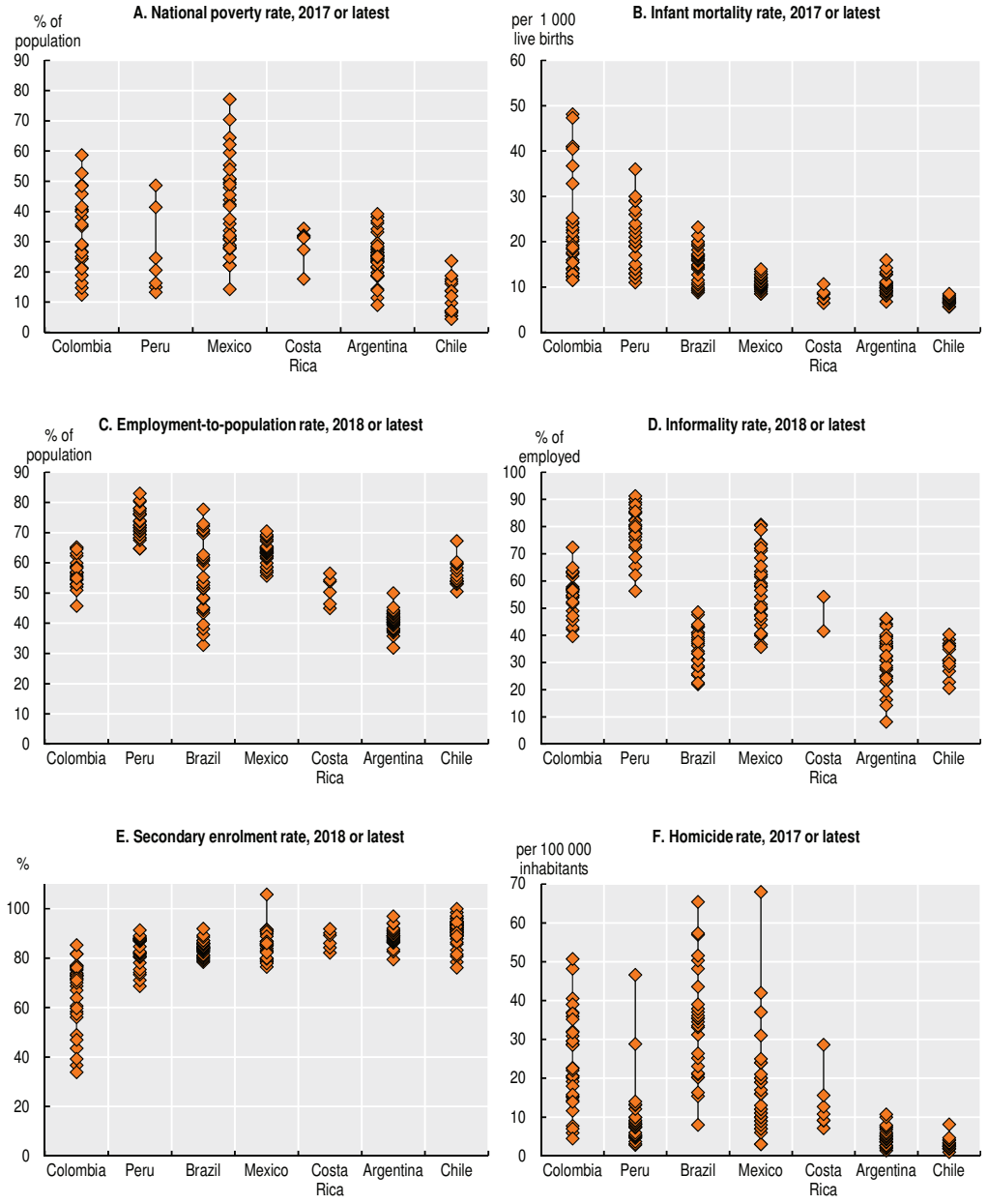
Territorial disparities in infant mortality are also wide. For example, in Colombia, the infant mortality of Vichada is almost three times that of Antioquia (DANE, 2018a); in Peru, the infant mortality of Tumbes is over three times higher than that observed in Puno (INEI, 2015a).

In terms of homicide rate, territorial differences vary between countries in LAC. Brazil, Colombia, Mexico and Peru have large gaps in homicide across regions (Figure 2.5). These gaps are much lower in Costa Rica and almost non-existent in Argentina and Chile (Figure 2.5).

The benefits of education are also spread unevenly across regions. Territorial-related differences are less marked than for other development outcomes in most countries except Colombia. Secondary enrolment rates are 10 percentage points higher in the region with the highest share of youth enrolled in secondary education than in the one with the lowest share in Brazil and Costa Rica. The gap in Colombia exceeds 50 percentage points (Figure 2.5).

Addressing regional disparities should be a key element of any development strategy in LAC. The factors that most influence peoples' well-being are local, such as employment, access to health services and education, and security. Policy responses must also be locally targeted. Policies that take better account of regional problems and needs may have a greater impact in terms of improving well-being for the country as a whole by tackling the sources of inequality more directly. But to target policies effectively, governments need the tools to fully understand local conditions and the expectations of their citizens (OECD, 2016a).

Figure 2.5. **Regional disparities across selected development indicators, selected Latin American and Caribbean countries**



Note: Each marker represents a province, state or region within a country. Countries ordered by level of GDP per capita. For the employment and informality indicators, working-age population refers to people aged 14 or older in Argentina and Peru, 15 or older in Costa Rica and Chile, 16 or older in Brazil, 12 or older in urban areas of Colombia and 10 or older in rural areas of Colombia. The informality figures for Brazil are based on authors' calculations with data from IBGE (2018): they include independent workers not registered in National Registry of Legal Entities (CNPJ-Cadastro Nacional da Pessoa Jurídica) and dependent workers without a signed work contract.

Source: Centre for the Study and Analysis of Crimes in Chile (2018), CONAPO (2018), CONEVAL (2016), DANE (2018a, 2018b, 2018c), IBGE (2017, 2016, 2015), IGARAPE (2018a, 2018b, 2018c), INDEC (2018, 2017a, 2017b, 2017c), INE (2017, 2015), INEC (2016, 2017a, 2017b, 2017c), INEGI (2017, 2015), INEI (2018a, 2018b, 2015a, 2015b), Ministry of ICT of Colombia (2018), Ministry of Labour and Employment Promotion of Peru (2015), Ministry of Social Development of Chile (2017), OECD (2016b), RIMISP (2018).

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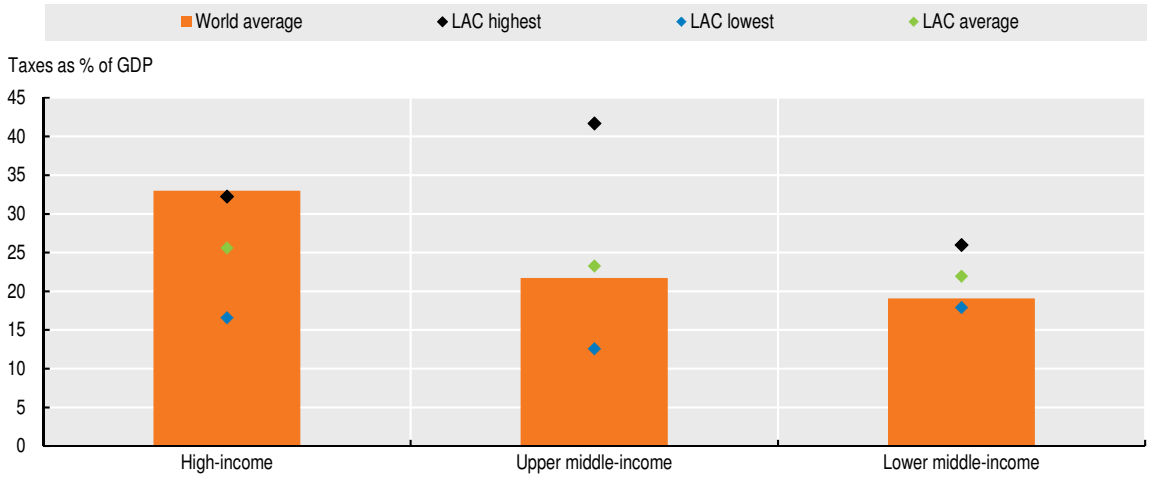
Large cross-country differences in domestic resource mobilisation

Despite moving to high-income or upper middle status, some LAC countries are still unable to meet their financial needs due to low tax revenues. Country groupings based on GDP per capita hide disparities in countries' abilities to mobilise domestic resources to face development challenges. A high level of GDP per capita is not always associated with greater tax capacity.

LAC countries show a mixed performance in terms of their tax capacities; differences are only weakly related to their GDP per capita level. For instance, in all high-income economies in LAC, the level of taxes mobilised to fund development is below the world average of high-income countries (Figure 2.6). Similarly, several LAC high- or middle-income economies might be unable to meet their future financial needs given their tax-to-GDP ratios are similar to or below those of lower middle-income economies (see Chapter 4 for an analysis on domestic resource mobilisation).

Figure 2.6. **Tax-to-GDP ratios in LAC, OECD and world average by income**

Total tax revenue as percentage of GDP, 2016



Note: Bars represent the world average across the 80 countries covered in the OECD Global Revenue Statistics (25 in LAC, 18 in Africa, 35 in the OECD and 4 in Asia). In LAC, high-income economies include Argentina, Bahamas, Barbados, Chile, Panama, Trinidad and Tobago, and Uruguay. Lower middle-income economies include Bolivia, El Salvador, Honduras and Nicaragua, and upper middle-income economies include Belize, Brazil, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Jamaica, Mexico, Paraguay, Peru and Venezuela. Countries are classified by income groups according to World Bank methodology. The flat line represents the simple average of LAC economies depending on their income group (https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups).

Source: Own calculations based on OECD (2018c).

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Links between GDP per capita and well-being outcomes weaken when moving up the income ladder

In the LAC region, the relationship between levels of GDP per capita and well-being outcomes is not uniform across the income ladder. In other words, high-income countries may feature worse development outcomes than upper middle-income countries. For their part, upper middle-income countries may confront development challenges as serious as those encountered by low-income ones. A similar phenomenon emerges when comparing *changes* in GDP per capita to *changes* in well-being outcomes. Availability of comparable

time-series for key well-being outcomes for LAC countries is even more limited than for recent estimates. However, analysis in this section shows that trends in real GDP per capita do not fully reflect changes in other dimensions of well-being such as life expectancy, education, security or income inequality.

The analysis rests on estimates by a group of economic historians charting long-term developments in GDP and in a range of well-being outcomes across the world (van Zanden et al., 2014). Based on these estimates, this section looks at the relationship between a composite well-being measure and the seven individual series included in this composite, on one side, and GDP per capita on the other over time. While historical research must contend with many data limitations, this section aims to investigate the strength of the association between GDP per capita and well-being, as well as to understand changes in this association as countries' GDP grows.

Although the value of considering multiple indicators of well-being is clear, a composite measure can provide valuable information about well-being when all the indicators are considered at the same time. While policies require looking at each individual variable, a composite allows assessment of how countries compensate for a bad performance in one aspect of well-being with a good performance in another.

Aggregating multiple indicators into one composite is not without problems. Trade-offs exist in every composite indicator and all approaches to constructing a composite indicator have advantages and disadvantages (Ravallion, 2011). The composite indicator used in this section (Box 2.1) is constructed through a latent variable model similar to that used in *How Was Life?* (van Zanden et al., 2014). This approach allows dealing with missing data and accounting for the uncertainty that arises. Yet this inevitably comes at a price in terms of transparency (van Zanden et al., 2014).

Box 2.1. **Well-being historical analysis: Technical note**

This section uses historical estimates on six well-being dimensions to construct a single well-being composite indicator. The indicator mirrors the one included by the OECD in its well-being report *How's Life?* (OECD, 2011), and draws on the best sources and expertise available for historical perspectives in this field. Although it was constructed using variables available for a large set of countries and long-term trends, historical data on well-being are limited and significant gaps remain.

The six indicators considered aim to provide information on how the benefits from economic growth are spread across society. They pertain to real wages of unskilled workers in the building industry, which provide information on the living standards of wage earners; life expectancy at birth, a standard measure of population health; average population height, a measure mainly affected by nutrition during the first years of life; average years of schooling, a measure of the quantity of education; a (composite) measure of political institutions, i.e. the Polity2 Index of autocracy-democracy; countries' homicide rates, a measure of personal security; and the Gini coefficient on gross household per capita income, a measure of income inequality.

The composite measure provides a parsimonious view of the evolution of well-being in each country. To construct this composite indicator, a latent variable (factor) model was used as in van Zanden et al. (2014) and Rijpma (2017). In this model, indicators are assumed to be correlated with each other because of their correlation with a latent variable. For this assumption to hold, a single concept of well-being linked to the observable indicators has

Box 2.1. **Well-being historical analysis: Technical note** *(cont.)*

to be plausible at the cross-country level. Before running the model, individual indicators were standardised so that the mean and standard deviations for the 1900-2010 period and all countries are zero and one respectively. Following advice in Ravallion (2011) and Chakravarty (2003), no further transformations were performed on the data.

Specifically, this section uses the composite measure by Rijpma (2017) since it does not include GDP per capita. The analysis aims to perform a simple linear rolling panel fixed effect regression with real GDP per capita (USD 2011) as the independent variable and the composite well-being indicator as the dependent variable. Hence, a composite indicator of well-being that included GDP per capita as one of its components would have implied an endogeneity bias.

Table 2.1. **Measuring well-being**

List of indicators included in the composite indicator of well-being used in this section

Dimensions	Variables	Max	Min
Income	Number of consumption baskets purchased with the real wages of a male unskilled worker in the building industry	349 subsistence baskets (Denmark, 2000)	0.5 subsistence baskets (Congo, 1970)
Health	Height	183 cm (Denmark, 1980)	152 cm (Papua New Guinea, 1930)
	Life expectancy	83 years (Japan, 2010)	20 years (Pakistan, 1920)
Education	Average years of education	13.6 years (US, 2010)	0.01 years (Nigeria, 1910)
Political institutions and stability	Polity2 Index	10 (Fully democratic)	-10 (Fully authoritarian)
Personal security	Homicide rate	77 homicides per 100 000 inhabitants (Honduras, 2010)	0 homicides per 100 000 inhabitants (Syria, 1980)
Inequality	Gini Index	0.71 (Chile, 1960)	0.21 (Estonia, 1990)

Note: All data for the analysis have been obtained from www.clio-infra.eu/, except GDP per capita (USD 2011) from the Maddison dataset and the composite indicator of well-being from Rijpma (2017).
Source: Own calculations based on Rijpma (2017).

The data used in the analysis cover 183 countries between 1900 and 2010. Owing to particularities of the data and missing values along the historical evolution, ten-year averages are used. Data were standardised using the formula:

$$z = (x - \mu) / \sigma$$

where μ is the mean and σ the standard deviation.

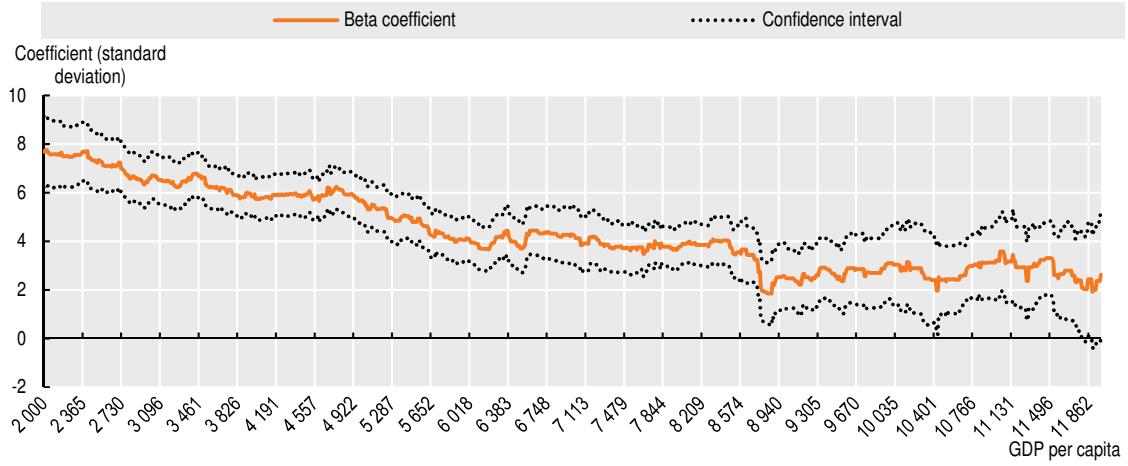
Regional averages are constructed for comparison. The LAC average includes all countries in the Americas except the United States and Canada. The Southeast Asia average includes the People's Republic of China (hereafter "China"); Hong Kong, China; Japan; Korea and the rest of Asia excluding the countries to the west of Afghanistan. OECD covers all member countries.

GDP per capita is strongly associated with the composite well-being measure for countries with low level of GDP per capita. Up to a level of around USD 2 000 (2011 PPP), every additional standard deviation of GDP per capita increases the composite well-being measure by around eight standard deviations (Figure 2.7).

GDP per capita and well-being outcomes gradually delink as countries become richer in terms of GDP per capita. The association between GDP per capita and the composite well-being measure (as well as with the individual well-being variables that make up this composite) become weaker when moving further up the income ladder. In other words, the link between GDP per capita and well-being weakens among richer countries. In fact, the association between the composite well-being measure and GDP per capita is more than twice as large for low-income countries than for upper middle-income countries, and almost three times stronger than for high-income economies. For upper middle-income countries, those with a GDP per capita of around USD 7 250 (2011 PPP), an increase of one standard deviation in GDP per capita increases the composite well-being measure by only four standard deviations. At income levels of USD 11 750 (2011 PPP) and more, on average, an increase of one standard deviation in GDP per capita increases the composite well-being measure by only three standard deviations (Box 2.2).

Figure 2.7. **The link between GDP per capita and well-being weakens as income per capita increases**

Coefficient of rolling panel fixed-effect regression of a composite well-being measure and GDP per capita (USD 2011 PPP)



Note: Beta coefficients of a rolling fixed-effects panel regression across the income ladder (see Box 2.2).
Source: Own calculations based on https://www.clio-infra.eu/ and Rijpma (2017).
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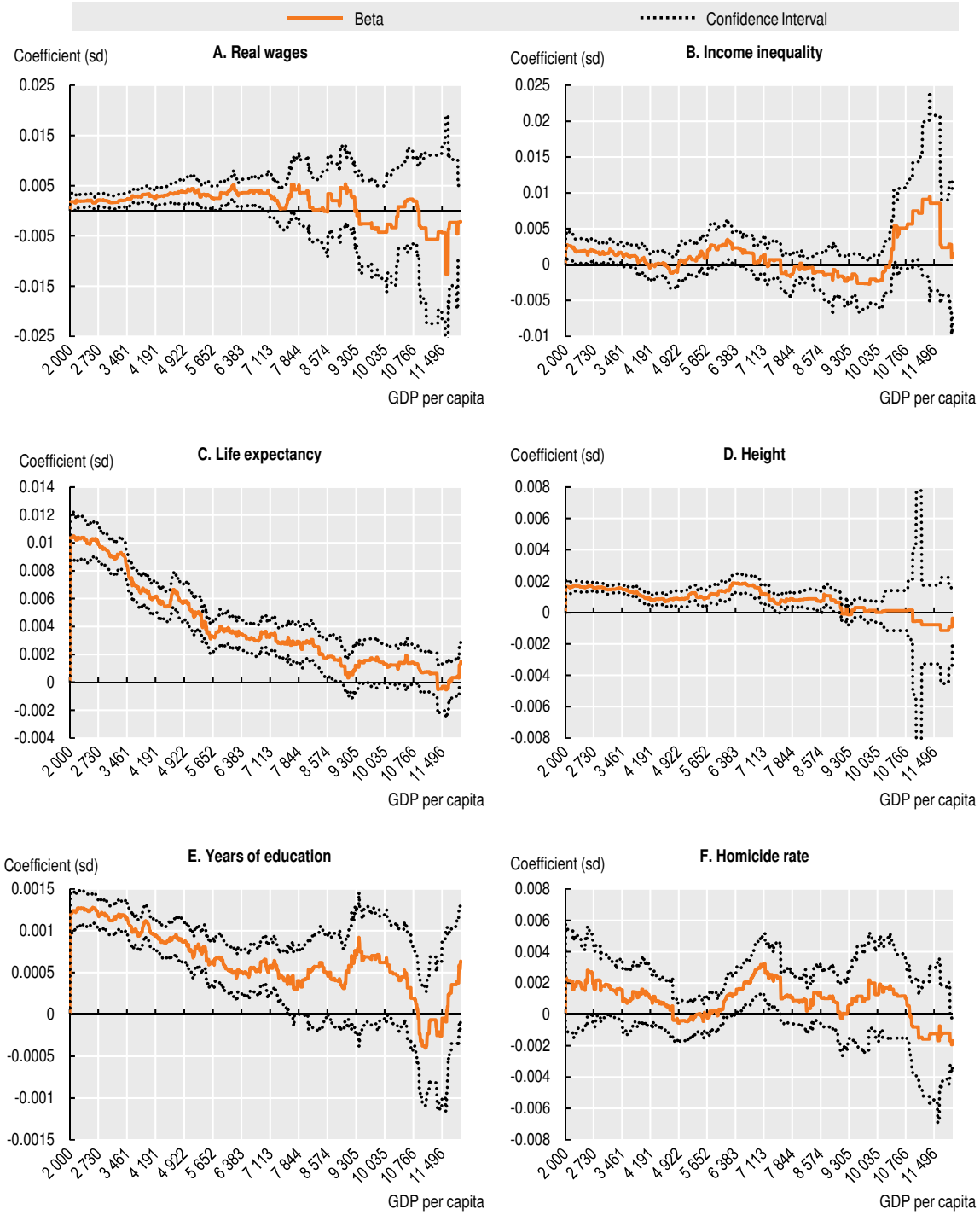
The same delinking between GDP per capita and the composite well-being measure also holds when looking at individual measures included in the composite. This pattern is most pronounced for life expectancy, educational attainment and real wages (Figure 2.8). Although at a slower pace, homicide rate, income inequality and height delink from GDP per capita as countries become wealthier. This is especially the case when countries surpass the upper middle-income threshold of GDP per capita of USD 7 250, 2011 PPP.

Figure 2.8. GDP per capita and selected development variables by level of income per capita

Coefficient (standard deviation) of rolling panel fixed-effect regression of selected well-being indicators and GDP per capita (USD 2011 PPP)



Note: Beta coefficients of a rolling fixed-effects panel regression across the income ladder (see Box 2.2).
Source: Own calculations based on www.clio-infra.eu/ and Rijpma (2017).
StatLink https://doi.org/10.1787/888933936634

Box 2.2 **Panel fixed-effect regression of well-being on GDP per capita**

This exercise assesses the relationship between the well-being composite and GDP per capita across the income ladder, as well as the residual of this regression and individual well-being indicators.

In a first step, a rolling panel fixed-effect regression is performed across the income ladder (with no time fixed effect). The independent variable is GDP per capita (at USD 2011 PPP) and the dependent variable is the composite well-being indicator (see Box 2.1 for explanation on the construction of the variable):

$$Well\text{-}being_{ct} = \alpha_c + \beta_1 * GDPpc_{ct} + \varepsilon_{ct} \quad (1)$$

The rolling regression is done based on GDP per capita with a window of USD 3 000 (2011 PPP) that evolves by USD 10 (2011 PPP).[2]

Additionally, the same regression is performed using as dependent variables each of the indicators from the well-being composite (i.e. real wages, income inequality, life expectancy, height, years of education and homicide rates). It regresses them against GDP per capita as independent variable in a rolling panel fixed-effect regression across the income ladder.

In a second step, this exercise uses the residuals ε_{ct} from the regression as dependent variable to run a rolling panel country-fixed effects regression against the different well-being dimensions shown in Table 2.1 (with a similarly sized window and evolution). The results of this second exercise are presented in Annex 2.A1. The model assumes that well-being can be characterised according to the following equation:

$$\varepsilon_{ct} = \alpha_c + \beta_2 * Well\text{-}being\ dimensions_{ct} + u_{ct} \quad (2)$$

Overall, this exercise aims to find which dimensions of welfare explain people's well-being given that GDP per capita does not fully translate into quality of life.

The results should be taken with caution as this methodology is not without its limits. First, it assumes a linear relationship across the different well-being dimensions and GDP per capita. Second, as the regression does not control for time, coefficients may capture differences across countries rather than levels of development. Third, the data are from 1900 to 2010; although considerable effort has been taken to make data comparable, quality fluctuates by country and time (van Zanden et al., 2014).

As LAC economies grow, several development dimensions other than GDP per capita become more important in improving people's lives. As countries climb the income ladder, the association between life expectancy, education, personal security and democratic stability, and the residual of the regression between GDP per capita and the well-being composite indicator (the error term in the previous analysis), gains strength and significance. This relationship is most evident in the case of life expectancy (See Annex 2.A1.).

Actual versus expected well-being outcomes in Latin America and the Caribbean over time

The relationship between various dimensions of well-being and GDP per capita has also changed over time. At the global level, there was no additional well-being accrued beyond that explained by higher per capita GDP for most well-being indicators in the 19th century. This changed, however, in the 20th century as some well-being indicators began delinking from GDP per capita (OECD, 2018a). While the LAC region had higher GDP per capita than several other world regions in the past century, it did not always achieve better well-being outcomes.

This section compares the LAC average performance for seven well-being variables to the one expected given its GDP per capita from 1950 to 2010 (for methodology see Box 2.3). Evidence shows that GDP per capita has not always been a good predictor of the various dimensions of well-being in LAC. While some well-being outcomes increased more rapidly than implied by GDP growth alone, others increased at a slower pace.

Real wages in LAC are lower than those expected based on GDP per capita. Although GDP per capita is strongly correlated with real wages, the difference between the expected and the observed levels are large and statistically significant for most of the period covered by available data (from 1960 up to 2005, the difference is at least at the 10% level). Since 1950, the region's real wages have consistently lagged behind the level observed in countries with similar levels of GDP per capita (Figure 2.9, Panel A).

Informality is one of the main obstacles to higher wages and to a more inclusive labour market. A large share of the working-age population encounters labour-market difficulties due to insufficient work-related skills, lack of quality jobs and territorial disparities. Improving job quality, reducing informality and increasing employment levels – especially for women and youth – are key challenges for improving material conditions and equity (OECD/CAF/ECLAC, 2016).

Income inequality has been higher in LAC than expected based on GDP per capita. Although income inequality has declined since the 2000s in most LAC countries, it has slowly increased since the 1980s at a regional level. Both current and expected levels of income inequality are only weakly related to countries' GDP per capita. The differences between the two are statistically significant since 1960 for every period where data are available (at least at the 10% level).

Box 2.3 How does actual well-being performance compare to expectations?

To assess the relationship between the different dimensions of well-being and GDP per capita, a simple linear regression model (OLS) has been run. The dependent variable is a single well-being dimension (see Box 2.1 for list) and the independent variable is the logarithm of GDP per capita (USD 2011). The different well-being dimensions can be characterised according to the following equation:

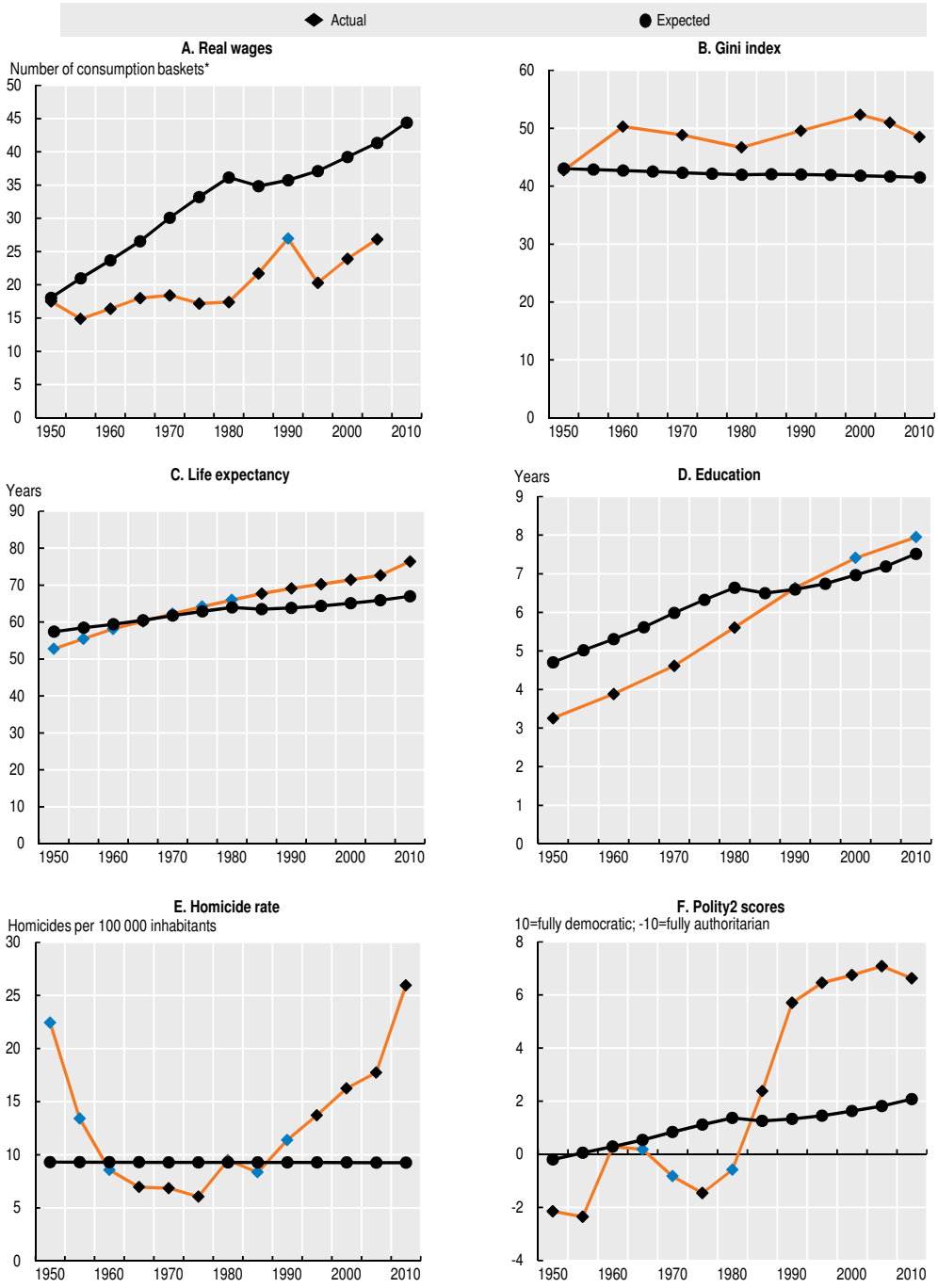
$$\textit{Well-being dimension} = \beta_0 + \beta_1 \log(\text{GDP per capita})$$

The coefficient β_1 is used to obtain a predicted or expected level for all well-being indicators according to the level of GDP per capita. Finally, ten-year averages are computed to present the results over time.

The analysis is based on a panel dataset composed of 183 countries worldwide, including 22 LAC countries from 1900 to 2010. The final dataset has 2 552 observations. The analysis is based on *Clio Infra* (database), except for GDP per capita (2011 USD), which is sourced from the Maddison dataset.

Figure 2.9. **Actual and expected performance for selected well-being outcomes in Latin America and the Caribbean over time**

Expected performance based on GDP per capita



Note: * Real wages are measured as the number of consumption baskets purchased with the real wages of a male unskilled worker in the building industry.

Expected values are calculated with a panel dataset composed of 183 countries worldwide from 1900 to 2010. Actual values not statistically significant, at least at the 10% level, were signalled in blue. In the case of the Gini coefficient, the series was expanded for 2005 and 2010 using growth rates from the CEPALSTAT Gini series for LAC. The LAC average includes all countries in the Americas except Canada and the United States.

Source: Own calculations based on www.clio-infra.eu/ and CEPALSTAT.

StatLink https://doi.org/10.1787/888933936653

Income inequality is the dimension of well-being, from the ones analysed in this section, that best illustrated the problem of using GDP per capita as a sufficient condition for development. GDP growth is much needed for countries to improve people's well-being, but is not enough (Figure 2.9, Panel B). Lowering income inequalities in the region requires more than higher GDP.

Life expectancy in LAC tracked closely its predicted value between the 1950s and 1980s. Since the 1980s, the region's life expectancy delinked from GDP per capita and exceeded the level expected. A statistically significant gap remained between the two (at least at the 10% level) (Figure 2.9, Panel C).

LAC's educational attainment exceeds the level expected given the region's GDP per capita. Average years of education of the population of LAC were below the levels expected between 1950 and 1985. Since the 1990s, LAC's performance in education exceeded expectations as a result of policies to expand education coverage, especially at primary level (Figure 2.9, Panel D).

Yet education quality remains a pressing concern throughout the region. More than half of 15-year-old Latin Americans enrolled in school do not have basic proficiency in reading, mathematics and science (OECD, 2016b). Fewer than 1% of LAC students perform at the highest levels of proficiency in mathematics, reading or science. Lack of proficiency in these areas is an obstacle to developing more specific skills later in life and may hamper innovation and entrepreneurship. This is a major challenge for LAC countries as they try to transition into knowledge-based economies where citizens need to innovate, adapt and leverage advanced human capital (OECD/CAF/ECLAC, 2016).

Personal security in LAC is much worse than expected based on economic performance. Homicide rates fell significantly between the 1960s and the 1980s, but increased sharply from 1985 onwards. The rates far exceeded predicted levels, with a statistically significant difference since 1995 (at least at the 10% level) (Figure 2.9, Panel E).

Democratic stability has been strengthening in the region in recent decades. Since the beginning of the 20th century, democratic stability in LAC has been a winding path. It was hindered sizably between 1960 and 1970 when most LAC countries were ruled by military dictatorships. However, since the 1980s, when the region experienced the third wave of democratisation (Huntington, 1991), democratic stability has been strengthening, surpassing that of other countries with similar levels of GDP per capita. Since 1990, the difference between expected and observed is statistically significant (at least at the 10% level) (Figure 2.9, Panel F).

Over the last decades, LAC's GDP performance has not rendered into the better real wages, lower inequality and greater security expected. Income thresholds ignore the complex nature of development and the diversity and heterogeneity of countries in transition. Development must be conceived as a multifaceted process consistent with facing the structural challenges of a particular country rather than as a one-size-fits-all approach based on grouping the countries according to their income levels.

Multi-dimensional approach to measure development: Going beyond GDP

A broader concept of development requires a different approach to measurement. Moving beyond GDP metrics as the sole indicator of success requires measures for a broad range of development outcomes. This includes using data on how well-being outcomes are distributed across a population and local areas, as well as on sustainability.

To go beyond GDP, countries should focus more on people's well-being and societal progress. They should look not only at the functioning of the economic system, but also at the diverse experiences and at living conditions of people. These kinds of measurements are key to understanding what drives well-being of people and nations, and what is needed to achieve greater progress for all.

To assess development outcomes beyond GDP, LAC countries need first to identify the dimensions of life that matter most for people and the resources needed to ensure sustainability. Concurrently, LAC countries should operationalise all these dimensions through a set of indicators, as well as collect data on country averages and both vertical and horizontal inequalities.

Beyond statistical capacity and co-ordination of national initiatives, developing indicators that can capture key concerns for LAC requires building consensus around the most relevant issues and challenges confronted by national governments in the region. To be sustainable and to provide the basis for policy dialogue and co-operation within the region, a wide range of stakeholders must take part in the process of consensus-building.

After having identified the most relevant development outcomes for the region, a significant data challenge remains: most LAC countries lack comparable data for many key well-being domains shaping people's lives. These domains range from households' material conditions to more qualitative aspects such as job quality, trust in other people and in institutions, people's self-reports of their own lives, social connections or pressures on natural resources. Such data challenges are all the more important as monitoring development outcomes to inform policy requires data that look beyond averages. Specifically, data should consider inequalities in all life dimensions and assess the conditions of different population groups (e.g. by gender, age, race and ethnicity, place or living). Co-ordinated efforts are therefore needed to reach agreement on a well-being framework for the region, to develop the capacity needed to fill data gaps, and to improve comparability and disaggregation of selected measures.

In response to the challenge, the European Union, the OECD and the UN Economic Commission for Latin America and the Caribbean are launching a project to develop improved metrics of well-being and multi-dimensional development for the region. The project, "New metrics for development: A well-being approach to improving people's lives in Latin America", is part of a broader Regional Facility for Development in Transition in Latin America and the Caribbean.

Over three years (2018-21), the project has three aims:

- to develop a well-being framework adapted to the realities and priorities of Latin American and Caribbean countries
- to populate this framework with higher quality and more granular data than those available and used in this chapter, to be developed in co-operation with national statistical offices in the region
- to support policy makers in identifying development priorities and designing policies and programmes to achieve them, based on the metrics developed in the context of the project.

Conclusions

Despite considerable progress in the past century, GDP growth has not always translated to similar well-being gains for Latin American people. As LAC countries moved up the income ladder, violence and income inequality grew. At the same time, informality has become a persistent problem. Real wages have increased at a slower pace than in

other countries in the world with similar income per capita. Though school enrolment has increased, access to higher education and quality secondary school are still limited to a privileged group. While Latin Americans live, on average, almost as long as citizens of OECD countries, they face more health problems. In sum, economic gains have improved certain areas of development, but not other longstanding challenges. They have also raised new problems (OECD, 2018a).

Policy makers need to re-conceptualise development and to rethink both domestic policies and international co-operation to "leave no-one behind" and fulfil the goals of the 2030 Agenda (see Chapters 4 and 5). In this context, it is essential to acknowledge the heterogeneity across countries in terms of their development challenges, which are often independent of their income. This is particularly important for LAC countries that are transitioning to higher-income levels, but still lack capacity to compete and narrow their economic and social gaps relative to more advanced developed countries (Barcena, Manservisi and Pezzini, 2017).

Income per capita can provide a ballpark idea of the development challenges confronting each country in the region. However, it fails to draw the detailed print that policy makers need as a roadmap to achieve sustainable development. Indeed, the relationship between GDP per capita and well-being varies across the income ladder. Furthermore, as economies grow, other dimensions of welfare beyond GDP take over as co-determinants of well-being.

Looking at development through a multi-dimensional lens serves as a good compass to design, implement, monitor and evaluate policies to improve people's lives. The evidence in this chapter confirms that material living conditions, and especially income, matter. But it also shows that income per capita is not the only feature shaping people's lives and well-being. Quality jobs, health, education, democracy, personal security and inequality are important as well. And they are especially important for well-being as countries grow.

Flawed measurement tools will distort policy making (Stiglitz, Sen and Fitoussi, 2009). LAC countries should invest in better data collection to measure and monitor those well-being dimensions that are most important for the region across their territory and population groups. In this process, consultation with different stakeholders is crucial to build a shared understanding of what well-being dimensions have been acclaimed to matter the most. Efforts should be made to produce accessible, timely and disaggregated data. This is a remarkable challenge for all countries, and especially so for those in transition. Achieving these goals through building national statistical capacity is critical to establish where each country stands, to prepare long-term development plans and to monitor progress along the way.

Annex 2.A1. The link between various well-being dimensions and what GDP per capita cannot explain in well-being

As economies grow in terms of GDP per capita, other dimensions of welfare, such as life expectancy, education, personal security and democratic stability take over as co-determinants of well-being.

This exercise is based on the empirical analysis described in Box 2.2 that uses the following regression:

$$Well\text{-}being_{ct} = \alpha + \beta_1 * GDPpc_{ct} + \varepsilon_{ct} \quad (1)$$

This exercise uses the residuals ε_{it} from the regression as dependent variable to run a rolling panel country fixed effects against the different well-being dimensions shown in Table 2.1 (with a similarly sized window and evolution). The model assumes that well-being can be characterised according to the following equation:

$$\varepsilon_{ct} = \alpha + \beta_2 * Well\text{-}being\ dimensions_{ct} + u_{ct} \quad (2)$$

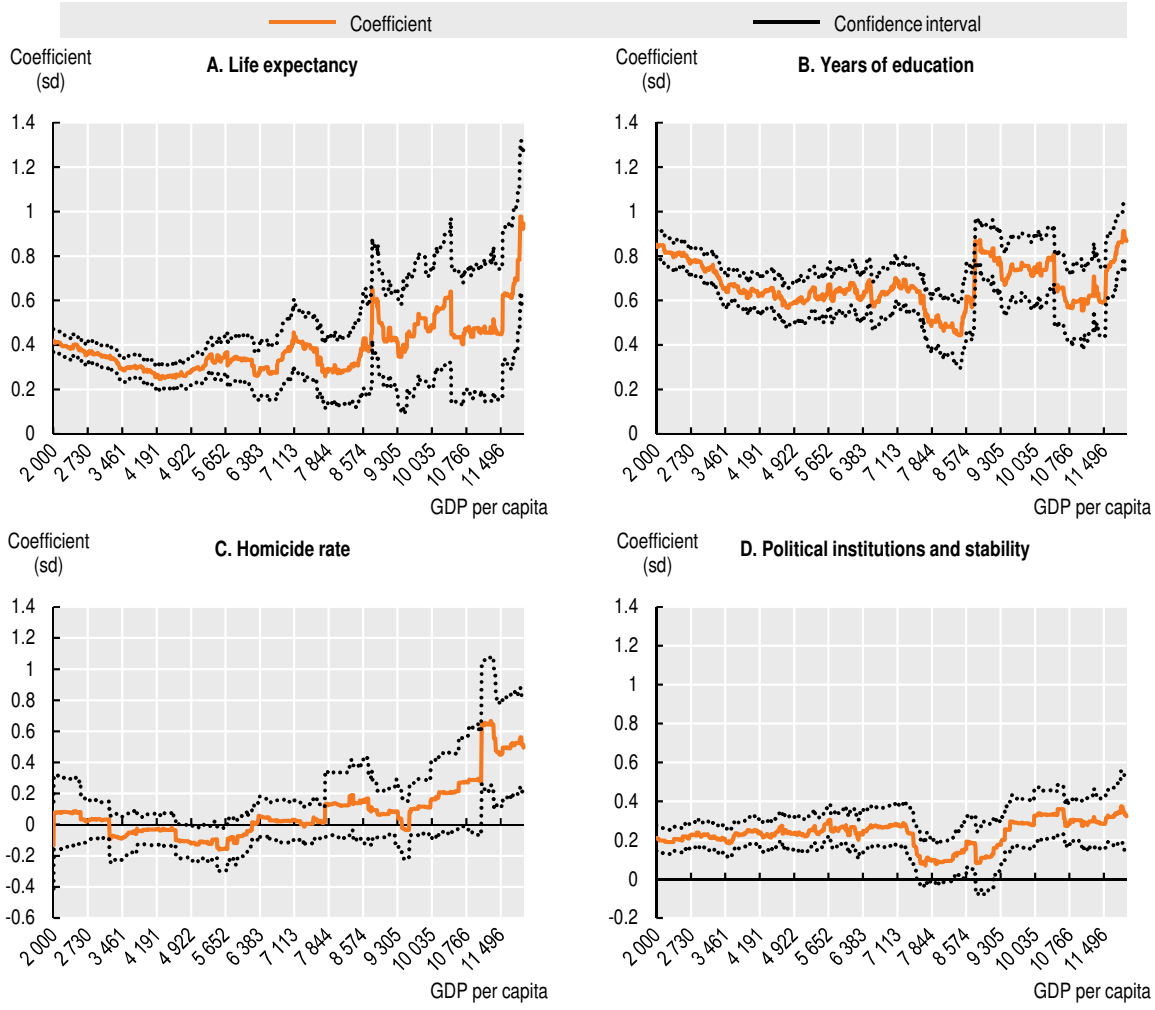
Overall, this exercise aims to find which dimensions of welfare explain people's well-being given that GDP per capita does not fully translate into quality of life.

Results show that the relationship between the portion of well-being that cannot be explained by GDP per capita (the error term in the previous analysis) and the life expectancy of countries strengthens at higher levels of income (Annex Figure 2.A1.1, Panel A). In fact, at low level of income, an additional standard deviation in life expectancy is to increase by 0.4 standard deviation the portion of well-being unexplained by GDP per capita. At higher level of income, this impact increases up to one standard.

Additionally, education stands out as another key dimension of well-being. At all income levels, education plays an important role in explaining the part of well-being that GDP per capita fails to do. Having basic notions of reading or mathematics makes everyday life easier for transactions, for example. As well, knowledge can be an intrinsic pleasure for individuals (OECD, 2011). Besides, education can foster economic development (Romer, 1990) or increase political stability (Alesina and Perotti, 1996), which indirectly affects well-being. Although the results are relatively constant across country levels of GDP per capita, the association between years of education and well-being shows a slight increase around USD 8 500 (2011 PPP) (Annex Figure 2.A1.1, Panel B).

Personal security and democratic stability are also positively associated with higher levels of well-being. As in the case of life expectancy and education, the analysis looks at the relationship between the portion of well-being unexplained by GDP per capita and the level of personal security. This is measured by the homicide rate at different levels of country income. The correlation becomes positive at around USD 10 000 (2011 PPP). This means that, after this threshold, homicide rate starts explaining some portion of well-being that GDP per capita failed to explain. (Annex Figure 2.A1.1, Panel C). On the other hand, the correlation with political stability and democracy is positive at all levels of income, and remains relatively stable (Annex Figure 2.A1.1, Panel D).[3]

Figure 2.A1.1. **The link between various well-being dimensions and what GDP per capita cannot explain in well-being**



Note: Beta coefficients of a rolling fixed-effects panel regression across the income ladder (see Box 2.2).
Source: Own calculations based on https://www.clio-infra.eu/ and Rijpma 2017.
StatLink https://doi.org/10.1787/888933936672

Notes

1. Regional GNIs were calculated based on a three-step calculation under the assumption that GDP and GNI follow the same regional distribution. First, the difference between the national GDP and GNI of each country is calculated. Second, each region's share of this difference is calculated based on its share of national GDP. Third, each region's share of the difference between national GDP and GNI is subtracted from its regional GDP.
2. The size of the window of the rolling regression was 3 000. Both the size of the window and its evolution were chosen based on data availability. Other windows of GDP per capita of 1 000, 2 000 and 15 000 were also tested with similar results.
3. Real wages, environmental quality, and income inequality were not included in the analysis as they did not appear to have significant association with the portion of well-being not explained by GDP per capita.

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Chapter 3

The “new” development traps

There are different symptoms that suggest that Latin American and Caribbean (LAC) countries are facing a number of “new” development traps that act as a barrier to further inclusive and sustainable growth. While these traps reflect some longstanding issues, they are new – or increasingly important – in the sense that they are also the result of progress towards higher income levels, which is surfacing – as well as creating – new development challenges. This highlights the relevance of the “development in transition” approach for LAC. These development traps are vicious circles that limit the capacity of LAC countries to move towards greater levels of development. This chapter highlights the existence of four main development traps: the productivity trap, the social vulnerability trap, the institutional trap and the environmental trap. These interlinked traps are particularly relevant in a rapidly changing global context, which poses new and increasingly complex challenges. Overcoming these traps and turning these vicious circles into virtuous circles will set LAC on a path of greater sustainable development and higher well-being for all.

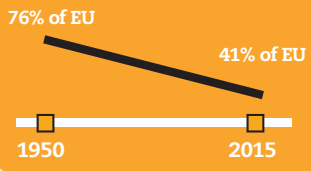
LAC countries face new development traps as they climb the income ladder

Progress towards higher income levels is creating development challenges

Productivity trap

Higher productivity levels demand more diversified economic structures with more sophisticated goods and services

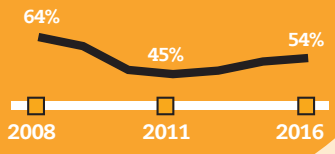
Labour productivity in LAC



Institutional trap

Better institutions are needed to restore trust, improve the quality of public services and respond to the higher aspirations of a larger middle class

% of LAC population that justifies not paying taxes



Towards sustainable development

Social vulnerability trap

Breaking the vicious circle of vulnerability, volatile income and low social protection demands creating more formal jobs

Vulnerable population in LAC

Environmental trap

An environmentally sustainable model of development demands efforts to move economies towards a low-carbon path

Introduction

Different symptoms suggest that countries in Latin America and the Caribbean (LAC) are facing a number of "new" development traps that stand in the way of further inclusive and sustainable growth. The traps themselves result from longstanding weaknesses, but progress towards higher income levels is surfacing – as well as creating – new development challenges. In this sense, as countries advance in their respective development pathways, these weaknesses have been exacerbated and gained relevance. This is one of the main reasons why the development in transition (DiT) approach – described in the Overview Chapter – is relevant for LAC today.

Several factors indicate that the earlier drivers of progress are no longer sufficient. These include stagnant – or even declining – levels of productivity; persistent and increasing vulnerability of large segments of the population, with unequal access to public services across socio-economic groups; growing dissatisfaction of citizens with public institutions; and an increasing pressure on natural resources that is deemed to be unsustainable.

Development traps involve circular, self-reinforcing dynamics that limit the capacity of LAC countries to move forward. The literature has consistently used the image of a "trap" to illustrate certain dynamics that leave countries stuck with a particular development challenge. As an example, the poverty trap is understood as "a self-reinforcing mechanism which causes poverty to persist" and whereby "poverty begets poverty, so that current poverty is itself a direct cause of poverty in the future" (Azariadus and Stachurski, 2005). In a similar vein, the theory of development economics has been built around concepts such as the "circular and cumulative causation" (Myrdal, 1957), which stresses the self-fulfilling nature of poverty traps. There is also the idea of "unbalanced growth" (Hirschman, 1958), which introduced interest in policies that can support economies in moving from a "bad equilibrium" to a "good" one (Ray, 2007). More recently, a relatively large body of literature has pointed to a "middle-income trap" that affects countries' ability to sustain long-lasting growth when they reach the middle-income range (Gill and Kharas, 2007; Kharas and Kohli, 2011; Melguizo et al., 2017).

The concept of development trap used here refers to a combination of mutually reinforcing factors that limit further progress. Hence, they demand co-ordination and/or collective action to be overcome. In this respect, development traps in LAC can result from two sets of factors:

1. a vicious circle, understood as the combination of certain dynamics that are intertwined to create a negative spiral. The abovementioned "poverty trap", for example, affects countries at early stages of development. Countries cannot save because they are poor, and precisely because they cannot save – and hence invest – they remain poor;
2. a low-level equilibrium, which is locally stable owing to the presence of factors that mutually reinforce each other. The persistence of high levels of informality in various LAC countries could be an example of this kind of undesired equilibrium. In this case, workers and employers do not find sufficient incentives to reach formal work agreements, and hence remain informal.

This chapter refers to "new" development traps in LAC since they have become particularly relevant in the current regional context. Specifically, after a period of socio-economic progress since the beginning of the century, the region has witnessed structural limits to achieving greater levels of development. Furthermore, the global context poses new and increasingly complex challenges, with some megatrends (globalisation, migration flows, climate change and rapid technological change, among others) that demand new

policy responses (see Chapters 4 and 5). The four main "new" development traps identified revolve around productivity, social vulnerability, institutions and the environment.

1. **Productivity trap**: Persistently low productivity levels and poor productivity performance across sectors in LAC are symptoms of a *productivity trap*. The concentration of exports of many LAC countries on primary and extractive sectors undermines the participation of LAC in global value chains (GVCs). This, in turn, is associated with low levels of technology adoption and few incentives to invest in productive capacities. In all, competitiveness remains low, making it difficult to move towards higher added-value segments of GVCs. This fuels a vicious circle that negatively affects productivity. Such a dynamic has gained relevance given the decline of demand for commodities derived from the current stage of "shifting wealth" (i.e. the shift of the People's Republic of China [hereafter "China"] from an investment-based economic model to one based on consumption) and where new drivers of growth are needed in LAC to boost productivity.
2. **Social vulnerability trap**: Income growth paired with strong social policies since the beginning of the century have reduced poverty remarkably. Yet most of those who escaped poverty are now part of a new *vulnerable middle class* that represents 40% of the population. This comes with new challenges, as more people are now affected by a *social vulnerability trap* that perpetuates their vulnerable status. Those belonging to this socio-economic group have low quality, usually informal jobs associated with low social protection and low – and often unstable – income. Because of these circumstances, they do not invest in their human capital, or lack capacity to save and invest in an entrepreneurial activity. Under these conditions, they remain with low levels of productivity, hence only with access to low quality and unstable jobs that leave them vulnerable. This trap operates at the level of the individual, who is locked into a vulnerable status; this contrasts with the productivity trap, which refers to the whole economy.
3. **Institutional trap**: The expansion of the middle class in LAC has been accompanied by new expectations and aspirations for better quality public services and institutions. However, institutions have not been able to respond effectively to these increasing demands. This has created an *institutional trap*, as declining trust and satisfaction levels are deepening social disengagement. Citizens are seeing less value in committing to the fulfilment of their social obligations, such as paying taxes. Tax revenues are thus negatively affected, limiting available resources for public institutions to provide better quality goods and services, and to respond to the rising aspirations of society. This creates a vicious circle that jeopardises the social contract in the region.
4. **Environmental trap**: This is linked to the productive structure of most LAC economies, which is biased towards high material and natural resource-intensive activities. This concentration may be leading these countries towards an environmentally and economically unsustainable dynamic for two reasons. A concentration on a high-carbon growth path is difficult – and costly – to abandon; and natural resources upon which the model is based are depleting, making it unsustainable. This has also gained importance in recent years, with the stronger commitment to global efforts to fight climate change.

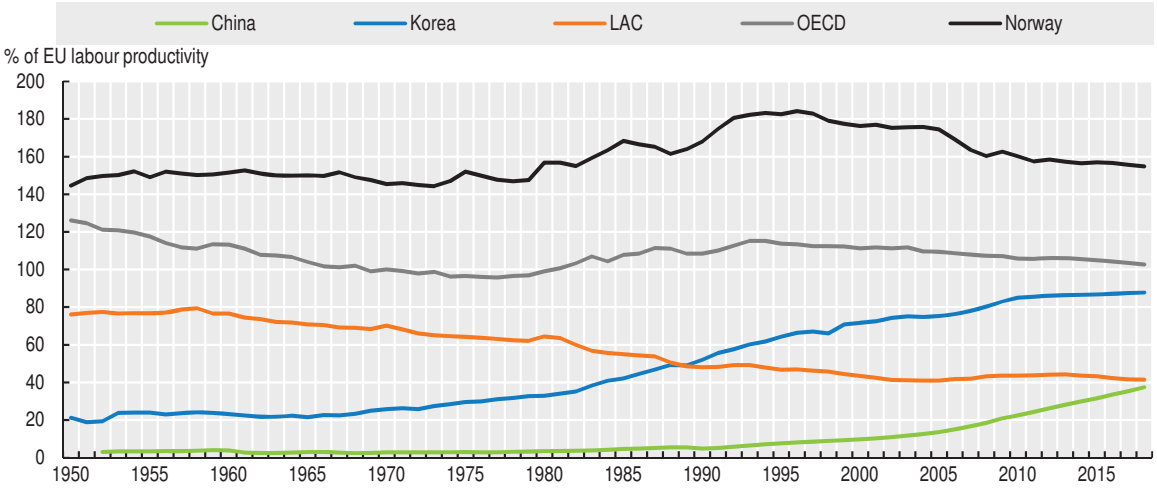
The growing importance of these development traps has relevant policy implications. A new set of structural reforms are needed for ever-more complex issues, requiring more sophisticated policy mixes and further policy co-ordination and coherence. Overcoming these traps and turning these vicious circles into virtuous circles will set LAC on a path of greater sustainable development and higher well-being for all. In this light, Chapter 3 analyses these "new" development traps in detail. It aims to identify underlying causes and consequences, and hence guide the action of the *development in transition* approach in LAC.

The productivity trap

Most LAC countries have been middle-income economies for various decades, mainly because of their inability to raise productivity levels. Despite significant heterogeneity across countries, on average, LAC countries have stayed in the middle-income range for 65 years. Under the current growth pace, it would take another 40 years to reach sustainable high-income levels (Melguizo et al., 2017; OECD/CAF/ECLAC, 2018).[1] One of the main explanations for this persistence in the middle-income range is the stagnation – and even decline – of labour productivity levels relative to most advanced economies. In 2017, LAC's labour productivity represented around 40% of the European Union countries' labour productivity, relative to more than 75% in 1950. These results contrast with the performance of some fast-growing Asian economies (such as Korea or China) or European commodity-abundant countries, such as Norway (Figure 3.1).

Figure 3.1. **Labour productivity in LAC, OECD, China, Korea and Norway**

(Percentage of labour productivity in the European Union)



Source: Own calculations based on Conference Board (2018).

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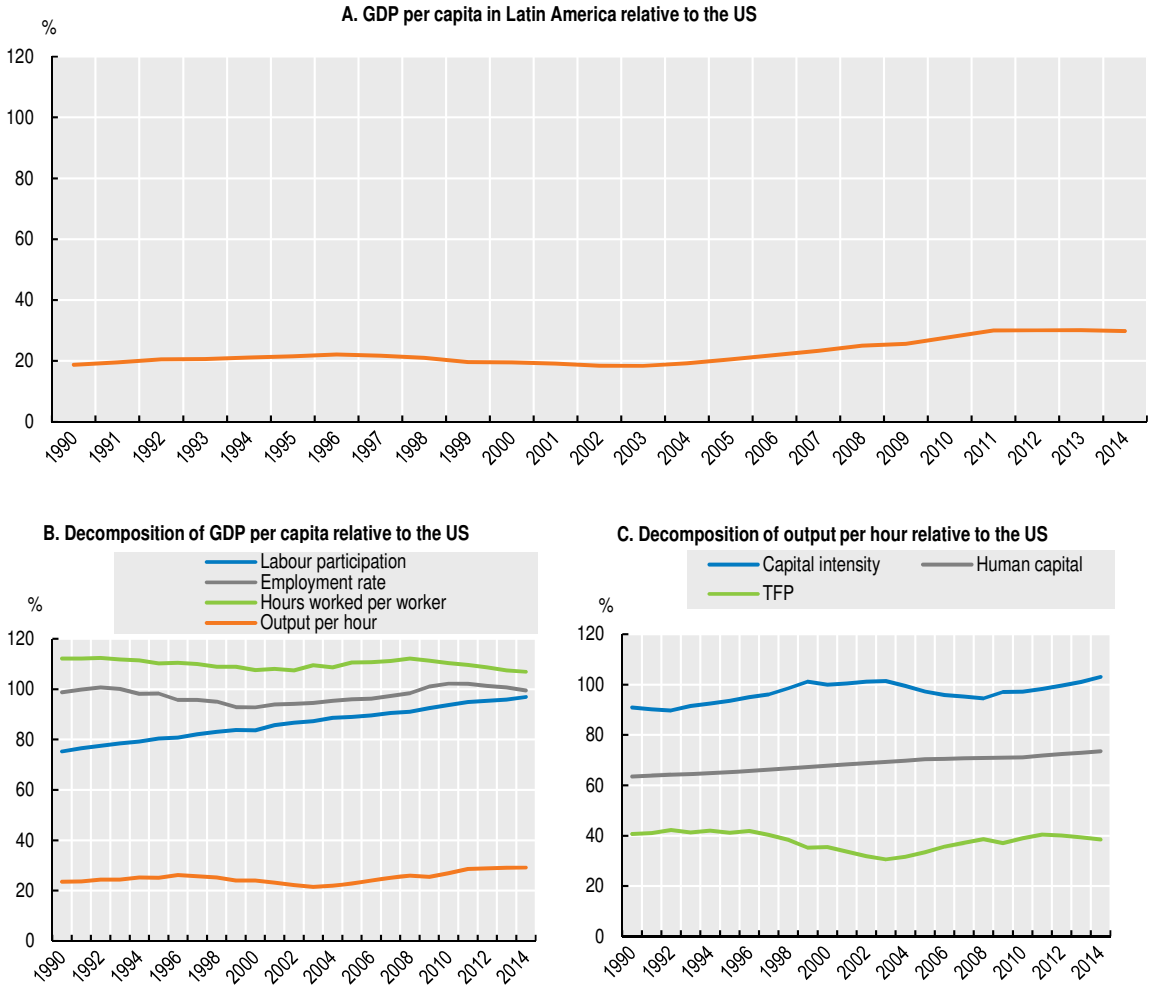
Low productivity growth has a negative impact on potential growth, which has been declining and is lower than expected. In spite of the region's cyclical heterogeneity, potential growth has slowed down since 2011 across the board. In addition, medium-term growth projections suggest that it is close to 3%, which is less robust than previously thought. This stands in sharp contrast to the 5% average annual growth rate that characterised the mid-2000s (OECD/CAF/ECLAC, 2018, 2016).

After a period of growth driven by factor accumulation and favourable external conditions, LAC countries need to ignite new sources of growth based on improving productivity. The lag on gross domestic product (GDP) per capita relative to most advanced economies (Figure 3.2, Panel A) is mostly explained by low labour productivity. GDP per capita can be understood through four components: labour market participation, employment rate, hours worked per worker and output per hour.[2] A breakdown of these components shows that low labour productivity, defined by output per hour, is the main determinant of low levels of GDP per capita (Figure 3.2, Panel B). In this sense, the differences between LAC and the United States are not related to the quantity of work. Indeed, the hours worked by each worker in LAC, or the number of workers that contribute to GDP, have been catching up with levels in the United States. Rather, the key difference relates to quality of work – i.e. the amount of output produced in one hour of work. In

fact, if LAC could increase output per hour to the level observed in the United States, the income gap between the two would disappear (CAF, 2018).

Figure 3.2. **Decomposition of GDP per capita and output per hour in Latin America relative to the United States**



Note: Countries included in the sample are Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela.

Source: Own calculations based on *Penn World Table 9.0* (database) and World Bank's *World Development Indicators*.

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The efficiency in the use of inputs in the production process – i.e. total factor productivity (TFP) – remains poor in LAC countries. Applying a development accounting exercise, output per hour can be broken down into three components: a measure of physical capital intensity, human capital per worker and TFP.[3] TFP, which is about 37% of that of the United States, appears as the main explanation for low productivity levels (Figure 3.2, Panel C). If TFP in LAC were to rise to US levels, output per hour and income per capita relative to the United States would increase to 76% and 78%, respectively.

Differences in human capital are also important, although not as much as TFP. The average worker in Latin America has about three-quarters of the human capital of the average worker in the United States. Closing the gap in human capital would raise both output per hour and income per capita to about 40%. In this respect, LAC will only significantly reduce the income gap with respect to the developed world if it increases

its aggregate TFP. In other words, convergence will only be possible if productivity grows consistently and significantly above what is observed in developed countries (CAF, 2018). Several factors are behind poor performance in productivity in the region, including lack of credible and capable institutions, as well as poor regulatory frameworks (Pérez Caldentey and Vernengo, 2017; CAF, 2018).

Low productivity is a concern for all economic sectors in LAC. Indeed, a breakdown of ten sectors of the economy shows that sectoral labour productivity was, on average, 33% that of the United States. In no sector was it above 50% (Table 3.1) (CAF, 2018). Low levels of productivity across all sectors of the economy suggest this is a cross-cutting issue and that enabling conditions for productivity growth are missing in LAC. In this respect, deep, long-term structural reforms are needed to overcome the slowdown in productivity growth. However, differences in productivity levels across sectors of activity are not negligible. This suggests that there is scope for productivity-enhancing structural transformation through labour flows from low-productivity activities to high-productivity ones (McMillan and Rodrik, 2011).

Table 3.1. **Sectoral output per worker in Latin America relative to the United States (2010)**

Sector	Relative labour productivity
Agriculture	0.21
Mining	0.50
Manufacturing	0.34
Electricity, gas and water supply	0.36
Construction	0.37
Trade services	0.29
Transport services	0.39
Business services	0.19
Government services	0.40
Personal services	0.28
Average	0.33

Note: Labour productivity for all countries is expressed as a fraction of that of the United States. Countries included in the sample are Argentina, Brazil, Bolivia, Chile, Colombia, Costa Rica, Mexico and Peru.

Source: Own calculations based on GGCD 10-Sector database (Timmer, de Vries and de Vries, 2015).

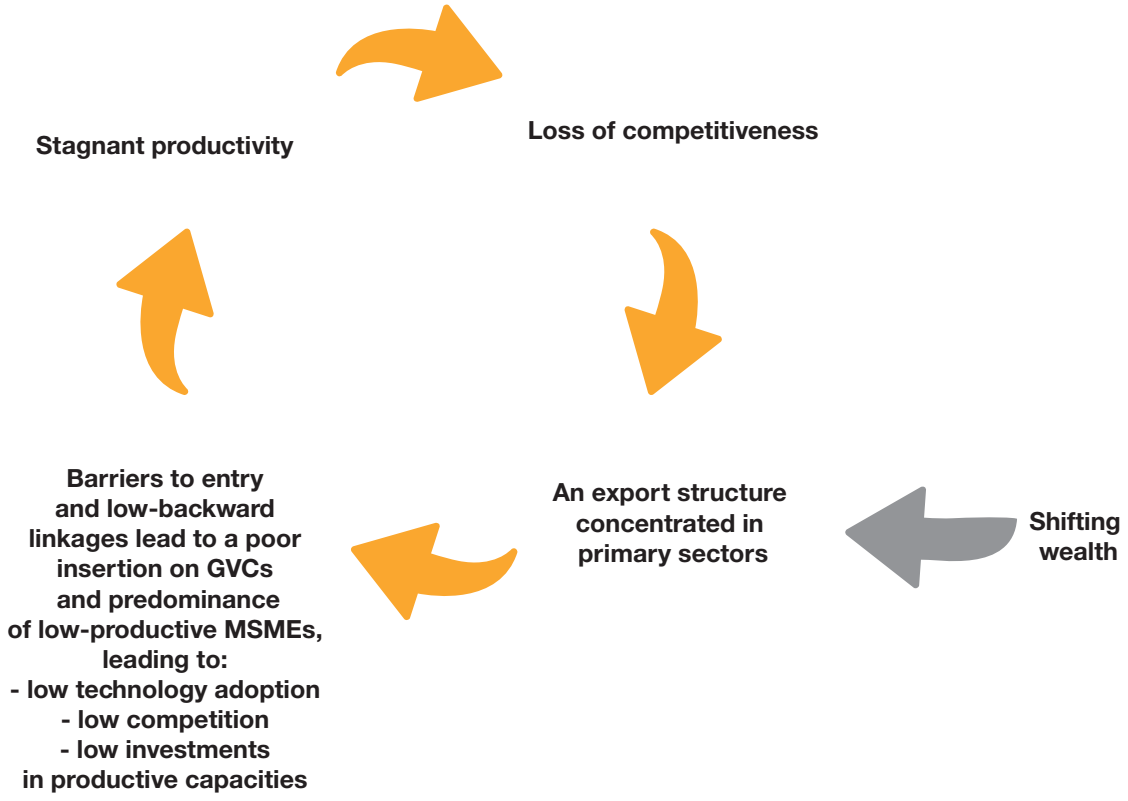
A focus on the formal manufacturing sector shows the productivity gap with respect to the United States is mainly due to low productivity across all manufacturing sub-sectors rather than by a particularly poor allocation of employment across them. In fact, labour productivity of the average manufacturing sub-sector is 30% that of the United States.[4] The low productivity within each sub-sector, in turn, is not due to an inefficient distribution of labour across establishments.[5] Rather, it is mostly explained by the low average productivity of establishments, which is on average about 35% that of the United States. That is, the low productivity of the average establishment largely explains the productivity gap in the manufacturing sector (though only formal firms are included in this analysis and the productivity gap with informal firms is expected to be significant). Conversely, misallocation across sub-sectors and establishments plays a larger role in explaining the labour productivity gap in the service sector, compared to what is observed in manufacturing (CAF, 2018).[6]

Poor productivity performance is associated with the existence of a *productivity trap*, which is mainly related to an export structure concentrated in sectors of low levels of sophistication. Notwithstanding the fact that productivity is low across all sectors,

there are large differences between certain sectors, particularly between the formal and informal economy. These differences suggest that additional specific features of LAC's economic structure and export model are limiting the capacity of igniting a virtuous circle of productivity growth.

A *productivity trap* is at play in LAC: the stagnant productivity performance is associated with an export structure biased towards primary sectors with low levels of sophistication (such as agriculture, fisheries or mining) (Figure 3.4). This has created an export structure that presents barriers to entry and does not generate backward linkages in the economy. This, in turn, makes it difficult for micro, small and medium-sized enterprises (MSMEs), which are abundant in LAC, to connect to international markets. Hence, the region has poor insertion into GVCs. Poor participation of LAC in GVCs is associated with low levels of technology adoption and few incentives to invest in productive capacities. In all, competitiveness remains low, making it difficult to move towards a more sophisticated export structure and higher added-value segments of GVCs. This fuels a vicious circle that negatively affects productivity (Figure 3.3).

Figure 3.3. **The productivity trap in Latin America and the Caribbean**



Source: Own elaboration.

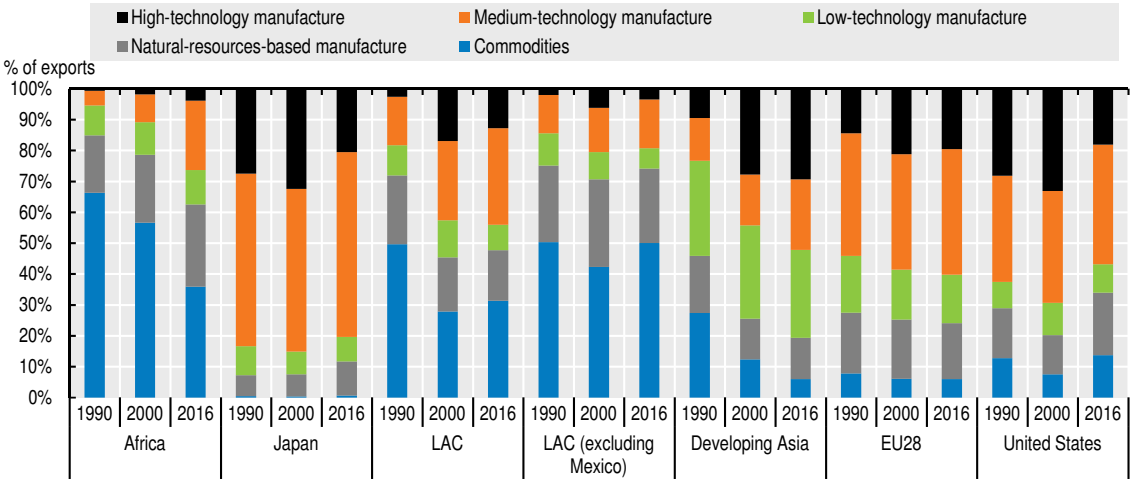
This dynamic has gained relevance in light of declining demand for commodities and the need to ignite new drivers of growth that boost productivity. The process of *shifting wealth*, by which the centre of gravity of the global economy has been moving eastwards, is entering a new phase. This is mainly due to China's shift from an economic model based on investment to one of consumption, which has a large impact on global demand for commodities (OECD/CAF/ECLAC, 2015). The shift also has an impact on international commodity prices, critical for LAC's export model.

In addition, LAC is entering a new phase: given that the region cannot grow by merely accumulating factors of production, it needs to ignite new sources of growth based on improved productivity. More precisely, productivity must be raised, but in a way that it enables a more equal distribution of income, sectoral diversification of exports and environmental sustainability (what is called by ECLAC "genuine productivity"; ECLAC, 2015).

Disentangling the productivity trap

Low competitiveness in LAC has been associated with a relatively high concentration of exports on primary sectors with low technology levels. Since the beginning of the century, exports in the region have further concentrated on primary goods and on the basic manufacturing of natural resources. In 2016, on average for LAC (excluding Mexico), 50% of exports were commodities (up from 42% in 2000). Another 23% were natural-resource-based manufactures, with less than 5% being manufactures with high technology and only around 15% manufactures with medium technology (Figure 3.4).

Figure 3.4. **Export structure by technology level, world regions (1990-2016)**



Source: Own calculations based on CEPALSTAT database.
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The low value-added of LAC's productive structure is reflected in the weak integration of the region into GVCs. The region's participation as a source of foreign value-added in world exports (forward linkages) remains negligible. Meanwhile, the share of foreign value-added in Latin American exports (backward linkages) is considerably lower than that of other regions. The seven Latin American countries for which data are available had a joint participation of only 4% as origin of the foreign value-added embodied in world exports in 2014 (compared with nearly 3% in 1995).

The role these seven countries play as a source of foreign value-added is nearly 10% for the United States and Canada, 5% for China, 3% for the rest of Southeast Asia and 2% for the European Union. Moreover, along with low levels of forward linkages, Argentina, Brazil, Chile, Colombia, Costa Rica and Peru also have considerably lower backward linkages than other regions, particularly the European Union and Southeast Asia. In 2014, only 13% of the value exported by these six countries was generated in other economies. This compares with 19% for the United States, Canada and Mexico and some 30% in the case of the European Union, China and the rest of Southeast Asia (OECD/CAF/ECLAC, 2018).

This export profile is linked to the predominance of low-productive MSMEs in LAC. LAC's economic structure is composed of 99.5% MSMEs, which account for 61% of formal employment. However, they only represent 25% of total production (Table 3.2). The low contribution of MSMEs to GDP stands in sharp contrast to their contribution in the European Union, where they represent around 56% of total production (Dini and Stumpo, 2018).

Table 3.2. **Latin America: Share of firms' number, employment and production for different types of enterprises (percentages)**

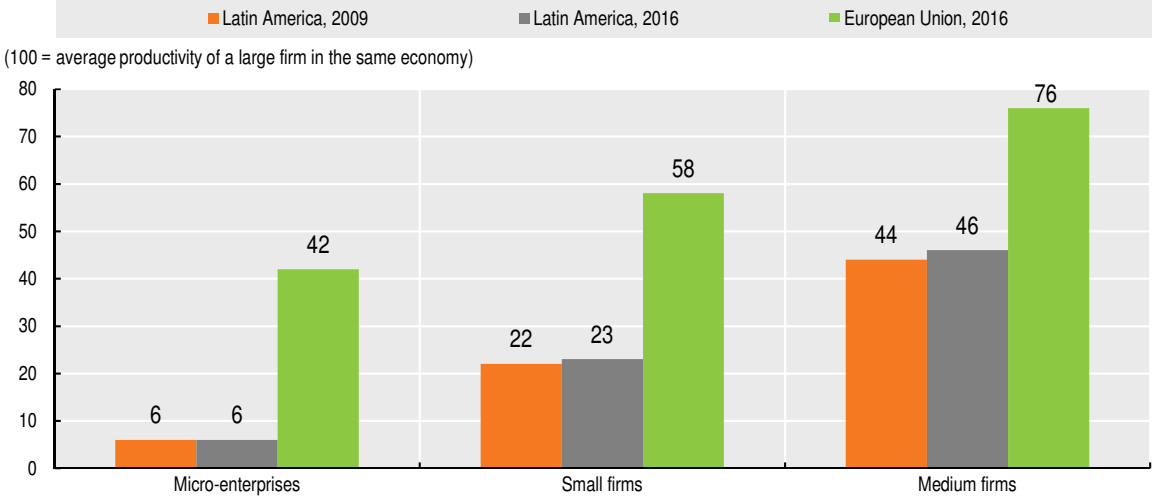
	Firms	Employment	Production
Micro enterprises	88.4	27.4	3.2
Small enterprises	9.6	19.7	8.8
Medium enterprises	1.5	14.0	12.6
Large enterprises	0.5	38.9	75.4

Source: Dini and Stumpo (2018).

The low contribution of MSMEs to total production shows they have low levels of productivity and tend to be concentrated in low-productive sectors. This, in turn, leads to a low contribution to exports. Relative internal productivity measures show that, in 2016, the labour productivity of a medium-sized company in LAC was, on average, less than half that of big companies. Small and micro enterprises were exhibiting an even poorer performance, reaching only 23% and 6% of big companies' productivity, respectively. Conversely, in the European Union, MSMEs reach 42%, 58% and 76% of big companies' productivity, respectively (Figure 3.5).

The productivity gap between MSMEs in LAC is also higher than in the European Union. In fact, the productivity of a medium-sized enterprise is less than twice that of a micro establishment in the European Union. In LAC, this gap is larger than seven times. Low productivity levels across MSMEs in LAC translate into a scarce contribution to total exports. While MSMEs in the European Union generate more than half of total exports, large companies in LAC account for more than 80% of regional exports (Dini and Stumpo, 2018).

Figure 3.5. **Relative internal productivity of MSMEs in Latin America and the European Union**



Note: Relative internal productivity refers to the productivity of MSMEs relative to the productivity of large firms.
Source: Dini and Stumpo (2018).
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The concentration of LAC's exports on primary sectors further limits the capacity of MSMEs to improve their productivity. At the same time, the predominance of low-productive MSMEs represents a barrier towards achieving an upgraded export structure. In this sense, LAC's export profile is both cause and consequence of an economic structure where low-productive MSMEs are predominant.

Two self-reinforcing effects are at play. First, the export profile of LAC makes it more difficult for MSMEs to connect to GVCs, adopt technology and compete in international markets, leaving them unproductive. This export profile is characterised by few large companies specialised in natural resource-intensive sectors and some high-intensity capital services. In this context, MSMEs face barriers and disincentives to participate in activities with higher value-added. This occurs both because these activities demand high capital investments and because they do not create backward linkages that help them in accessing international markets. In this situation, the role of MSMEs is limited to providing employment with low levels of quality, stability and wages. They remain in low-productive sectors where they do not face barriers to entry. They serve local markets, and have few incentives to connect with firms in other stages of a productive chain. The productive structure thus significantly conditions the modalities of insertion of MSMEs into the regional economy, their potential contributions and ultimately the global level of productivity that can be achieved.

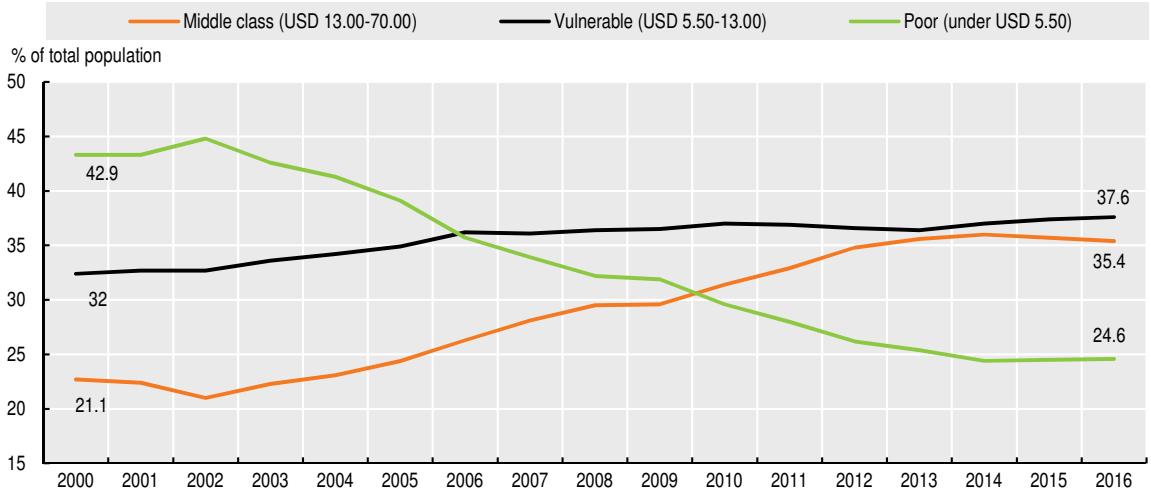
Second, many MSMEs remain small and unproductive. They have no incentives to invest in productive capacities or to incorporate technology, and face no international competition. As a result, their productivity stagnates. They remain concentrated in low-productive sectors, which eventually favours an export structure focused in sectors of low sophistication. This is aligned with the self-selection hypothesis of the new "new trade theory", which predicts that more productive firms self-select into export markets, and hence that less-productive firms remain serving local markets (Melitz, 2003). In all, the concentration in these sectors leads to low levels of productivity, which make it difficult to upgrade the productive structure.

The political economy in LAC further complicates these dynamics. In economies with high levels of corruption companies may adopt rent-seeking practices and use policy capture to avoid competition through legal protection, rather than by gaining a competitive edge through innovations. This has an impact on productivity, as there is undue influence on politicians and the administration to create market entry barriers and avoid competition – which enhances productivity – and also because innovation becomes a relatively less interesting choice than policy capture, hence creating another barrier to productivity growth (OECD, 2018a).

The social vulnerability trap

The vulnerable middle class has become the largest socio-economic group in LAC. Poverty reduction since the beginning of the century has been remarkable. In fact, poverty (defined as daily income below USD 5.50 [2011 PPP]) fell in LAC from 42.9% to 24.6% over 2000-16. Yet most of those who escaped poverty are now part of a vulnerable group. A negative shock, such as unemployment, sickness or ageing, among others, could force them back into poverty. This vulnerable middle class (USD 5.50-13.00 a day in 2011 PPP) jumped from 32.0% to 37.6% between 2000-16. Today it represents the largest socio-economic group in the region (Figure 3.6) (CEDLAS and World Bank, 2018).

Figure 3.6. **Latin American population by socio-economic groups**



Note: Socio-economic classes are defined using the world classification: "Poor" = individuals with a daily per capita income of USD 5.50 or lower. "Vulnerable" = individuals with a daily per capita income of USD 5.50-13.00. "Middle class" = individuals with a daily per capita income of USD 13.00-70.00. Poverty lines and incomes are expressed in 2011 USD PPP per day (PPP = purchasing power parity). The LAC aggregate is based on 17 countries in the region for which microdata are available: Argentina (urban), Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay (urban).

Source: Own calculations based on LAC Equity Lab tabulations of SEDLAC (CEDLAS and the World Bank, 2018).

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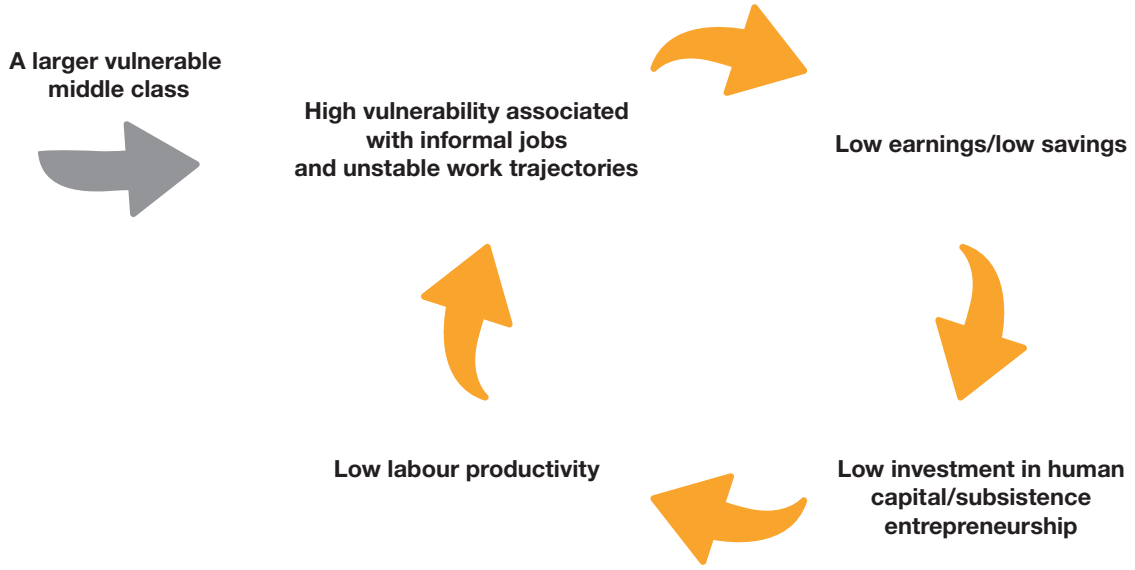
The expansion of the vulnerable middle class has come with new challenges. More people are affected by a vicious circle – the *social vulnerability trap* – that perpetuates their vulnerable status. The mechanism of this vicious circle works as follows: those belonging to the vulnerable middle class have low quality, usually informal jobs associated to low social protection and low – and oftentimes unstable – income. Consequently, they face more limitations to invest in their human capital or to have the capacity to save and invest in a dynamic entrepreneurial activity; in these conditions, they remain with low levels of productivity, hence only with access to low quality and unstable jobs that leave them in a vulnerable situation (Figure 3.7). This trap operates at the level of the individual, who is locked in a vulnerable status; conversely, the productivity trap refers to a circular relationship affecting the whole economy.

The incidence and policy relevance of the social vulnerability trap have increased in recent years for several reasons. First, more people are affected today by this vicious circle. Second, external conditions are increasing pressure on vulnerable populations. The favourable global context that has helped lift a large share of the population out of poverty since the beginning of the century is no longer as supportive. In fact, poverty reduction has been slowing down, and has even increased from 24.0% to 24.6% between 2014 and 2016. In addition, some trends, such as the ageing population or the potential impact of technological change on jobs, are putting additional pressure on some vulnerable populations. In all, the social vulnerability trap is exacerbated by both domestic and external factors and is affecting a larger share of the population, thus making the policy response more urgent.

Figure 3.7. **The social vulnerability trap in Latin America and the Caribbean**



Source: Own elaboration.

Disentangling the social vulnerability trap

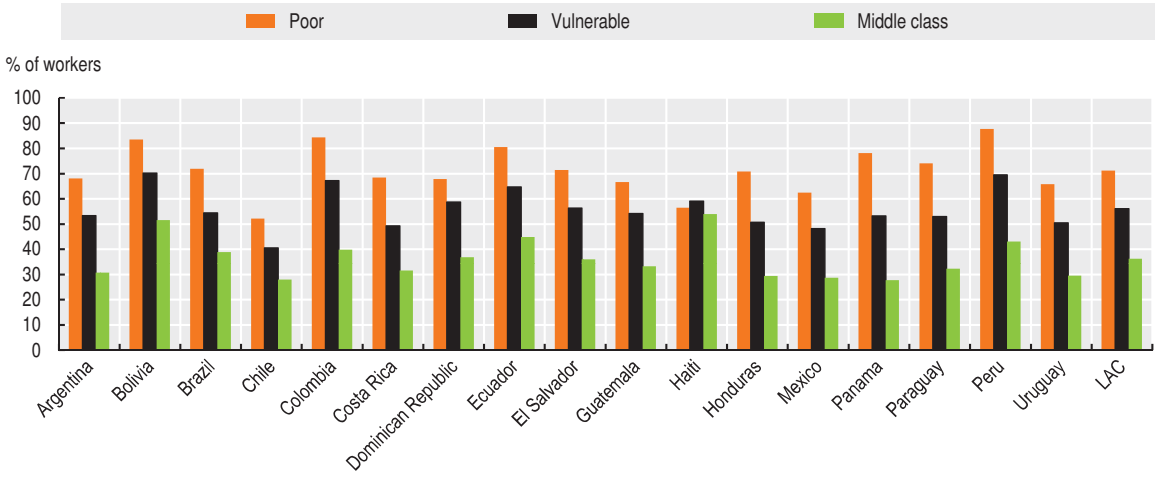
One of the most salient characteristics of people in the vulnerable middle class, and a key determinant of their vulnerability, is the low quality of their jobs. In particular, labour informality is predominant among the vulnerable, with a rate of informality of 56% for the LAC average. This is significantly above the level for the consolidated middle class, at 36% (Figure 3.8) (OECD/CAF/ECLAC, 2018). Informality levels for the vulnerable have been relatively stable over time (56% also in 2004), suggesting its main drivers remain unchallenged. While heterogeneities across countries are large, the rate of informality for the vulnerable consistently appears above 40%. Informal jobs are characterised by low levels of income, poor working conditions, low or no access to social protection and difficulties in accessing public services, such as transport and housing in cities, among others (CAF, 2017; OECD/CAF/ECLAC, 2016; OECD, 2017). In sum, jobs are not a source of sufficient levels of income and social protection for many, particularly for members of the poor and vulnerable socio-economic groups.

Work trajectories are unstable in LAC, with predominance of short-term jobs and high levels of rotation, particularly among most disadvantaged socio-economic groups. One in four Latin American workers aged 25-54 has been working for his or her current firm for one year or less (IDB, 2015). Similarly, between 20% and 40% of workers aged 25-45 in Argentina, Colombia, Brazil, Mexico, Paraguay, Peru and Venezuela have been in unemployment or inactivity at least once for between 1.5-5.0 years depending on the country; and 50% have been in informality at least once (IDB, 2015).

In addition, there appear to be barriers to escaping informality. Only 30% of the unemployed who find a job do it in the formal sector (IDB, 2015). Likewise, yearly transitions out of informality of adults aged 30-55 in Argentina, Brazil, Chile and Mexico show that, on average, 70% of men and 67% of women move to another informal job; only 21% and 10%, respectively, move to a formal job (OECD/CAF/ECLAC, 2018). Yearly transitions for young people (aged 15-29) in these same countries show that, on average, 57% of men and 50% of women who leave an informal job move to another informal

job (OECD/CAF/ECLAC, 2016) (Figure 3.9). In all, these dynamics suggest high levels of rotation. This implies that most workers, particularly among vulnerable populations, will experience in their work trajectories periods of inactivity, unemployment and informality.

Figure 3.8. **Labour informality by socio-economic group in selected Latin American countries (2014 or latest year available)**



Note: Legal definition of informality: workers without the right to a pension, health insurance, social protection, work contracts and the general entitlements of the formal sectors.

Source: Own calculations based on OECD and World Bank tabulations of SEDLAC (CEDLAS and the World Bank, 2018).

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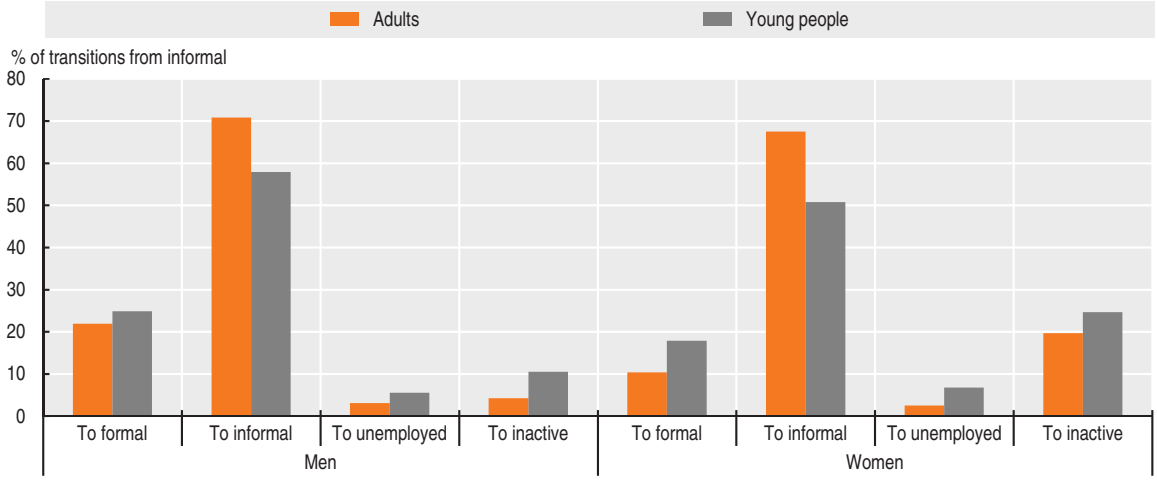
Figure 3.9. **Yearly labour market transitions out of informality in Latin America**



Note: Results show the average for Argentina, Brazil, Chile and Mexico. These are yearly transition rates out of informal jobs for the pooled period 2005-15. Transition rates are calculated as the ratio between flow of people moving that transitioned from Condition 1 to Condition 2 between time 0 and time 1, over the total stock of people in the population in Condition 1 in time 0 (i.e. informal employment to formal employment). The transitions are year to year (from year t to year t+1). This analysis is limited to urban populations because of data availability. Data for Argentina are representative of urban centres of more than 100 000 inhabitants.

Source: Own calculations based on OECD and World Bank tabulations of LABLAC (CEDLAS and the World Bank, 2018).

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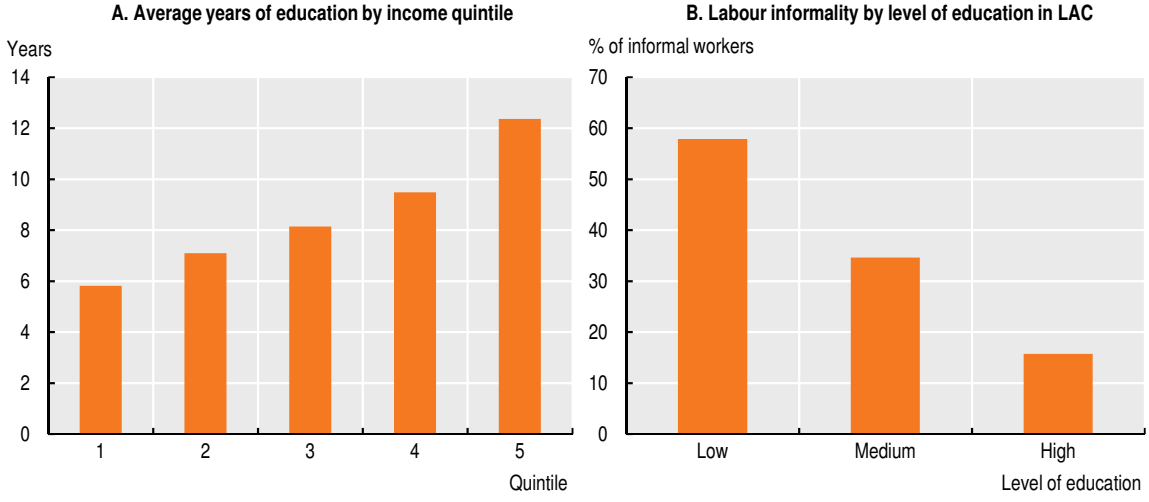
The predominance of low quality, informal jobs, alongside the high level of rotation between precarious labour situations, leaves many workers vulnerable. They experience low and unstable income flows and poor levels of social protection. Hourly wages for

informal workers represented, on average for LAC, half of hourly wages for formal workers (CEDLAS and the World Bank, 2018). These income flows are unstable, given the levels of job rotation (IDB, 2015). In addition, most people in this group have poor access to social protection through jobs. For instance, their contributions to a pension system, if any, can be limited and not sufficient to reach a minimum pension level when retired. In fact, only around 40% of the population aged 65+ had access to a contributory pension in 2010 (Bosch, Melguizo and Pagés, 2013).

Low and unstable income flows, together with low social protection and a general perception of vulnerability, lead to low investments in education. In fact, despite broad improvements in access to education across LAC countries, differences are still large between socio-economic groups. Average years of education for individuals in the 2nd and 3rd income quintile – those where most of the *vulnerable* are found – are approximately seven and eight years, respectively, relative to almost ten years of average education for people in the 4th income quintile (Figure 3.10). Three main reasons support the idea that workers in the vulnerable middle class do not invest in their human capital. First, given their low income and vulnerability, they cannot afford to spend long periods unemployed or inactive. Hence, they cannot devote significant time to invest in their own human capital. Second, as these workers usually work in low quality, short-term jobs, learning processes at the workplace are poor, and investment in training by firms scarce. Indeed, informal jobs usually take place in work settings of low value-added; the skills that workers learn are not applicable in more productive establishments. Also, firms have no incentives to train their workers. These firms tend to be small and fear their investment in training will be lost if workers are employable in larger, better-paying firms. Furthermore, they have limited resources to invest in training. Third, because these workers are usually outside formal channels of training, they do not have access to training programmes.

Figure 3.10. **The link between education, income and labour informality in Latin America**



Source: Own calculations based on CEDLAS and the World Bank, 2018.
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In sum, a large – and growing – share of the population in LAC is trapped in its vulnerable status. Workers in this group usually hold informal jobs and rotate a lot between different labour statuses. This leaves them vulnerable as they have insufficient and unstable income flows and poor access to social protection. This, in turn, prevents

them from saving and investing either for their own human capital or to start a dynamic entrepreneurial activity. Eventually, this leaves people in this group with low levels of productivity and little capacity to escape their vulnerable situation.

The institutional trap

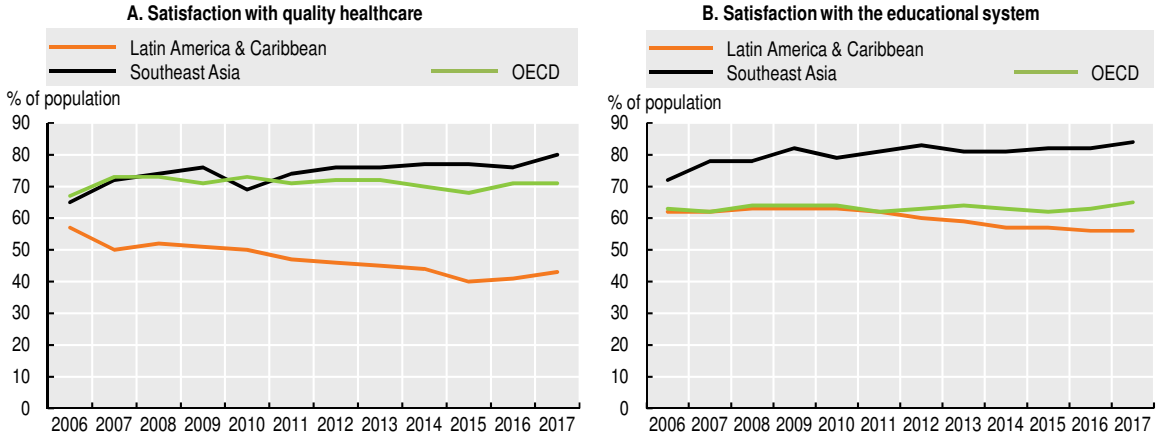
Citizens' demands are rising and remain unmet

The expansion of the middle class in LAC – which today represents a third of the population – has been accompanied by larger aspirations and demands for better quality public services and institutions. This consolidated middle class (USD 13.00-70.00 a day PPP 2011) grew from 21.1% to 35.4% between 2000 and 2016. This expansion is not only related to income, but also to self-perceptions; some people have middle-class aspirations even when their income levels are not necessarily those attributed to middle-class groups. In fact, around 40% of the population in LAC considers itself as middle class (Latinobarometro, 2015). These phenomena have implications in terms of values and social demands, as middle-class citizens are believed to be strong supporters of democracy, while being critical of how it functions (OECD, 2010).

The increased expectations of the consolidated middle class and the sense of instability of the vulnerable class add up as relevant drivers of falling satisfaction levels with public services witnessed in LAC in recent years (Daude et al., 2017). From 2006 to 2017, the share of the population satisfied with the quality of healthcare services fell from 57% to 43%, well below levels in the OECD economies of around 70%. Likewise, satisfaction with the education system fell from 63% to 56% over the same period, below the OECD levels of 65% in 2017 (Figure 3.11) (OECD/CAF/ECLAC, 2018).

Various indicators of trust and openness are also symptomatic of the magnitude of citizen dissatisfaction: almost 63.9% of Latin American citizens have no confidence in their national governments. Many citizens also perceive politics as not being inclusive (OECD, 2018a; OECD/CAF/ECLAC, 2018). Finally, increasing interconnectedness favoured by technological advances may have created new paradigms of social progress. It is easier to compare progress in LAC against societies of higher levels of development, thus inflating aspirations among younger generations (OECD/CAF/ECLAC, 2018).

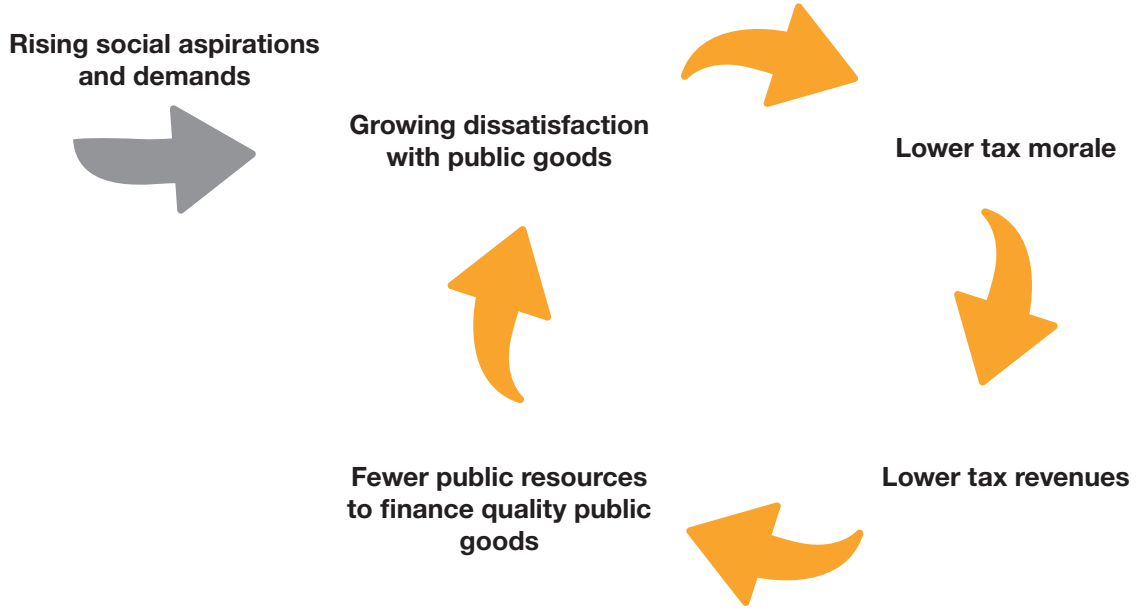
Figure 3.11. **Satisfaction with public services in Latin America, Southeast Asia and OECD**



Note: The results are weighted averages (based on the population of each individual country belonging to these regions).
Source: Own calculations based on Gallup (2019).
StatLink https://doi.org/10.1787/888933936729

The unmet demands of a large share of the population fuel an institutional trap in Latin America that jeopardises the sustainability of the social contract. Rising aspirations are putting additional pressure on institutions, which are unable to respond to evolving citizens' demands. In addition, longstanding institutional weaknesses and the incidence of policy capture are relevant issues in LAC, as suggested by the high levels of perception of corruption and broad mistrust in institutions declared by citizens (OECD/CAF/ECLAC, 2018). All these elements create social disengagement, with citizens seeing less value in fulfilling social obligations such as paying taxes. Tax revenues are thus negatively affected, hence limiting the available resources for public institutions to provide better quality goods and services and respond to the rising aspirations of society. This institutional trap is a vicious circle (Figure 3.12) that has large implications. It perpetuates inequalities and creates a social fracture that strongly weakens the social contract.

Figure 3.12. **The institutional trap in Latin America and the Caribbean**



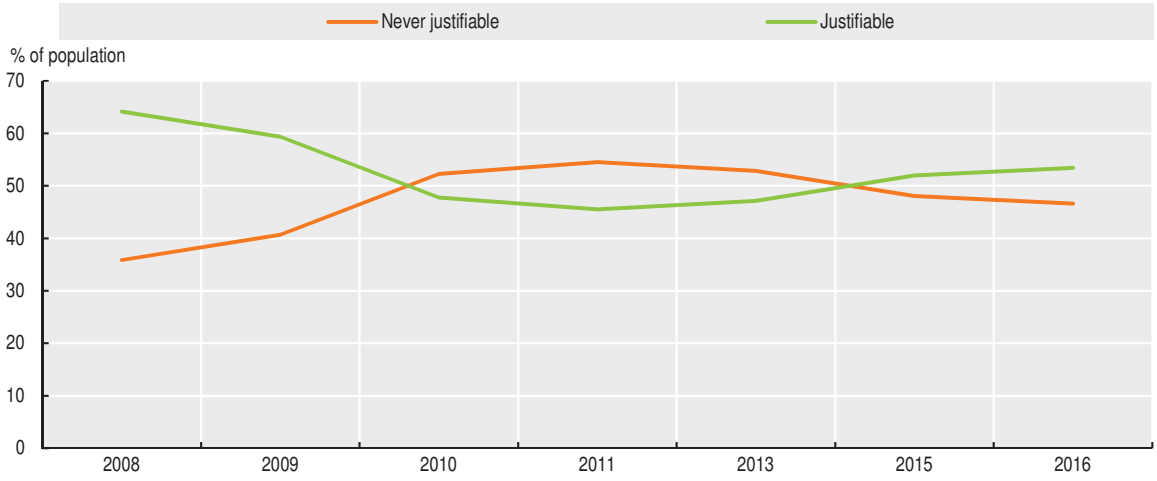
Source: Own elaboration.

Disentangling the institutional trap

Lower levels of satisfaction with public goods, together with declining levels of trust in public institutions, have eroded "tax morale" in the region. "Tax morale" refers to the willingness of citizens to pay taxes, which has declined in recent years. Indeed, after a period between 2008 and 2011 where "tax morale" increased, 53.4% of the population justified not paying taxes in 2016, up from a level of 46% in 2011 (Figure 3.13).

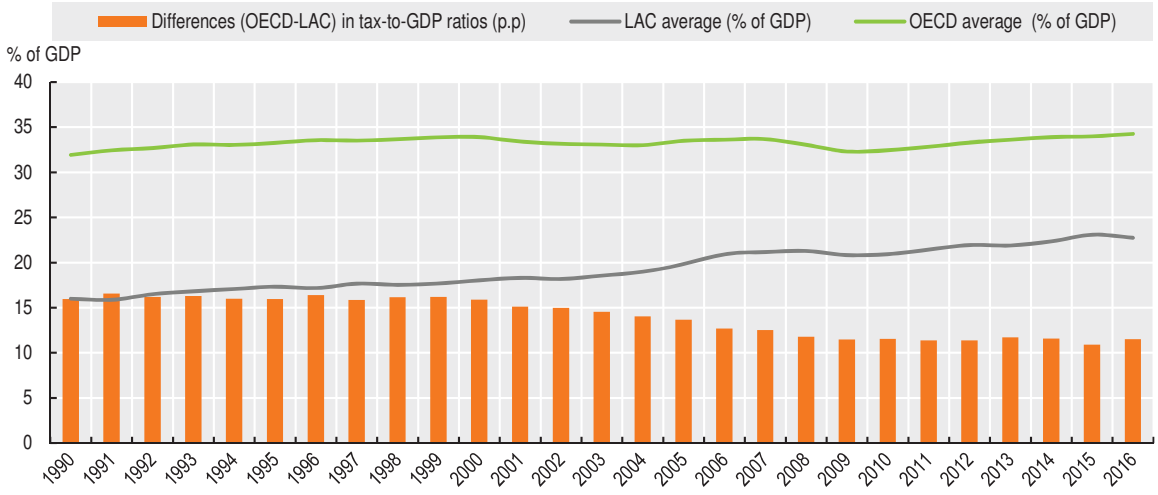
Lower tax morale negatively affects the capacity of the state to expand tax revenues, which are already low in LAC. This, in turn, limits resources available to improve public goods and services. In 2016, despite steady increases since the 1990s, tax revenues in LAC (22.7% of GDP) remained well below the corresponding OECD figure (34.3% of GDP). This was the case despite large disparities across LAC countries ranging from 12.6% in Guatemala to 41.7% in Cuba (Figure 3.14) (OECD/ECLAC/CIAT/IDB, 2018). This illustrates the limited resources that are available to improve public services and the functioning of institutions, and reinforces the importance of building trust and fiscal legitimacy to break the institutional trap at play.

Figure 3.13. **Tax morale in Latin America: Do citizens find it justifiable not to pay taxes?**



Source: Own calculations based on Latinobarometro (2016).
StatLink https://doi.org/10.1787/888933936748

Figure 3.14. **Tax-to-GDP ratios, LAC and OECD averages, 1990-2016**



Source: Own calculations based on OECD/ECLAC/CIAT/IDB (2018).
StatLink https://doi.org/10.1787/888933936767

Low fiscal resources limit the capacity of public institutions to respond to society's rising aspirations, fuelling a vicious circle that is weakening the social contract in LAC. In fact, this dynamic can aggravate inequalities across socio-economic groups and further increase disengagement from public matters.

On the one hand, individuals from high- and middle-class households usually channel their dissatisfaction with public services by opting out, moving towards better quality private services they can afford. This may explain why a large share of Latin Americans with sufficient income choose private education and health over universal public services. For instance, the share of secondary students enrolled in private schools is strongly linked to household income, with a drastic increase for the fourth- and fifth-income quintile.

On the other hand, individuals from the vulnerable middle class and poor households are also dissatisfied with the quality of public services. However, since they do not necessarily have the income to opt out, they continue using low-quality public services. These groups, which together represent around 70% of the population, are dissatisfied for different reasons. They find few incentives to firmly engage in the social contract. Consequently, the quality of public services deteriorates, affecting mostly those who continue to use the services because their lack of resources leaves them no choice (OECD/CAF/ECLAC, 2018).

The environmental trap

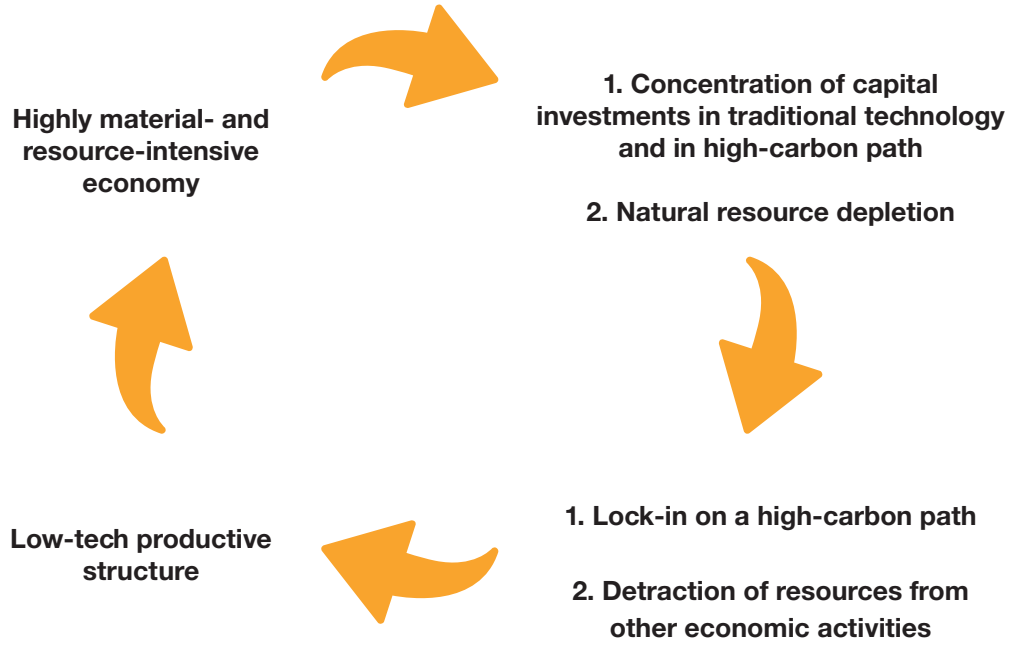
Environmental challenges remain pressing and diverse in LAC. A crucial one is related to forest loss. Indeed, the rate of deforestation remains among the highest in the world, though it has slowed down in recent years. The largest cause of forest loss is land clearing for agriculture, which is often exacerbated by unclear or lack of land tenure. Another pressing environmental challenge is linked to water. While water resources are relatively abundant, many arid and semi-arid regions are facing increasing scarcity as a result of growing water demand and reduced water availability due to climate change. Air and water pollution also represent a relevant environmental issue for LAC. In particular, local air pollution is a concern in some large cities in the region (OECD, 2018b; OECD, 2018c).

These environmental challenges are putting pressure on the conservation and sustainable use of biodiversity. This is particularly relevant for LAC, which is one of the most important regions in the world in terms of biodiversity and ecosystems. In fact, it holds an estimated 40% of the world's biological diversity, and 6 of the 17 "megadiverse countries" are in LAC (OECD, 2018b).

Climate change is another crucial environmental challenge which is having physical and economic consequences in LAC. Significant changes in rainfall patterns and temperature have been observed, affecting yields and agriculture. As well, the region has experienced more catastrophic events linked to climate change (Magrin et al., 2014; ECLAC, 2018). This is particularly pressing for small Caribbean states (see Chapter 6). In 2015, the economic cost of climate change in the region was estimated at USD 100 billion (Vergara, Fenhann and Schletz, 2014). A temperature rise of around 2.5°C could reduce economic output by 1.5-5% of GDP (ECLAC, 2015). Moreover, the increase of environmental disputes over scarce resources, the spread of vector-borne diseases, population movements and resource mobilisation due to extreme climatic events all pose a major risk for social and economic achievements.

The environmental challenge in LAC is aggravated by an *environmental trap* towards which the region seems to be heading. In essence, this trap is linked to the productive structure of most LAC economies, which is biased towards high material and natural resource-intensive activities. This concentration may be leading these countries towards an environmentally and economically unsustainable dynamic for two reasons. A concentration on a high-carbon growth path is difficult – and costly – to abandon; and natural resources upon which the model is based are depleting, making it unsustainable (Figure 3.15). This has also gained importance in recent years, with LAC countries showing an increasingly stronger commitment to global efforts to fight climate change.

Figure 3.15. **The environmental trap in Latin America and the Caribbean**

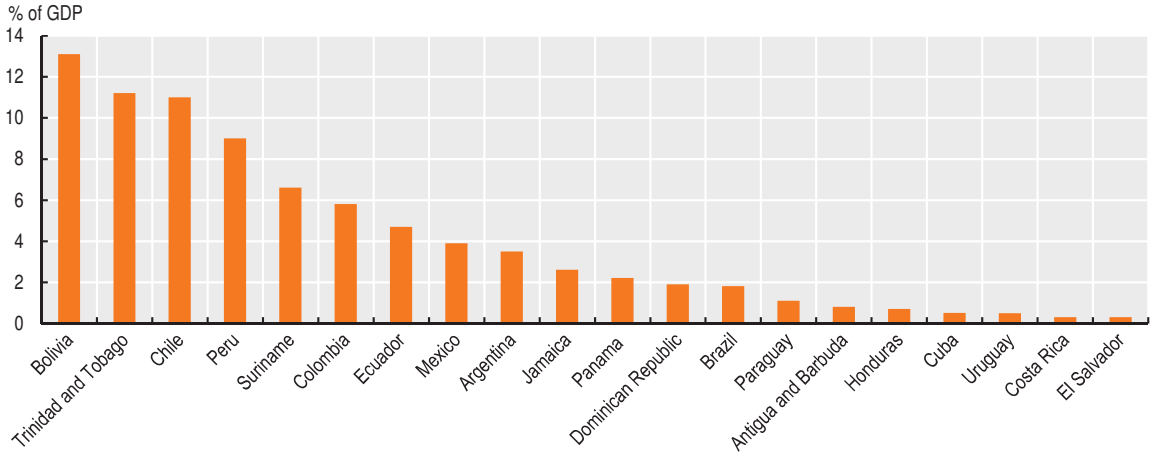


Source: Own elaboration.

Disentangling the environmental trap

Growth in many LAC countries is characterised by large environmental inefficiencies. The economic model in LAC depends on the exploitation of natural resources as one of its main engines of growth. For example, mining and fossil fuels currently represent a significant share of GDP in many countries (Figure 3.16).

Figure 3.16. **Fossil fuels and mining: Contribution to countries' GDP, 2017**



Source: Own calculations based on CEPALSTAT.
StatLink https://doi.org/10.1787/888933936786

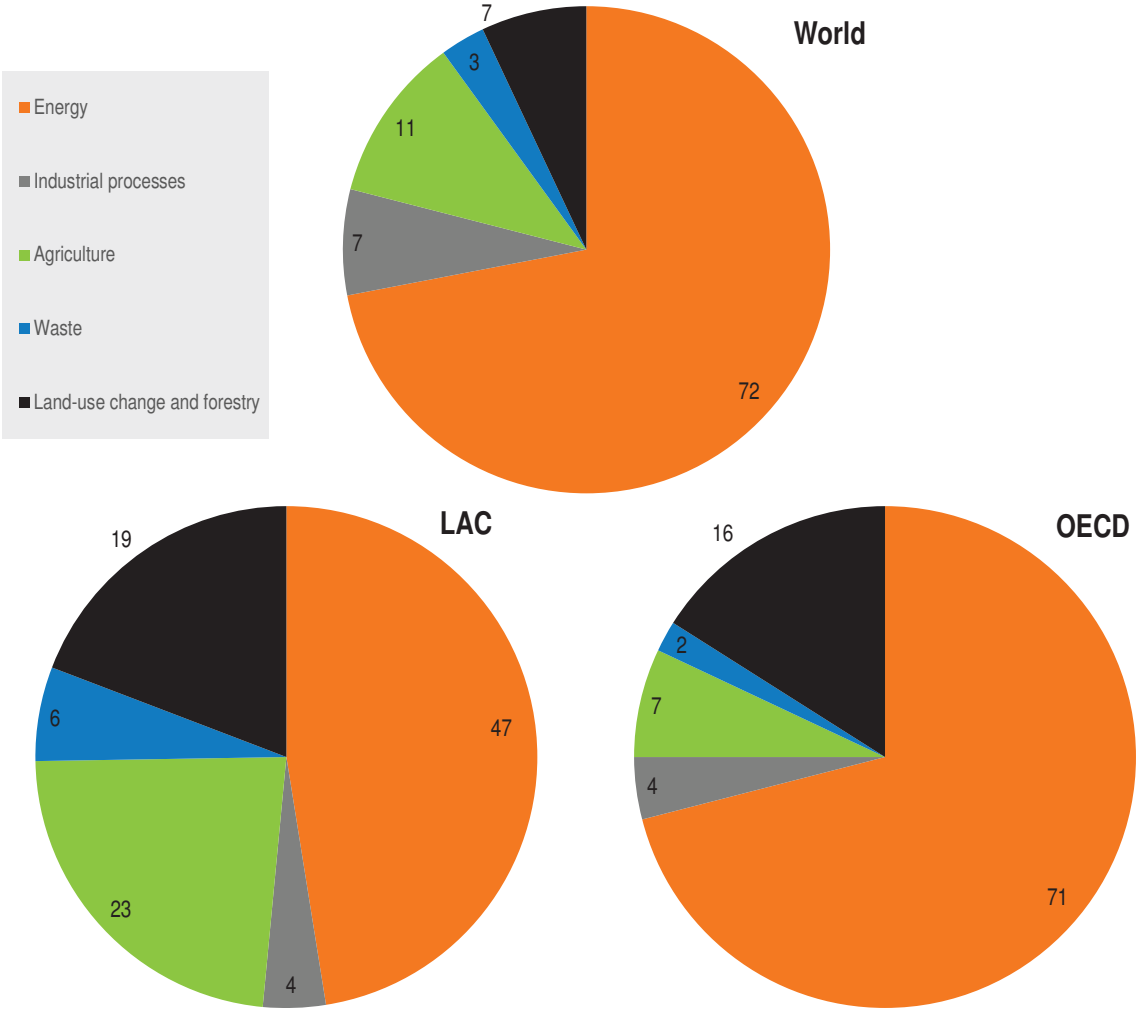
Most countries in the region have succeeded in crossing over from an agricultural base to one more sophisticated. However, this transition has been associated with some environmental issues, mainly industrial pollution and higher greenhouse gas (GHG)

emissions. Mining and energy extraction and infrastructure are also important drivers of biodiversity loss, because of the land-use change, high groundwater extraction, soil and water contamination and the hazardous waste generation they involve. Agriculture is still a relevant activity with a significant environmental impact. For example, agriculture is a threat to biodiversity, as a result of overgrazing, pesticide use and high water use. In all, the economic model, together with population growth, are driving land-use change, creating pollution and increasing resource demand (OECD, 2018b).

The economic structure that dominates in LAC countries is reflected in its composition of CO_2 emissions. Agriculture, and land-use change and forestry generate 23% and 19%, respectively, of LAC's emissions, versus an average of 11% and 7% for the world (Figure 3.17).

Figure 3.17. **Greenhouse gases' emissions by region and sector**

(Percentage of total emissions)



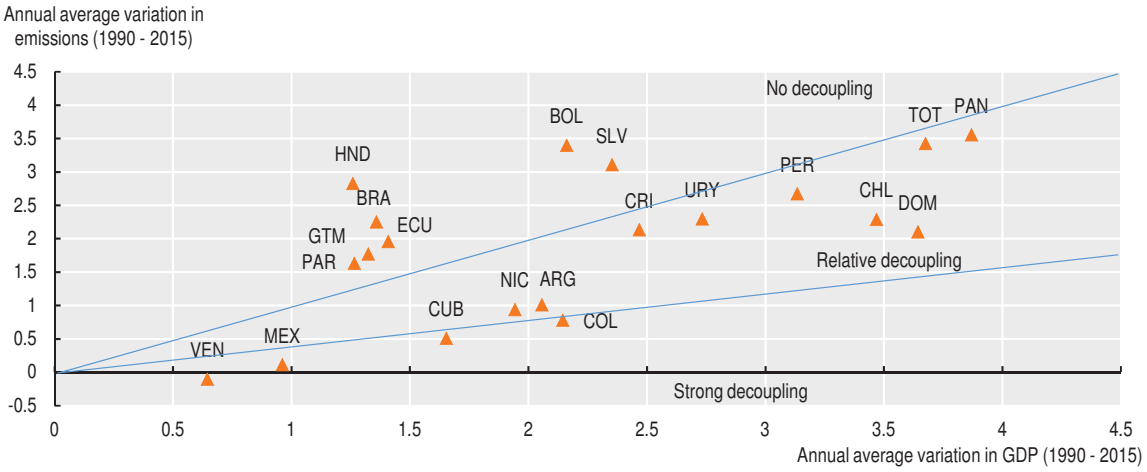
Source: Own calculations based on World Resources Institute (2017) and World Bank (2018).
StatLink https://doi.org/10.1787/888933936805

The carbon intensity of the energy mix in LAC has grown in the last decades. GHG emissions related to energy use are the most important factor driving the upward trend in total emissions in LAC, as fossil fuels are the main energy source (coal, oil and natural gas). Between 1990 and 2014, energy use grew by 87% (2.7% per year), leading to a growth

of energy-related GHG emissions of 96% in the same period (2.9% per year). The difference in growth rates between energy use and energy-related GHG emissions is explained by changes in the carbon content of energy use or carbon intensity of energy use (GHG emissions per unit of GDP), which has increased. In fact, the carbon intensity of energy use increased in LAC by 5% from 1990 to 2014 (0.2% per year). This increase has taken place even with a larger share of natural gas in the mix, and the reduction of oil's share in 2015 with respect to 1990. This is mainly explained by a lower share of biomass in the energy mix and higher use of coal.

In sum, economic growth for many LAC countries has been strongly associated with growth in GHG emissions. The rate of growth of GHG emissions has been higher than GDP growth in many LAC countries, which have been unable to decouple the economic model from a high-carbon path (Figure 3.18). Other countries have had higher rates of GDP growth than the growth of GHG emissions, but still have remained in a relatively high-carbon path.

Figure 3.18. **GDP growth vs. GHG emissions growth in Latin America and the Caribbean (1990-2015)**



Source: Own calculations based on CEPALSTAT.
StatLink https://doi.org/10.1787/888933936824

The concentration of many LAC countries in resource-intensive sectors following a high-carbon path is leading these economies into an environmental trap, mainly through two channels.

First, most investments in these kinds of economies are oriented towards activities based on traditional technologies and dependent on materials and fossil fuels. Hence, they are building a high-carbon economic model. As this model is consolidated, it becomes more difficult to move towards a low-carbon economy. In practice, reversing course requires more investment to dismantle and/or transform the existing infrastructure (e.g. an energy system based on fossil fuels, use of forest land for extensive agriculture, or a transport system mainly based on hydrocarbon). In addition, there are international considerations. Increasing low-carbon and low-material competition from countries that are shifting to these models, alongside a global stance on the fight against climate change, may impose further costs on high-carbon economic models. In this context, many LAC countries can find it increasingly difficult to compete and grow based on the current economic structure.

Second, this economic model is unsustainable in that it leads to depletion of the natural resources on which it is based. Indeed, resource-intensive economic models are intensive both in the extraction and use of natural resources. Extraction pollutes the environment, and it also exhausts the resources that are extracted, as they are generally finite. Also, the use of large amounts of energy and water in extraction depletes the very resources the model relies upon. In this sense, the model is unsustainable. Further, pollution deviates resources – i.e. investment – from other activities, hence fostering a concentration on extractive sectors. In all, countries can become "locked into" an environmentally and economically unsustainable model. This makes it difficult to move to more sophisticated and sustainable growth pathways with fewer environmental risks.

Overcoming the environmental trap and turning this vicious circle into a virtuous one will require bold policy reforms to move to a low-carbon economy and foster green growth. Existing policy frameworks and economic interests continue to be geared towards fossil fuels and carbon-intensive activities, as coal, oil and natural gas have fuelled economic development to date. To reverse this, an unprecedented infrastructure and technological transformation is needed, and policies and incentives need to be largely changed (OECD, 2018b; OECD/IEA/NEA/ITF, 2015). Also, enhanced international co-operation through the Paris Agreement or other international fora is an essential part of the transformation, and LAC countries have gradually shown a stronger commitment to these global efforts (OECD/World Bank/UN Environment Programme, 2018).

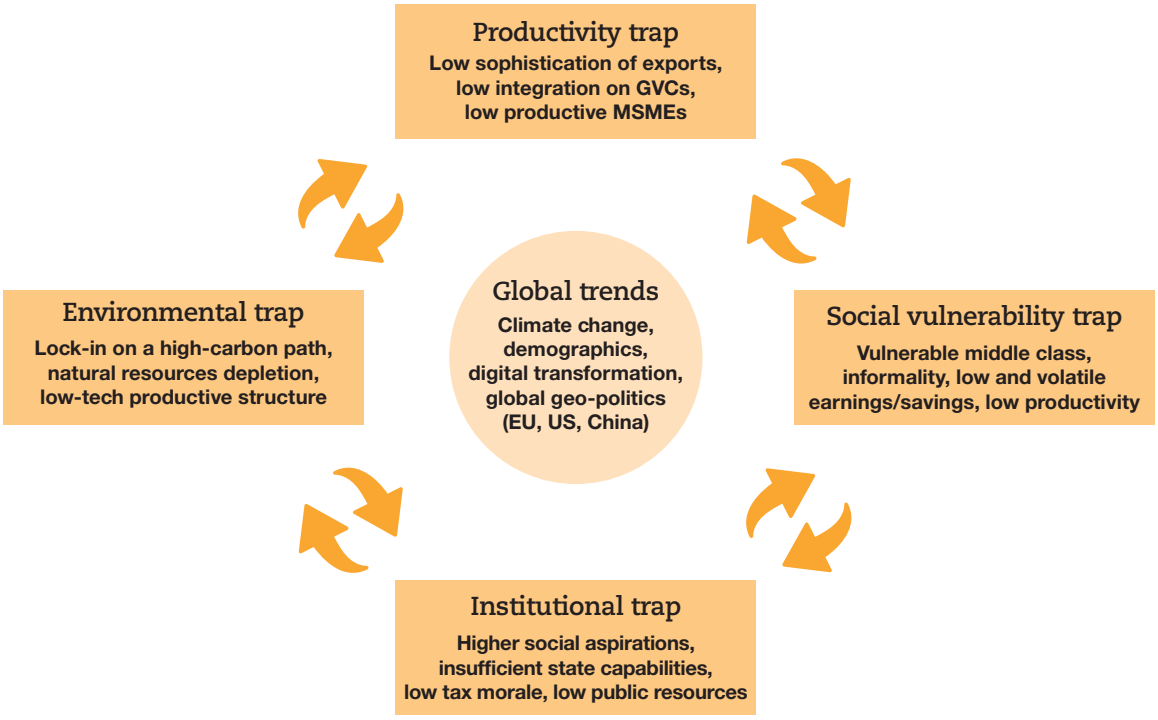
Interactions between these development traps

The four development traps interact and reinforce each other. This makes development challenges particularly complex and the need for sound analytical tools and co-ordinated policy responses increasingly relevant (Figure 3.19).

There are many examples of how the traps are mutually reinforcing. With respect to the social vulnerability and productivity traps, the vulnerability associated with informal jobs is largely a by-product of low levels of productivity that characterise LAC countries. Meanwhile, informality itself acts as a strong barrier to increases in productivity and tax revenues (Busso, Fazio and Levy, 2012). Likewise, weak institutions and social vulnerability are mutually reinforcing. Populations are vulnerable because they lack an adequate safety net or because weak institutions do not provide them with quality public services such as education and health. At the same time, vulnerability weakens the capacity and willingness to pay taxes and comply with formal rules, weakening the institutional setup. The productivity trap is also directly linked to institutions, which appear as one of the main determinants of success for countries that overcame this challenge. Eventually, the environmental trap is also directly linked to diversification of the productive structure, and to the ability of the institutional setup to direct investments from resources and carbon-intensive sectors into environmentally efficient technologies. At the same time, environmental degradation and depletion reinforce the vulnerability trap by increasing the overall level of uncertainty.

Policy responses to overcome these development traps in LAC must consider their interactions. Better understanding the links and common causalities between different policy issues and objectives will be critical to develop responses that address their complex interactions effectively (see Chapters 4 and 5). In this respect, it is critical to identify win-win policies that can promote synergies and help deal with trade-offs. The productivity-inclusiveness nexus, for example, suggests numerous linkages between these two policy objectives and calls for policies that can boost both at the same time (OECD, 2018d).

Figure 3.19. *Development in transition* traps in Latin America and the Caribbean



Source: Own elaboration.

Overall, the development in transition narrative resonates with – and complements – the 2030 Agenda for Sustainable Development, which has 17 Sustainable Development Goals (United Nations, 2015).

Conclusions

LAC economies represent a good example of *development in transition* (DiT). In DiT countries, income indicates that economies are growing, but vulnerabilities confirm challenges in several other development outcomes. Progress since the beginning of the century has been considerable in these countries. However, stagnation in different dimensions suggests large structural vulnerabilities. Economic growth is slowing down, poverty reduction has stagnated, citizens' rising demands remain unmet and the sustainability of the economic model is questionable owing to its environmental impact.

In addition, new development challenges add to the persistent weaknesses. These challenges have sometimes emerged precisely as a result of progress or owing to changing global conditions. This is why the region is facing mainly four structural development traps that demand new, more complex policy responses. These are the productivity trap, the vulnerability trap, the institutional trap and the environmental trap.

This is a context where the DiT approach gains importance for Latin America as a way to respond to these new development challenges and turn these vicious circles into virtuous ones. In particular, the DiT approach calls for a rethinking of the development model to achieve lasting and shared prosperity. It also advocates new approaches to international relations that support domestic development strategies (see Chapters 4 and 5).

Notes

1. Middle-income countries in the region comprise a heterogeneous group in terms of size, development and economic potential. The average per capita GDP level over the period 2007-16 ranges from a minimum of 4 130 dollars to a maximum of 18 722 dollars. In upper middle-income countries the GINI index varies between 42.4 and 58.4 while poverty rate oscillate between 0% and 40.6%.
2. This is an accounting identity Y/N = L/N * E/N * H/E * Y/H, where Y is GDP, N is total population, L is the labour force, E is the total number of employed workers and H is the total hours worked in the economy. Each one of those four ratios on the right-hand side of this expression correspond to the four components listed above: participation rate, employment rate, hours per worker and output per hour. It is worth noting that L/N is not the standard participation rate because N includes the whole population, not only those of working age.
3. This decomposition is based on a Cobb-Douglas production function of the form $Y = AK^{\alpha}(Lh)^{1-\alpha}$, where Y is GDP, A denotes TFP, K is the capital stock, L is total hours worked, and h represents units of human capital of a typical worker. From this equation, one can obtain $\frac{Y}{L} = A^{1/1-\alpha}\left(\frac{K}{Y}\right)^{\alpha/1-\alpha} h$. Thus, output per hour is made up of three components: capital intensity $\left(\frac{K}{Y}\right)^{\frac{\alpha}{1-\alpha}}$, human capital per worker h, and TFP $A^{\frac{1}{1-\alpha}}$. We calculate these components with data from the Penn World Tables 9.0 assuming $\alpha = 1/3$. It is worth pointing out that we calculate our own measure of TFP by using the equations above. The Penn World Tables, however, include a measure of TFP based on a different methodology. For a similar decomposition, see Jones (2015).
4. For the case of manufacturing (which is a 1-digit sector according to the ISIC, revision 3.1), a sub-sector is defined as a 4-digit activity that distinguishes, for instance, between processing fish or fruits as well as manufacturing engines or pumps. In total, there are 55 sub-sectors. This analysis uses survey data for Chile, Colombia and Mexico during the period 2003-07. This period is the only common years for which we have data for the three countries. Also, the data exclude establishments with fewer than ten employees.
5. Busso, Madrigal and Pagés (2013, BMP hereafter) apply Hsieh and Klenow's (2009) methodology for ten Latin American economies and find much larger gains from efficiently reallocating capital and labour within each sub-sector. They find that output increases between 45% and 127% whereas CAF (2018) finds that output increases by about 20% (output per worker in the whole manufacturing sector goes from 0.34 to 0.41). There are a number of reasons that explain this seemingly large discrepancy. First, when one restricts the analysis to establishments with ten or more workers, the gains in BMP are around 50-60%. Second, and perhaps more importantly, the two counterfactual exercises are different. BMP consider a reallocation of both capital and labour whereas CAF only reallocates labour. In addition, BMP's exercise completely eliminates misallocation within each sub-sector. In contrast, CAF asks what the gains would be if the level of allocative efficiency within each sub-sector is the same as the observed in the US, which is not fully efficient.
6. For the case of services, the analysis is based on social security administrative data from Uruguay, and firm-level survey data from Colombia during the period 2008-12. The findings are consistent with those of Busso, Madrigal and Pagés (2013).

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Chapter 4

Making states more capable: Building and implementing national strategies

This chapter stresses the need to continue enhancing domestic capacities to overcome development traps and therefore improve citizens' well-being. A key starting point is National Development Plans (NDPs), which prioritise policies and adopt a well organised and comprehensive approach. Although these plans are country-specific, they have common targets and challenges in design and implementation. The chapter highlights the importance of improving and increasing public spending for successful implementation of such plans. It insists NDPs should navigate effectively in the political economy. Finally, the chapter focuses on the need to increase domestic resources for development to finance sustainable development, considering the role of taxes, financial markets, national development banks and public-private partnerships.

Latin America needs better institutional capacities to achieve sustainable development

Better planning for development

National Development Plans (NDPs) are a critical tool for development planning, enabling shared development objectives and a common long-term vision

At least **18** LAC countries already have NDPs in place

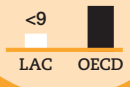
At least **10** countries have given constitutional status to planning

At least **20** countries have created a mechanism for co-ordination in the implementation of the SDGs

Better spending for development

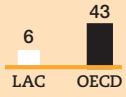
Planning and evaluation of expenditures are fundamental to make sure spending is based on value for money and not on past spending

Social expenditure (health, pensions, family support) as % of GDP



80% of public spending is concentrated on current expenditure and only 20% on capital expenditure

New patent applications produced for every 1% of GDP invested in R&D

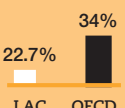


Better financing for development

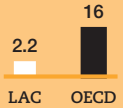
Taxes, national development banks, public-private partnerships and financial markets are key domestic resources for development

Domestic credit to private sector

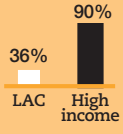
Average tax-to-GDP



Taxes and transfers: Gini Index reduction (Percentage points)



Access to finance for the poorest 40%



Introduction

The *development in transition* approach argues that Latin America and the Caribbean (LAC) faces "new" development traps that are holding back its potential for further progress. The productivity trap, the social vulnerability trap, the environmental trap and the institutional trap confront the region with new and increasingly complex development challenges. The *development in transition* approach further suggests the need for stronger domestic capacities coupled with renewed international co-operation to overcome these traps effectively and to boost sustainable and inclusive development. Thanks to these actions, the region will be moving from current challenges to new opportunities for all citizens. Therefore, moving towards higher stages of development will require ambitious policy reforms and stronger domestic institutions. These demand innovative and more sophisticated domestic policy responses than those that brought LAC to the upper middle-income range.

Stronger domestic capacities are also needed to adapt to, and embrace, the opportunities of a rapidly changing external environment. Achieving the Sustainable Development Goals (SDGs) is an ambitious endeavour that demands stronger institutions. Furthermore, major tectonic shifts are at play, including protectionism, technological progress, climate change, migration and population ageing. These shifts are rapidly transforming economies and societies, rendering institutions obsolete. They demand new responses and capacities to embrace emerging opportunities.

Increasing state capacities is indeed a key policy area to overcome LAC's development traps. This approach remains critical to favour effective and more targeted impact of productive, social and inclusion policies. State capacities are also crucial to advance towards greener production and consumption patterns. They are also at the heart of the increasing levels of citizen dissatisfaction and mistrust (OECD/CAF/ECLAC, 2018). In this sense, it is critical to further develop capacities within national institutions in LAC countries.

In the past decade, most LAC countries have been improving their institutional capacities in different dimensions. For instance, first, the NDPs have taken into consideration the multidimensionality of development and have included policy actions to tackle development traps. In addition, most of them are aligned with the Agenda 2030 and use the SDGs as monitoring indicators. Second, the regulatory and institutional frameworks to include the private sector in the policy-making have improved, in particular regarding public procurement and public-private partnerships. Third, anti-corruption measures have been strengthened and transparency and open government policies are being implemented to improve trust and better involve citizens in decision-making (OECD/CAF/ECLAC, 2018). Finally, to finance development, although the level of taxes remains low compared to OECD countries (22.7% vs. 34% of GDP in 2016), they have increased by more than 1.8 percentage points between 2010-2016, and most countries are actively attempting to decrease tax avoidance and evasion at the local and international levels (OECD/ECLAC/CIAT/IDB, 2018).

Even though LAC has advanced in many areas during the last decades, evidence suggests that institutions have evolved at a slower pace than society's aspirations (OECD/CAF/ECLAC, 2018). Limited state capacities are common – and have experienced little progress over time – across developing economies. Often developing countries have copied best practices from their more developed counterparts that make them look more capable even if they are generally not so (the "isomorphic mimicry", as put by Andrews, Woolcock and Pritchett, 2017).

This chapter focuses on strengthening domestic capacities in three main areas to address development traps and foster a multidimensional approach to sustainable development in LAC. First, better capacities are needed to improve the *planning and policy-making process for development*. This includes issues related to building technical capacity to design, implement and monitor long-term, strategic National Development Plans (NDPs). In addition, it includes how NDPs are linked to the international development agenda of the SDGs and the global context. Finally, it examines how to create the political consensus and citizen support to overcome the complexities of the political economy of reforms in LAC. Second, better capacities are needed to improve *spending for development*. This will enable countries to do more with less and have mechanisms to make a more efficient and impactful use of public resources. Third, better capacities are needed to improve *financing for development*. This refers to mobilisation of sustainable domestic financing for development, both public and private, to invest in structural policies and support the sustainable development agenda. In all three areas, the digital transformation plays a critical role, providing new tools and opportunities to deliver better public goods and services. Hence, the chapter highlights some relevant examples where digitalisation can improve institutional capacities.

The three areas are cross-cutting, affecting all public policies for all sectors and levels of government. Previous editions of the *Latin American Economic Outlook* (LEO) focused on various public policy issues that are crucial for sustainable and inclusive development in the region. These include fiscal policy; migration; small and medium-sized enterprises; infrastructure and logistics; education and skills; trade integration and the relationship with China; youth, skills and entrepreneurship; and the relevance of rethinking institutions to support greater development. These editions analysed horizontal issues across all LEOs, such as low productivity, labour markets and the persistence of informality, and the socio-economic implications of an expanding middle class. The three areas in this chapter are fundamental steps to improve and strengthen topics covered in previous LEO editions.

Improving state capacities for planning and policy making in Latin America

Development planning has experienced a significant evolution in recent years in LAC, mainly through the adoption of NDPs. Contemporary planning strategies in LAC foster a multidimensional view of development with a strong focus on reducing poverty and inequality, and encouraging productivity. It also promotes participation of a broader group of public and private actors in design and implementation. Additionally, planning strategies in LAC favour adoption of policies to mitigate market failures and provide public goods. This occurs often throughout regulation, public investment and, in some cases, the organisation of public-private partnerships.

NDPs represent a critical tool for development planning, enabling countries to move towards shared development objectives with a common and long-term vision. In this respect, NDPs can be essential to co-ordinating public policies so that LAC economies can overcome development traps. Likewise, it is critical to link the NDPs to the 2030 Agenda for Sustainable Development (the 2030 Agenda), in particular to those SDGs where global public goods are crucial.

To adopt NDPs, some countries must navigate in multi-annual and complex policy reforms. In that setting, NDPs emerge from country-specific policy-making processes (PMPs). These PMPs, in turn, result from a particular political economy equilibrium, characterised by a complex interaction between public and private actors in a specific institutional setting. In this light, the NDPs in LAC are beset by notorious shortcomings,

particularly in the design and implementation phases. These shortcomings, in turn, emerge from the lack of technical capacity in the design of planned reforms and programmes; insufficient continuity in implementation processes due to frequent government turnover; and inadequate connection between plan design and the budgetary process.

International co-operation can provide valuable support in the design and implementation of NDPs. By providing technical support, contributing to build local capabilities and sharing successful reform experiences, international co-operation can help address some weaknesses of planning strategies (Chapter 5).

Digital technologies can be useful to develop more effective NDPs in LAC. These technologies are a powerful tool to improve citizens' participation and empowerment in the design phase of planning strategies. They also facilitate the impact evaluation of government programmes and projects in connection to the SDGs. Finally, digital technologies enhance state capabilities to develop more accurate and rigorous long-term macroeconomic scenarios that are essential in setting up consistent and sustainable development strategies.

Development planning in Latin America: The role of National Development Plans

Development planning is a political and social process that seeks to co-ordinate different actors, sectors and levels of government for comprehensive actions to achieve development objectives (ECLAC, 2018a). These planning processes have acquired various levels of complexity and scale that demand a systemic approach. Under such an approach, planning must be understood as a set of norms, institutions, instruments and processes that interact according to the objective of sustainable development.

NDPs represent a critical planning tool to move towards shared development objectives with a common and long-term vision. These planning tools usually identify responsibilities and relevant actors for its fulfilment. As such, they can be an effective instrument to articulate a cohesive and rational approach to the process of public management, setting up a link between the country's development challenges and goals. This type of tool guides investments in major issues such as education, health, infrastructure and security, among others. These are needed to achieve development, provide equal opportunities and create better conditions to enhance quality of life. Plans are based on the general situation of the nation, its environment and its medium- and long-term priorities. Clear objectives and challenges help a country visualise and establish the actions necessary for each social actor to promote development (ECLAC, 2017).

National Development Plans in Latin America

As many as 18 LAC countries have at least one national instrument for development, while Cuba and Uruguay are formulating an NDP or strategy with a long-term vision. Several countries in the region have built NDPs on a long-term basis. These include Dominican Republic, Guatemala, Haiti, Honduras, Jamaica, Paraguay and Peru. The scope of these instruments is quite diverse. They range from development plans or strategies to meet objectives during a specific government term to national strategies that extend beyond the duration of a certain administration (see Annex 4.A1 for the NDPs included in this analysis and Chapter 6 for Caribbean small states).

Citizens' participation in planning is one key aspect of the national development strategy. Within the LAC region, this participation ranges from simply receiving information on a specific topic to jointly formulating, implementing and following up the plan. Seven countries in LAC have long-term plans and strategies formulated through political consensus and participatory processes with broad representation of actors of the society.

Implementation of the plans requires co-ordination of public institutions for joint work with different actors or different levels of citizen participation. In this environment, the national planning authority is a key actor. In LAC, this authority has diverse configurations with respect to administration, dependence, hierarchy and responsibilities. While some authorities operate as a government minister with exclusive mandates, others function within different ministries or are autonomous agencies. On the other hand, some countries do not have a centralised planning authority. Instead, they link planning instruments to the government budget with a decentralised assignment of responsibilities.

LAC has several models of frameworks that regulate planning instruments. In some cases, countries grant constitutional status to the planning exercise. Others have laws that dictate planning processes that a government must follow. Still others give the status of law to an NDP or strategy. As many as 10 countries in LAC have given constitutional status to planning, 11 have a specific law about planning instruments and 4 gave legal status to an NDP.

The link between the development plan and the budget is fundamental to implementing the strategy and achieving objectives. In this regard, 14 LAC countries have established a legal framework for the link between the development plan and the budget. Five countries have specific guidelines in the plan to co-ordinate both the plan and the budget. Four other countries have a mechanism that includes estimates or projections about the budget needed to implement the proposed actions in the plan.

A mechanism for the follow-up of NDPs is key for their success. In LAC, 13 countries have a monitoring and evaluation system in place. Five countries have not yet defined a mechanism, while one is building it. In addition, 12 countries have a legal framework related to monitoring and evaluating the development plan; the planning authority is responsible for this process.

The fulfilment of each stage of the plan – participation, implementation, and monitoring and evaluation – is critical for achieving goals. The authorities that carry out this task design and co-ordinate a complex system of policies, programmes and projects with different institutions, government levels and time-frames. In addition, national priorities need to be articulated with the 2030 Agenda and the SDGs. This requires renewed efforts of co-ordination, political will and leadership for plans, strategies and programmes to embrace global, national, regional and local levels. Finally, these plans should consider the international context and global public goods as crucial elements in the design and implementation of domestic strategies (Chapter 5).

Furthermore, countries must review their co-operation mechanisms to support the implementation of development plans. This includes integrating new perspectives and modalities to support the transition to sustainable development and design of public policies crucial to managing globalisation. This, in turn, should recognise that priorities and choices of allocation may change from one country to the next, and that non-financial co-operation is a crucial contribution to global governance (Chapter 5).

National development plans as a critical tool to address the "new" development traps

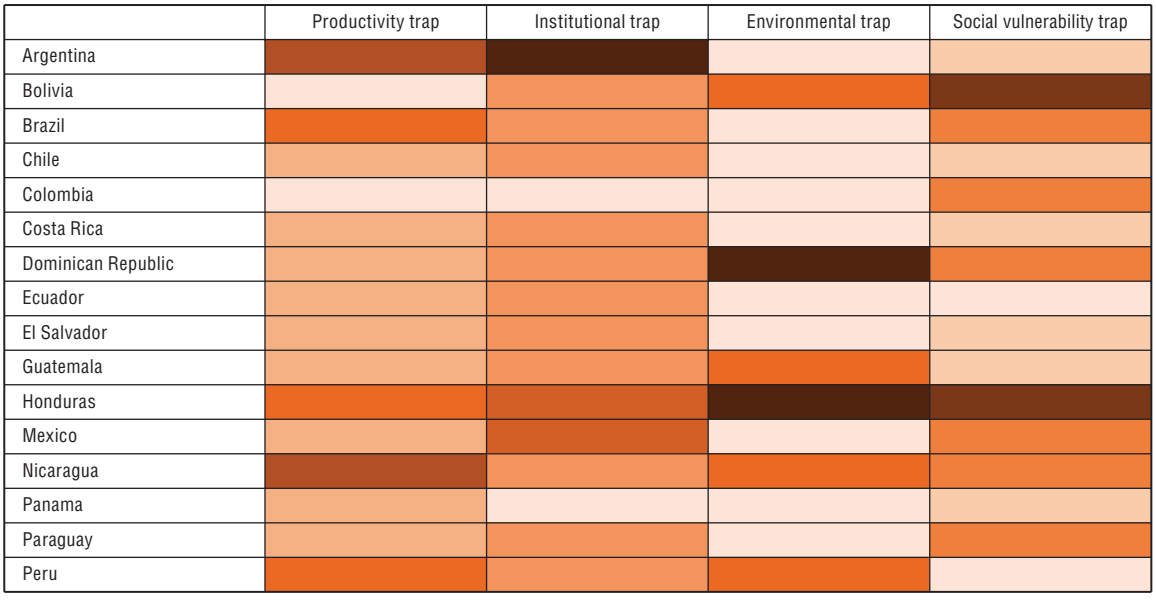
The visions embodied in the development plans or strategies describe expected achievements. Based on a review of development plans in the region, the main ideas in these visions were summarised as follows: *A society centred on people, inclusive, empowered, egalitarian, with quality education and respectful of diversity; a country without extreme poverty, in solidarity, in peace and tranquillity, with quality of life and in harmony with the environment, which*

guarantees the well-being of present and future generations; a solid, prosperous, dynamic, diversified and sustainable economy with quality jobs; a democratic, participatory, transparent, effective system that promotes equal opportunities.

This summary highlights the economic, social, institutional and environmental dimensions that are part of the different development visions. Based on these visions, countries detail the strategic objectives that constitute the country's medium- and long-term development guidelines, which are materialised in the short term through action lines. This strategic framework determines a set of national, sectoral and cross-cutting polices that are translated into programmes and projects that seek to achieve national goals.

Based on the strategic objectives in development plans in the region, priorities have been grouped into four major traps that economies face in their transition to development: *productivity, institutional, environmental* and *social vulnerability*. On average, countries' most pressing policy issues relate to institutional strengthening, including reforms for modernisation of public services, citizen security, justice and international co-operation. The second major issue is productivity, including macroeconomic stability, growth and employment, infrastructure development and investments in science and technology. Social vulnerability comes in third place and includes social and human development, inclusion and social cohesion, equity, quality of education and access to basic services. The less-mentioned topics are those related to the environment and the adaptation and mitigation of climate change (Figure 4.1).

Figure 4.1. **Latin America (16 countries): Intensity of specific topics in development plans**



Note: Each strategic objective of the national development plans for every country was classified according to a broad thematic area. Subsequently, strategic objectives were grouped according to their thematic link with the four development traps. Next, a relative indicator was calculated by country, giving the maximum value to the country that covers all topics in every category in its strategic objectives.

The colours indicate the intensity of the topics included in the strategic objectives according to the challenges of the development in transition. As a colour darkens, its priority within the plan increases. The figure is based on the latest development plan (or its equivalent) approved by the end of 2018. See Annex 4.A1 for the NDPs included in this analysis and Chapter 6 for Caribbean small states.

Source: Own elaboration based on the information contained in development plans.

The previous analysis indicates some trends on policy priorities, which are also related to the institution in charge of preparing the scope and objectives of theses NDPs. Likewise, some programmatic differences can be observed between development planning instruments in the region. Institutional strengthening and macroeconomic stability, growth and employment are the strategic objectives most mentioned in revised plans. Even though environmental issues are relatively less present as strategic objectives in development plans in Latin America, Caribbean countries have recognised these areas as critical for planning. This difference can be explained in part by their exposure to recent extreme climate events (see Chapter 6 on Caribbean small states).

National development plans and the link with the SDGs in Latin America

The United Nations' SDG agenda – known as the Agenda 2030 – is a tool for planning, monitoring and evaluating the development agendas of countries. The Agenda 2030, considered as a civilising and universal instrument, establishes people as its main focus. It emphasises rights and a commitment to global sustainable development in which all countries participate equally (ECLAC, 2016a). In this respect, it integrates three pillars of sustainable development: economic, social and environmental.

Since 2015, LAC countries have articulated their NDPs in light of the Agenda 2030. Indeed, the integration of both the national and global development agendas is an opportunity for LAC countries (Chapter 5). The alignment process identifies links between the national agenda and the SDGs. In this way, the articulation of NDPs can favour compliance with the SDGs.

Argentina, Guatemala and Paraguay are some of the countries in making the articulation of their NDPs in line with the SDGs. Argentina appointed the National Council for the Co-ordination of Social Policies (CNCPS) in 2016. As the presidential body that co-ordinates adaptation and implementation of the 2030 Agenda, the CNCPS oversees technical assistance in each stage of the NDP process (CNCPS, 2017; CNCPS, n.d).

The Forum of Latin American and Caribbean Countries on Sustainable Development is the mechanism to monitor and review the implementation of the Agenda 2030 and the SDGs in the region. The Economic Commission for Latin America and the Caribbean (ECLAC) accompanies and supports countries of the region in implementation through evaluation of their capacities and resources of all kinds, developing new strategies and designing institutions in the national, regional and global levels through the forum (ECLAC, 2018a).

Four main priorities support implementation and follow-up of the Agenda 2030. The first priority relates to strengthening regional institutional architecture through (i) forming and consolidating a solid base for a follow-up and collaborative analysis of the SDGs; (ii) strengthening capacities of the countries; and (iii) identifying regional trends and gaps in the implementation of the Agenda. This priority, as a guideline at the regional level, promotes a transparent, co-ordinated and integrated relationship. The national, regional and global levels have clear reporting mechanisms, hierarchy and mandates. The forum and each ECLAC body provide a platform that bridges the domestic sphere and the larger system. This allows consolidation of policy dialogue between multiple actors with the idea of sharing good practices, emerging challenges and joint goals (ECLAC, 2018a).

The second priority relates to strengthening analysis of capacities for implementation of the Agenda 2030 at the regional level. This includes analytical and technical support, as

well as policy advice to countries. The regional analysis, led by ECLAC, subsidiary bodies and intergovernmental bodies, also involves other actors such as the academic sector, the private sector and civil society. Together, they exchange knowledge, experiences and proposals that solve problems exposed in the Agenda 2030 (ECLAC, 2018a).

The third priority relates to integration of the SDGs into NDPs and national budgets. This recognises planning as a means of implementing the international Agenda. The work plan of each country must recognise in its planning process the actions that contribute to the fulfilment of each objective. ECLAC identifies four key actions for national planning. The first supports creation of national architecture to foster both dialogue among countries for co-operation and mutual learning of experiences and good practices. The second promotes incorporation of the SDGs into national and territorial planning systems through medium and/or long-term development strategies. The third strengthens capacities of planning, monitoring, evaluation and public management of all actors to identify and promote the application of strategic tools that consolidate development objectives in institutions, public policies and NDPs. The fourth is to develop a regional observatory of planning for sustainable development that serves as a support platform for all actors and a space for dialogue between nations. The platform allows access to information and different instruments that help in the implementation and follow-up of the Agenda 2030 (ECLAC, 2018a).

The fourth priority is the integration of measurement processes needed to produce SDG indicators in national and regional statistical development strategies, as well as the consolidation of national statistical systems and the leading role of national statistical offices. It aims to enhance capacity of national statistical systems by responding to the needs of the Agenda 2030 (ECLAC, 2018a).

Using multidimensional measures to define and monitor the development agenda

As challenges and opportunities can diverge from one economy to another, there is no single path to development. Countries in transition, moving from one level of income to the next, show signs of strong economic growth, while still facing different development vulnerabilities (Chapter 2).

Multidimensional measures are essential to capture the complexities of development and to gain a more precise picture of people's living conditions. Income indicators are easy to understand and communicate. They are also relatively easy to calculate and allow comparisons across countries and over time. Yet, for policy making and analysis, they might not provide a clear picture of needs and achievements across the spectrum.

Several methodologies have been developed to measure development. For instance, many developing countries already apply the United Nations Human Development Index (UNDP, 2018) or the Multidimensional Poverty Index (Angulo, 2016; Alkire, 2018). Two complementary multidimensional measures of development could guide policy makers in their planning agenda: the OECD How's Life framework and ECLAC's structural gap approach (Box 4.1). The OECD framework measures development outcomes to reflect the realities of citizens. For its part, the ECLAC's structural gap approach identifies long-term objectives to tackle obstacles to inclusive growth.

Box 4.1. **Well-being indicators and structural gap approach: Two complementary methodologies for informing policy makers in the region**

Several new approaches aim to measure development beyond income and can inform policy makers and compare with other countries. First, use of well-being indicators can improve design and delivery of development plans at different stages of implementation. Second, the structural gap approach (SGA) can identify financial needs and their allocation required to overcome key long-term obstacles.

The well-being approach, as exemplified by the OECD *How's Life?* framework (OECD, 2017), can inform policy makers in several ways (Durand, 2018). At the agenda-setting stage, regional well-being indicators can become a diagnostic tool to identify priority issues and comparative evidence across countries. Additionally, policy formulation would help spell out in detail how the proposed policy will improve each of these identified priorities. It would also help clarify *ex ante* a range of well-being benefits and costs. Robust methodologies, for example, would allow for comparison between policy options and alternative programmes. Moreover, comparing multiple well-being outcomes across and within countries permits identification of issues shared by more than one country. Finally, the well-being approach can be used to monitor and evaluate the effectiveness of development plans.

The second methodology, the SGA, is a strategic framework for identifying financial needs and for allocation of resources required to overcome key long-term obstacles (ECLAC, 2012). The SGA is thus an alternative methodology that can assess the most important needs of countries in transition. By focusing on a common diagnosis and prioritisation of challenges, it can help formulate national development strategies and inform the new development agenda. Closing development gaps requires mobilisation of both traditional and emerging resources. Tailor-made instruments are key to identifying a country's ability to mobilise domestic and external resources and their willingness and capacity to contribute to global and regional public goods.

From planning to action: The policy-making process in Latin America

This section examines the political economy of designing, adopting and implementing development plans in LAC. First, it reviews some trends in policy priorities in development plans and analyses the role of planning in policy making and the "life cycle" of reforms in the region. Second, it briefly describes the peculiar features of the political economy of planning in LAC. It ends by discussing the importance of communication for successfully passing reforms and, particularly, in adopting and implementing national development strategies.

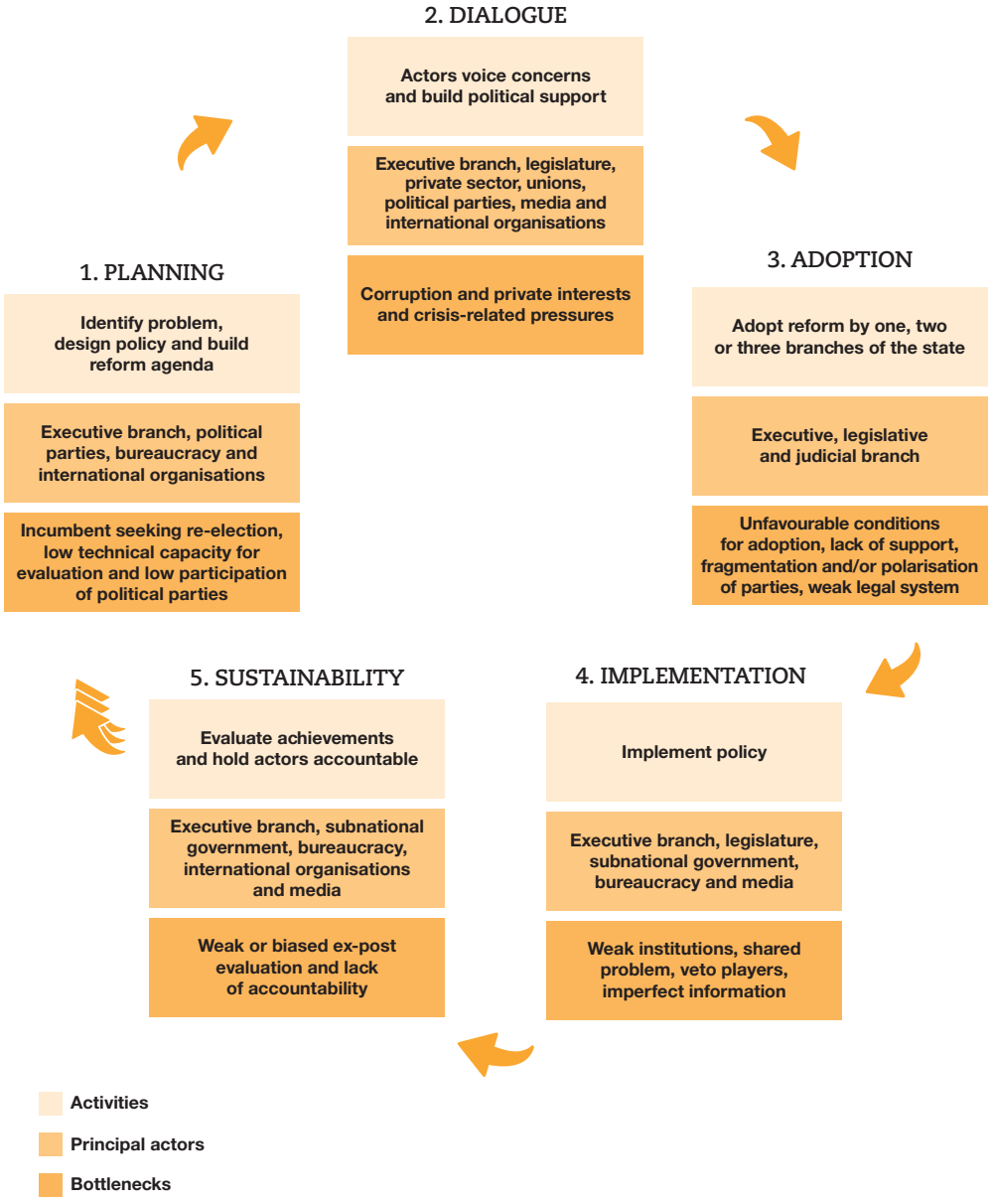
The design, adoption and implementation of national development strategies is eminently a "political action" (Mattár and Cuervo, 2017). Planning involves the definition of a long-term vision of the evolution of a country's economic and social structure, the arrangement of complex long-term policy objectives and the resulting allocation of scarce fiscal and political resources to particular government agencies, programmes and projects (Bertola and Ocampo, 2013; ECLAC, 2017).

To achieve their goals, NDPs usually comprise adoption and implementation of policy reforms over a prolonged period. In this view, planning is the first of five critical stages of the life cycle of reform; the others are dialogue, adoption, implementation and sustainability (Dayton-Johnson, Londoño and Nieto Parra, 2011). The planning

stage involves identification of the problem, design of the policy and agenda setting for reform (Figure 4.2).

From a political economy perspective, the design, adoption and implementation of planning strategies are largely the result of the PMP – a complex set of bargains and exchanges among political actors with their own interests, incentives and constraints. There are institutions or "rules of the game" where these interactions take place, and a specific context affecting that particular stage of the life cycle of policy reform (Stein et al., 2005; Stein and Tommasi, 2006; Dayton-Johnson, Londoño and Nieto Parra, 2011). In this perspective, co-operation and agreement among the principal actors in the PMP are the pillars for adoption and implementation of successful and sustainable NDPs.

Figure 4.2. **The stylised reform cycle: Activities, principal actors and bottlenecks**



Source: Dayton-Johnson, Londoño and Nieto Parra (2011).

Partially owing to the presence of a strong tradition of presidentialism, the executive branch and its cabinet play a significant role in setting the agenda for development planning, and more generally, in managing the entire PMP in LAC. As a result, ministries, and particularly ministries of planning and/or economy and finance, are often key players in designing and implementing NDPs (Stein et al., 2005; ILPES-ECLAC, 2017a; Mattár and Cuervo, 2017).

Conversely, and despite some differences across countries, legislatures usually play a limited role in the formulation and adoption of development strategies in the region. Similarly, the participation of civil society organisations in the definition of goals and policy guidelines in the development strategies remains limited (ECLAC, 2018a; Mattár and Cuervo, 2017).

In most LAC countries, business groups have been influential in the PMP. These groups influence the design and implementation of NDPs through formal or informal associations, bargaining, lobbying, government appointments, political financing and, in some cases, corruption (Schneider, 2010). Both technical staff and effective interest intermediation may serve to impede rent seeking. If business association members meet regularly to reconcile differences, they are more likely to be attentive, and resistant, to rent seeking by other members. At first glance, well-organised associations seem a prerequisite for effective business-government collaboration (Schneider, 2015). However, different capture mechanisms, including financing and media campaigns, lobbying and a "revolving door" between private and public positions, negatively affect the effectiveness of reforms in LAC countries (OXFAM, 2018).

Besides the specific features of the PMP, there are some additional weaknesses in planning processes in LAC: (i) difficulties in implementation; (ii) lack of long-term planning; (iii) lack of intersectoral co-ordination; (iv) insufficient budget allocations for implementing plans; (v) limited co-ordination between plan design and budget; (vi) political interests that outweigh technical recommendations; (vii) frequent government turnover, with no continuity in implementation processes; (viii) lack of political will to implement plans; (ix) complexity of institutional architecture and excessive bureaucracy; and (x) insufficient attention to planning as an instrument for effecting change or anticipating unfavourable results (ILPES-ECLAC, 2017b).

Digital technologies can help address some of the planning weaknesses in LAC. Social media and digital platforms are a key tool to improve citizens' participation and empowerment in the design phase of NDPs, as well as to enhance the transparency of its adoption and implementation stages. Additionally, the adoption of digital technologies along the entire policy cycle can play a crucial role to improve links between development goals set by the NDPs and national budgetary systems, and therefore, to concretise government programmes and projects. Hence, these technologies could help LAC governments to monitor policy compliance with the development traps more effectively and to evaluate more rigorously those policies' alignment with, and their impact on, the SDGs. Finally, applying recent advances in artificial intelligence technologies to the large datasets of administrative data available in the region to the state agencies can have a positive impact. Specifically, it can improve LAC governments' ability to design and implement sound development strategies based on more solid and accurate macroeconomic forecasting and scenario-building exercises (Estevadeordal et al., 2018).

Communication plays a crucial role for effective adoption and implementation of development strategies. In particular, the success of the dialogue, adoption and implementation phases hinges on convincing multiple public actors of the potential long-term benefits of proposed policy changes and reforms (Lora and Olivera, 2004; Lora, 2007; Dayton-Johnson, Londoño and Nieto Parra, 2011).

Recent evidence from the behavioural economics literature suggests that people respond to perceived changes in regulations and other policies rather than to actual changes. Government can go a long way towards producing changes in behaviour by modifying the way policy reforms are actually framed and presented to the public (Castro and Scartascini, 2015).

Tax compliance is a promising area for improving the effectiveness of public policies through the adoption of communication interventions or "nudges". Recent evidence from randomised control trials (RCTs) in the region singles out the large and positive role of "information" on raising tax revenues. This is particularly true in relation to penalties and the probability of detection in the case of tax evasion. More generally, evidence from the RCTs indicates the use of clear, concise and salient messages, and direct communication methods, offer an effective value-for-money when promoting, and finally passing, tax reforms (Castro and Scartascini, 2015; Carrillo, Pomeranz and Singhal, 2017).

Finally, the adoption of communication interventions or informational nudges can play a relevant role in development plans. For instance, several NDPs in LAC have recently introduced ambitious multi-annual reforms in the energy sector (ILPES-ECLAC, 2017a; 2017b). Energy reforms are notoriously difficult to carry out as they frequently entail unpopular increases in tariffs and prices. Additionally, tariff schemes in the energy sector are usually extremely complex to understand. Therefore, economic agents, and particularly households, have a limited understanding of the social and economic implications of modifying energy tariffs (Bastos et al., 2014). In that setting, conveying effectively the benefits of policy changes, and carefully explaining how mitigating measures such as subsidised tariffs could help low-income households, might help build and sustain support for energy reforms (Castro and Barafini, 2015).

Towards more and better spending for development in LAC countries

NDPs in LAC countries identify the need to spend more and better in key areas affecting development. In particular, most NDPs insist on the need to enhance and to improve public investment through, for example, improved connectivity. In addition, NDPs address the need to spend better on certain inputs to achieve better outcomes for citizens. Better incentives to teachers, for example, increase education performance. Finally, NDPs play a role in the design of Centre of Government policy objectives; a key area is the co-ordination across several authorities to spend more effectively. This is the case, for instance, between transport roads and schools' infrastructure at subnational level.

This section presents two domains regarding spending for development in LAC countries. First, it insists on the need to improve the effectiveness and efficiency of public expenditures. Second, it highlights that in some areas spending remains too low in LAC to close the gap with other countries in social and competitiveness domains. Drawing on these two dimensions, this section shows that the levels and quality of spending in the region are insufficient to overcome development traps and accomplish the Agenda 2030.

More efficient and effective public spending as a driver of development

Analysis of government spending in LAC reveals widespread waste and inefficiencies that could be as large as 4.4% of the region's gross domestic product (GDP). This indicates ample room to improve basic services without necessarily spending more resources (Izquierdo, Pessino and Vuletin, 2018).

Using existing public resources, LAC countries can achieve better social and economic outcomes. In several areas, including education, health services, public safety and infrastructure, the region could improve public services using current levels of spending. At the very least, it could provide current levels of services using fewer public resources.

With respect to the quality of secondary education, some actions that are not necessarily resource-intensive could improve Latin America's system. According to the Programme for International Student Assessment (PISA), intangible variables and variables related to soft skills interact most with teaching performance in both Latin America and the OECD. These include teachers' expectations of their students' futures, and to a lesser extent the type and level of teacher certification (Avendano et al., 2016). These factors may require less spending than certain "traditional" policies such as higher teacher-student ratios, better physical infrastructure and more qualified teachers (OECD/CAF/ECLAC, 2014).

Regarding infrastructure, increased investments are less important than better connectivity through more efficient spending and complementary services. Strategies for improved efficiency in spending include stronger planning and improved budgeting that allows for evaluating projects over several years. Similarly, at a post-construction stage, proper maintenance and strong regulations are needed to guarantee the quality of existing infrastructure (World Bank, 2018). Infrastructure projects require time and resources for their planning and execution; sufficient funds are not always available.

Much can be done to improve transport of goods and services using existing infrastructure and adopting cost-effective policies. These "soft" solutions can include developing integrated logistics policies supported by the necessary governance and institutions; providing modern storage facilities and efficient customs and certification procedures; making better use of information and communication technologies; and promoting competition in transport (OECD/CAF/ECLAC, 2013; World Bank, 2016).

At the sub-national level, there is a need to improve the allocation of commodity-based transfers to regions. Despite improvements in the past years, most countries of Latin America need still to improve the allocation of these revenues according to level of development of the regions and, for instance, to finance education and skills, infrastructure and research and innovation policies to promote economic diversification. Prioritising and planning these investments should be carried out with a dialogue between national and sub-national governments and private actors, civil society and academia. To improve the management of these revenues, support for governance capacity at the sub-national level is also needed (OECD, 2013; OECD, 2016a).

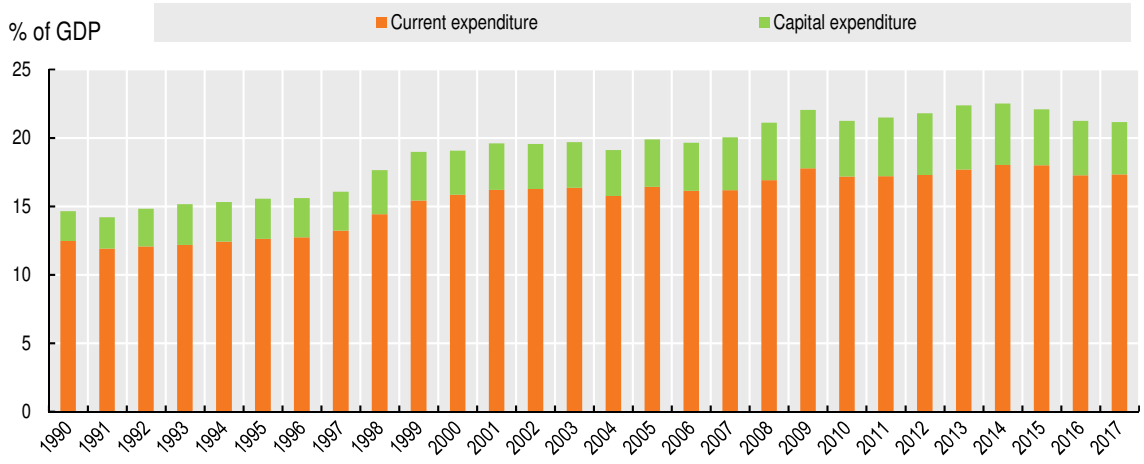
Another important component to spend more effectively and efficiently is the allocation across different types of spending. Public spending is typically allocated according to historical standards rather than value-for-money. In the health sector, more resources have traditionally gone towards curative care rather than prevention. In education, more attention has been given to post-secondary degrees rather than early childhood development (Izquierdo, Pessino and Vuletin, 2018). However, greater attention on education in the early years can be cost-effective. For example, it can save on future investments by increasing individuals' performance at later stages, enhancing economic productivity (OECD/CAF/ECLAC, 2014; Izquierdo, Pessino and Vuletin, 2018).

A temporal bias means that LAC countries prioritise short-term rather than long-term spending. Since 1990, more than 80% of primary central government expenditure has been allocated towards current expenditure, which tends to be more short term. Conversely, capital expenditure has been almost consistently below 21%. After reaching its peak in 2012, it decreased to 18% in 2017 (Figure 4.3). Latin American economies tend to reduce capital expenditure in hard times, despite its long-term effect and higher fiscal

multipliers; they increase current expenditure in good times (OECD/CAF/ECLAC, 2018). This result is exacerbated under broad weak institutions (Ardanaz and Izquierdo, 2018).

Figure 4.3. **Central government current and capital expenditure in Latin America and the Caribbean**

(percentage of GDP)



Source: Own calculations based on CEPALSTAT.
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Closing the spending gap

The region lags behind in key public investments such as infrastructure or research and development (R&D), as well as social expenditures. These are essential to overcome the development traps and achieve the Agenda 2030.

Low capital expenditure translates into low infrastructure investment in a region where it is of key importance. In 2014, Latin America invested around 2.8% of GDP in infrastructure, although with strong variations across countries. This rate is second-lowest among emerging economies, surpassing only sub-Saharan Africa (1.9% of GDP). Investment rates of other regions for the same year are 7.7% for East Asia and the Pacific, 6.9% for the Middle East and North Africa, 5.0% for South Asia and 4.0% for Central Asia. Consequently, in terms of availability and quality of infrastructure, the region underperforms more than other emerging regions (World Bank, 2018a). This is a concern, as Latin America's production structure is especially time-sensitive. Low-quality infrastructure investment entails high costs and a time-consuming process for exports (OECD/CAF/ECLAC, 2013; World Bank, 2016).

In addition, R&D expenditure in the region lags behind, holding back productivity gains. To overcome the productivity trap, LAC economies must find new engines of sustainable development that will depend on favourable investment rates and a developed system of national innovation. The region has a relatively low investment in R&D as a percentage of GDP, with an average of 0.7% between 2000-14. In contrast, in East Asia and the Pacific and in the OECD average, the rate is above 2.0% of GDP. On average, the public sector is responsible for about 60% of the region's total R&D expenditure, compared to less than 40% by the business sector. In contrast, economies such as the United States, Spain or Portugal mainly finance their R&D through private investments (RICYT, 2016).

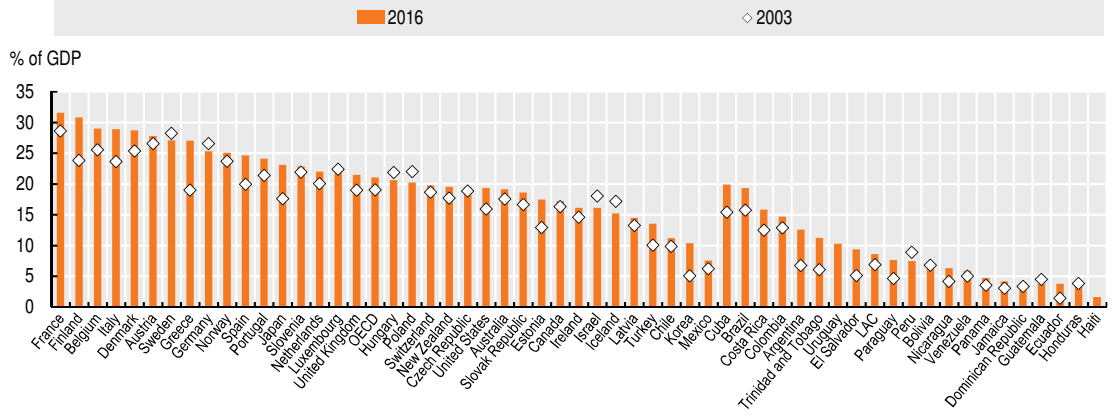
Inefficient and insufficient investment in R&D translates into slow production of original knowledge, as measured by patent applications. Expenditure in R&D in Latin America is inefficient. On average, each percentage point of GDP invested in R&D produces six new patent applications via the Patent Co-operation Treaty. In contrast, OECD member

countries produce on average 43 patent applications per each point of GDP invested in R&D. The mix of inefficient and low spending results in low production of original knowledge. In 2015, the region applied for two patents per million habitants in 2015. This is relatively low compared to the 110 patent applications per million habitants in the OECD in 2015. That same year, patent applications varied strongly in Latin America from around 8.2 in Chile to less than 0.2 in El Salvador. However, they were consistently below the OECD level.

Efforts to increase quality spending in social protection across the LAC are also needed to overcome vulnerability and institutional traps. Improving the quality and coverage of key public services is a priority, especially those affecting individuals of low socio-economic background, such as education and skills (OECD/CAF/ECLAC, 2016, 2014). In LAC economies, current levels of investment in key socio-economic areas for development are consistently well below those of OECD economies (Figure 4.4). Social expenditures in health, pensions, family support and other social services were around 8.6% of GDP in 2016, well below spending in OECD countries (21.2% of GDP) (OECD, 2016b). At 4.3% of GDP in 2015, investment in education in the region also lags behind the close to 5.5% of GDP that OECD member countries invest in education.

In sum, the region needs to increase and improve spending on social components, including health and education. It also needs to boost investment in R&D and other innovation policies to strengthen competitiveness. More and better spending is crucial to overcome the aforementioned traps (Chapter 3).

Figure 4.4. **Public social expenditure in OECD and LAC countries**



Note: For OECD member countries, instead of 2016, data for Mexico refer to 2012 and 2013 for Japan, 2014 for Turkey and 2015 for Canada, Chile and New Zealand. For Latin American countries (right panel) data are not fully comparable with OECD member countries, 2015, except for Panama 2014 and Venezuela 2009. Instead of 2003, data refer to 2009 for Colombia.

Source: OECD Social Expenditure Database (2016b); ECLAC (2016b), Base de Datos de Inversión Social.

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Domestic financing for development: The role of public and private sectors to raise funds for development

Responding to the Agenda 2030 and the development traps requires mobilising vast resources to finance long-term policy reforms (see discussion above). The post-2015 development agenda brings a profound transformation in sustainable development that requires a huge mobilisation of resources. Worldwide, finance needs of the Agenda are estimated at USD 3-14 trillion. This will entail a change in funding, organisation and allocation (ECLAC, 2017). Therefore, the financing for development angle is fundamental to achieve the SDGs and to help countries in transition overcome their development traps.

Sufficient domestic resources for development are needed to enable both the public and private sectors to drive national development. Domestic resources for development can come from public and private sectors in key domains such as taxes, national development banks, financial markets and public-private partnerships. This section argues these different sources of financing for development are important and can be enhanced in the region.

More and better public resources are needed to fund development

LAC economies need to mobilise further domestic resources to overcome development traps and achieve the Agenda 2030. In 2016, the average tax-to-GDP in the LAC region was 22.7% of GDP, compared to 34.0% of GDP in OECD member countries (OECD, 2018a; OECD/ECLAC/CIAT/IDB, 2018). Tax-to-GDP ratios varied widely between countries, ranging from 12.6% in Guatemala to 41.7% in Cuba. Roughly half of the countries in Latin America and the Caribbean have tax-to-GDP ratios between 17% and 26%. How tax revenues are collected is as important as how much is collected.

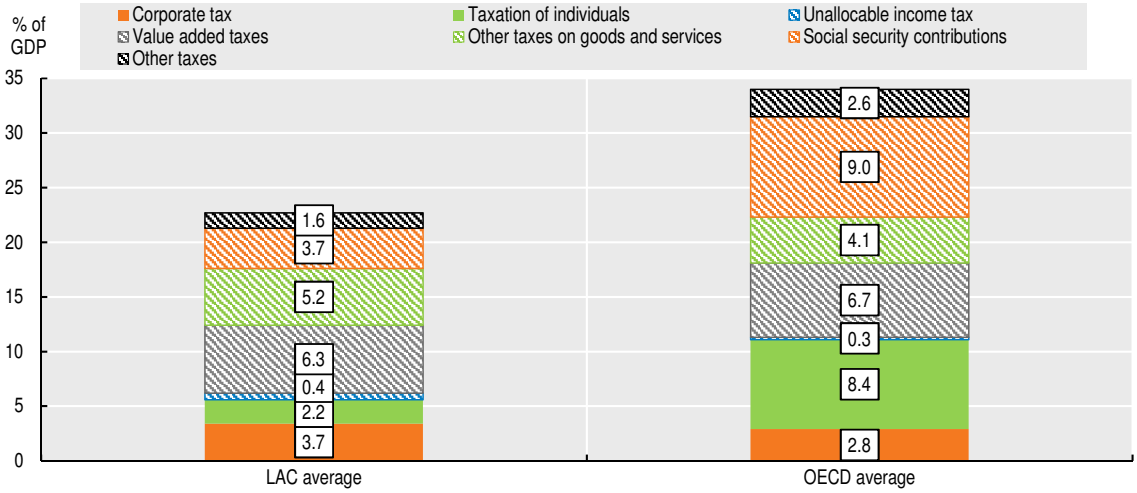
Taxation is necessary to mobilise revenues and finance public goods and services, and should also help reduce inequality and poverty. Taxes are one of the key tools available to government to reduce inequality and to support measures to reduce poverty, including both the financing of social expenditure and the provision of direct support through the tax and benefit system. Both the level and structure of taxation is relevant to the role of taxes in encouraging more inclusive growth: direct taxes such as personal income taxes, which should be progressive, and social security contributions, which may directly support social expenditure, are particularly important in this regard.

In contrast to most OECD economies, tax structures in Latin America and the Caribbean depend most on indirect taxes, rather than direct taxes which tend to be more redistributive (Figure 4.5). The main difference between the OECD and LAC is the contribution of social security contributions (SSC) and the personal income tax revenues (PIT) to total tax revenues. In 2016, on average the PIT and SSC represented only 9.7% and 15.9% of total tax revenues, respectively. In the OECD, the corresponding figures were 33.6% and 26.2% of total tax revenues, respectively. On the other hand, consumption taxes (mainly valued-added taxes, or VAT, and sales taxes) accounted for 50.5% of tax revenues in LAC countries in 2016 compared with 32.7% in OECD member countries. Several factors in Latin America reduce tax revenues, including a narrow tax base due to the proliferation of exemptions and deductions, simplified tax regimes, high minimum non-taxable levels, low willingness to pay taxes (i.e. tax morale), high levels of informality and tax evasion and avoidance (OECD, 2018a; OECD/ECLAC/CIAT/IDB, 2018).

Tax expenditures tend to be high in the region and further assessment is needed to determine their socio-economic costs and benefits. Tax expenditures are "provisions of tax law, regulation or practices that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to a benchmark tax" (OECD, 2010). A systematic inventory analysis of tax expenditure data will provide a more accurate depiction of foregone revenues in the region. Estimates show that in 2016 (or latest data available), tax expenditures amounted to 3.5% of GDP in Latin America. In Costa Rica, Nicaragua, Dominican Republic and Uruguay, tax expenditures exceed 5.0% of GDP. Most tax expenditures come from general taxes on consumption (2.0% of GDP) and to a lesser extent from direct taxes on corporate income (0.7% of GDP) and on personal income (0.6% of GDP) (Pelaez Longinotti, 2017). A crucial issue lies in clearly identifying the objectives of tax exemptions and in quantifying their costs and benefits. Tax exemptions may aim at economic, social and environmental policy goals that include creating more and better jobs, boosting innovation and competitiveness, and improving social conditions.

Yet, it is necessary to quantify these tax expenditures to appraise their effectiveness and efficiency in achieving their intended goals. This is particularly important since tax expenditures are automatically enforced year after year (Redonda, 2016; OECD, 2018c).

Figure 4.5. **Tax structure (as percentage of GDP) in the LAC and OECD regions, 2016**



Source: OECD/ECLAC/CIAT/IDB (2018) and OECD (2018a).
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Tax evasion and tax avoidance in Latin America strongly reduce available resources for development. In 2014, the region is estimated to have lost USD 340 billion through tax evasion – two thirds of this from personal income taxes alone – which amounts to 6.7% of GDP (4.3% of GDP from PIT and 2.4% of GDP from VAT) (ECLAC, 2016c). Most tax avoidance stemmed from direct taxes (4.3% of GDP), which tend to be more redistributive (Brys et al., 2016; Barreíx, Benítez and Pecho, 2017; ECLAC, 2018, 2016c; OECD/CAF/ECLAC, 2018; OECD/ECLAC/CIAT/IDB, 2018).

Tax avoidance and tax evasion through tax planning and misinvoicing should be tackled at international level. Regarding tax avoidance, profit shifting and aggressive tax planning are a source of lost tax revenue. Multinational enterprises, for example, might manipulate transfer prices from economies with high tax levels towards jurisdictions that apply low or zero taxation. Similarly, in their trade practices, some international firms use misinvoicing – falsifying the value of a transaction – to evade paying tax. In 2013, Latin America lost approximately USD 31 billion in tax revenue (0.5% of GDP) due to trade misinvoicing. Estimated losses vary greatly, but are particularly large in Brazil, Costa Rica and Mexico. The size of tax revenue lost and the many ways in which some multinational enterprises operate highlight the need for a co-ordinated response (ECLAC, 2016c).

A deeper integration into global markets must be accompanied by corresponding tax regulation to avoid tax base erosion and profit shifting from multinational enterprises (MNEs). Tax planning that aims to exploit gaps and mismatches in rules by artificially shifting profits to low- or non-tax jurisdictions refers to tax avoidance strategies and is reducing the tax contribution of MNEs in LAC and worldwide. Strengthening the international tax rules of LAC countries, including through implementing recommendations of the OECD/G20 Base Erosion and Profit Shifting (BEPS) project, will help create a more level playing field. This, in turn, will increase tax revenues and overall economic productivity.

Evasion from international transactions must be addressed with a co-ordinated effort in order to increase tax revenues. The Global Forum on Transparency and Exchange of

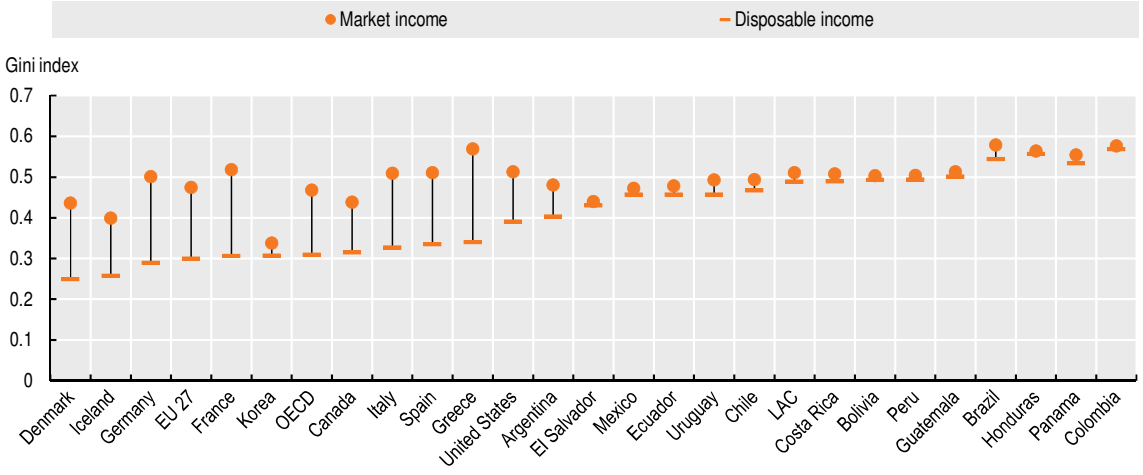
Information for Tax Purposes plays an important role in this context. In November 2018, Argentina, Panama, Paraguay and Uruguay established a Latin American initiative to maximise the effective use of the information exchanged under the international tax transparency standards to tackle tax evasion, corruption and other financial crimes and improve international tax co-operation to counter practices contributing to all forms of financial crimes (Punta del Este Declaration, 2018). A move towards Automatic Exchange of Information for Tax Purposes will help fight tax evasion and give countries greater scope to tax both domestic and foreign-source income earned by tax-resident businesses and households.

New technologies can also help reduce tax evasion and increase revenues. Technology facilitates access to information and allows authorities to cross-reference tax filings more easily. Similarly, it allows users to experience a more simplified tax payment process. New technologies have already had positive effects on tax revenues in Latin America. In 2013, for example, Chile became the first country in the region to adopt E-invoicing, which allows recording of commercial transactions in electronic format. Since then, Argentina, Brazil, Colombia, Ecuador, Mexico, Peru and Uruguay have adopted E-invoicing; countries such as Costa Rica, Guatemala, Panama and Paraguay are looking to implement it. Recording commercial transactions in electronic format helps diminish tax evasion, makes taxes more transparent and contributes to the digitalisation of tax administrations. Other forms of digitalisation such as the application of block-chain technology or the use of big data are still in the experimental stage. Eventually, they could simplify the tax process and reduce evasion. However, they must be accompanied by corresponding institutional reforms and keep in mind the effects of the new technology on the international tax system (Barreix and Zambrano, 2018; KPMG, 2018; OECD, 2018b).

Improving both taxation and social transfer systems should help reduce income inequalities

The combination of inefficient spending and insufficiently progressive taxation in LAC do little to reduce inequalities. In OECD economies, taxes and transfers contribute to the reduction of the Gini coefficient by approximately 16 percentage points. In LAC, the comparable reduction is 2.2 percentage points on average (Figure 4.6; Lustig, 2017; OECD/CAF/ECLAC, 2018).

Figure 4.6. **Impact of taxes and transfers on income distribution in Latin America, the European Union and selected OECD economies**



Source: INEC (2016); Lustig (2017); OECD/CAF/ECLAC (2018); and Commitment to Equity (CEQ) Institute at Tulane University, New Orleans.

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Moreover, LAC faces key challenges to increasing revenues in a more redistributive manner that go beyond increasing tax rates. These challenges include a narrow tax base due to the proliferation of regressive tax expenditures and deductions, simplified tax regimes, high minimum non-taxable levels and low willingness to pay taxes (OECD/CAF/ECLAC, 2018). In Latin America, the income level at which personal income tax (PIT) begins to be paid is higher than in the OECD. This is true whether measured in terms of GDP per capita (Jiménez and Podestá, 2016; ECLAC, 2017) or with reference to average salaries (OECD/CIAT/IDB, 2016). As a result, a high proportion of individuals is exempt, which weakens the redistributive potential of the PIT. Because of high informality rates in the region, policy solutions for PIT, in aspects such as higher progressivity and increases in the tax base, require more analysis of impact on total cost (for workers and employers) of employing formal workers at different income deciles (OECD/CIAT/IDB, 2016).

The political economy to raise public resources for development

LAC countries have attempted several times to improve their tax systems, but the political economy of reforms makes it difficult to approve and implement proposed changes. Previous experiences in the region show policy makers attempting tax reforms particularly disturbed by different capture mechanisms, including financing campaigns and lobbying. Media campaigns and the "revolving door" of high-level officials between public and private jobs have been common during periods of fiscal reforms in the region (OXFAM, 2018). Granting tax expenditures to corporates, preferential rates on CIT or PIT, as well as tax evasion and avoidance mechanisms to the private sector undermines the effectiveness of tax reforms. These aspects contribute to rent-seeking activities, diminish competitiveness and contribute to inequalities in the region, items directly linked to the productivity and social vulnerability traps.

To achieve necessary comprehensive tax reforms, the policy making process should consider communication strategies alongside improvements in the quality of spending. First, governments should communicate clearly to their citizens the benefits of proposed reforms to tackle development traps and improve well-being. Second, they should complement such reforms with more effective, efficient and transparent public spending. If taken hand-in-hand, such actions can improve citizen perceptions of comprehensive fiscal reforms and help build political support.

The sequencing of different reforms could jeopardise overall tax reform. In recent decades, scholars have studied whether political leaders should push as many reforms as possible at once (i.e. big bang approach) or introduce them one after the other (i.e. unbundling strategy) (OECD, 2010; Dayton-Johnson, Londoño and Nieto Parra, 2011). There are arguments for "bundling" reforms into a comprehensive package to build fiscal legitimacy in the region. Bundling reduces political constraints, facilitates political support for fundamental reforms, and addresses distributional issues easier (OECD, 2010). This is because structural reforms to improve citizens' well-being may gain larger support from the population, and gains from one reform can more than compensate for losses by others. Thus, reforms should be implemented simultaneously and swiftly to avoid costly inefficiencies.

Private domestic resources for development: The role of financial markets

Well-developed and well-functioning financial markets are fundamental to promote sustainable and inclusive growth and therefore advance in the different dimensions of development. Access to finance, through different modalities, such as the banking system, fixed income and stock markets, is key to closing development traps. Strong

financial systems contribute to a country's economic development and technological innovation (King and Levine, 1993; Jayaratne and Strahan, 1996; Rajan and Zingales, 1998; Levine, 2018, 2005). Overall, the development of financial markets seems a policy priority for most countries in the region (Izquierdo et al., 2016; Melguizo et al., 2017).

While well-regulated and supervised banking systems in the region are fundamental to guarantee financial stability, further efforts are needed to increase financial inclusion. Thanks to adoption of macro-prudential regulation and improvements in the supervision of financial markets in most countries in the region, the banking system is more solvent than at the end of the 1990s. This has contributed to the resilience of local financial markets to the 2008 global financial crisis, in particular compared to previous external shocks. However, even with solvent banks, the region's financial system could contribute more to sustainable development. High capital adequacy ratios in the region are associated with low loan-to-GDP ratios, suggesting sub-optimal levels of financial intermediation. Most countries in the region have adopted capital adequacy regulations (following Basel II standards). Solvency ratios are also well above those required by their supervisors. However, financial depth remains poor.

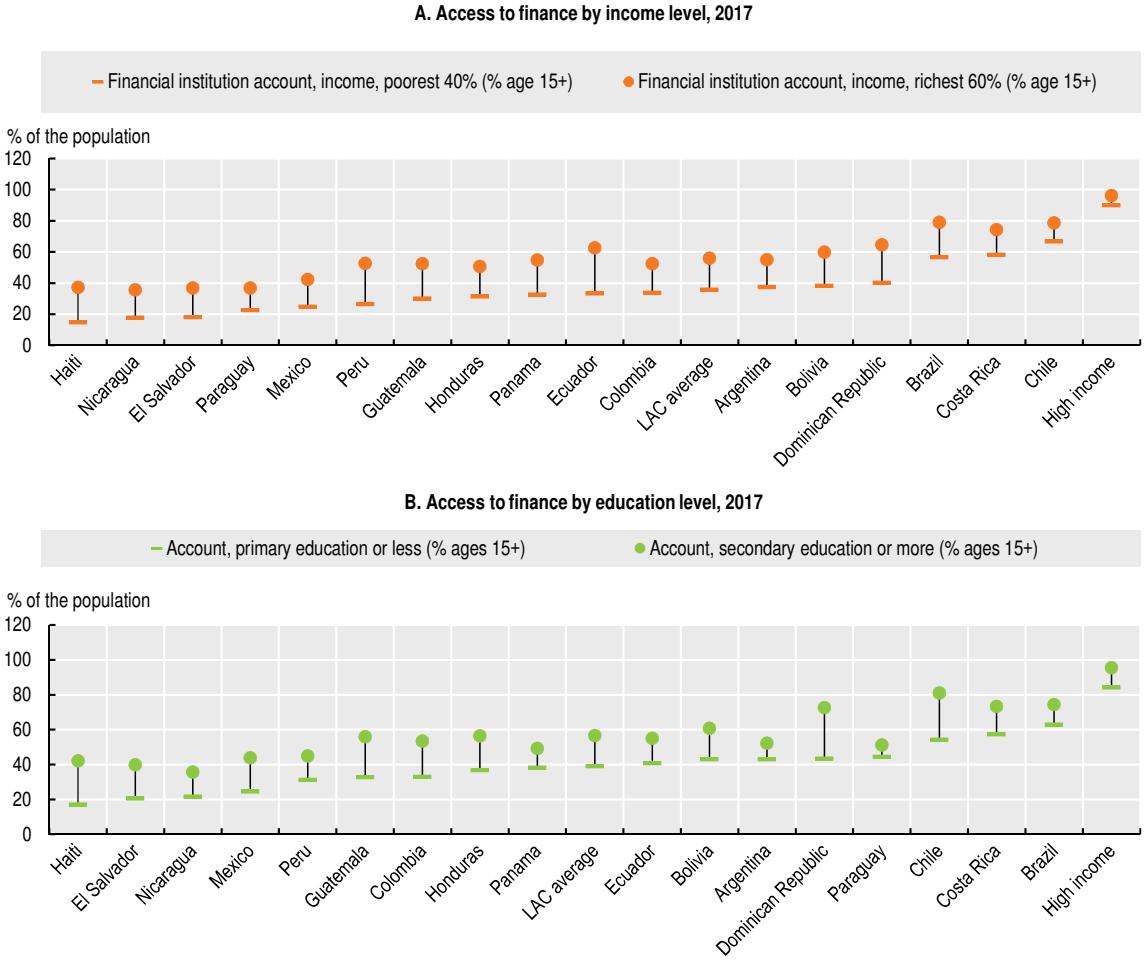
While financial depth has improved in the 21st century, credit provided to the private sector remains low. Between 2000-17, domestic credit provided to the private sector as a percentage of GDP increased from 25.2% to 49.2%. However, it remains around 95 percentage points below the OECD average (World Bank, 2018a). At the same time, greater access to the banking system should be treated cautiously. Financial deepening may increase macroeconomic volatility (Minsky, 1977; Kindleberger, 1978). Furthermore, the correlation between financial access and economic growth becomes negative when credit to the private sector is close to 100% of GDP (Arcand et al., 2015; Cavallo, Eichengreen & Panizza, 2018). Still, with the exception of Chile, current levels of financial access remain well below 100% of GDP.

Further financial inclusion remains a key challenge in the region. In 2017, only 54% of the population aged 15 and above had access to an account in a financial institution compared to more than 94% at the OECD (World Bank, 2018b). Despite improvements in the past years, financial inclusion gaps by income and education levels are high in Latin America compared to OECD member countries. This is particularly the case of Dominican Republic, Ecuador and Peru regarding income levels, and of Chile, Dominican Republic, Guatemala and Haiti regarding education levels (Figure 4.7). Finally, more than 27% of LAC manufacturing firms report access to finance as a major constraint for their operations. In countries such as Brazil, Costa Rica, Honduras and Jamaica, this ratio exceeds 40%.[1]

Capital markets are a key element to ensure finance for firms, in particular for medium and large firms. In light of experiences in the OECD, higher liquidity in capital markets is fundamental to heighten sustainability of income status in the region (Melguizo et al., 2017). Capital markets can be seen as an alternative for external finance for large and medium firms as funding through equity may be costly for younger and smaller firms (Agénor and Canuto, 2017). The use of capital markets by these firms could avoid crowding out effects as it will allow the banking sector to focus on micro and small enterprises. To exploit capital markets for private entrepreneurship and innovation, crowding out effects of the public debt market should be avoided. In the context of limited savings rates, relatively high levels of public debt should affect the total value of private assets in capital markets. This is relevant in some countries in the region such as Brazil, Colombia and Peru.

Market capitalisation in Latin America is below that of the OECD, but capital markets particularly need to improve in terms of quality and inclusion. On average, market capitalisation in the region is around 42% of GDP, more than 84 percentage points below the OECD average of 127% of GDP. The LAC average hides strong disparities. Economies such as Chile surpass 100% of GDP and economies such as Argentina and Panama are below 25% of GDP.

Figure 4.7. **Financial inclusion by income and education levels**



Source: World Bank (2018b).
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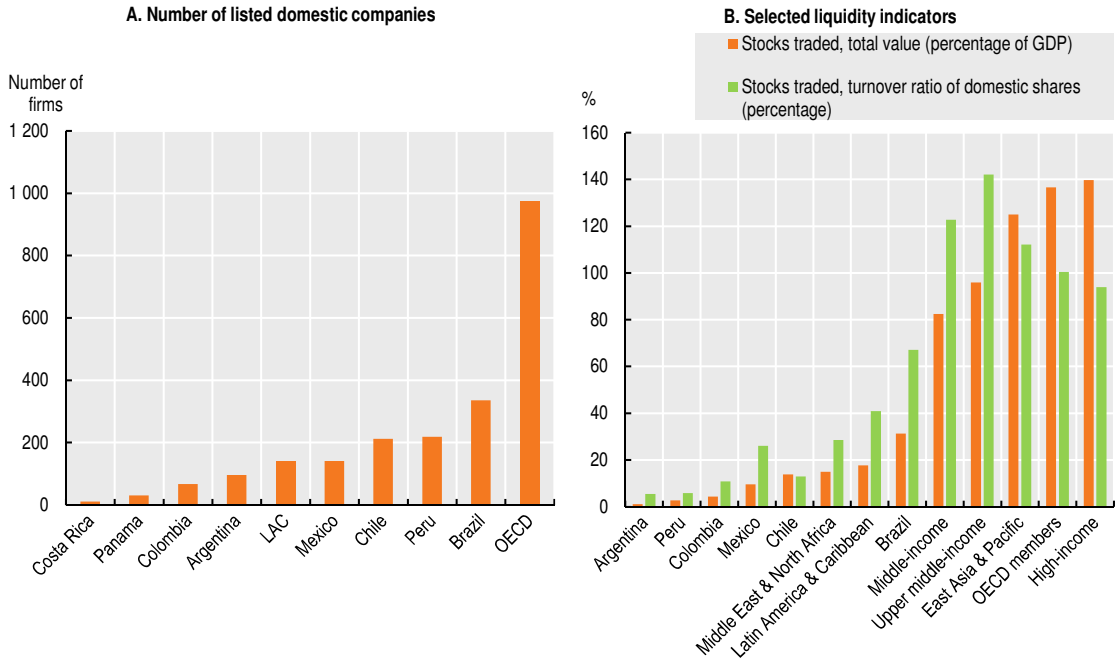
Capital markets in Latin America should be more inclusive as the number of participating companies is relatively low. The number of issuers can be a relatively good measure of the inclusiveness of capital markets. In Latin America, on average, about 138 companies per country participate in capital markets with wide variations in the region. This participation is considerably low if compared to the OECD average of 974 (Figure 4.8, Panel A). Similarly, there is still space to improve the quality of capital markets in terms of liquidity levels, which remain low in the region. This indicator was signalled as a key policy area to overcome the productivity trap (Figure 4.8, Panel B; Melguizo et al., 2017; Arellano et al., 2018).

Figure 4.8. **Capital markets in Latin America compared to OECD countries, 2017**



Note: Panel B: The value of stocks traded is the total number of shares traded multiplied by their respective matching prices. Figures are single counted (only one side of the transaction is considered). Companies admitted to listing and admitted to trading are included in the data. Data are end-of-year values. Turnover ratio is the value of domestic shares traded divided by their market capitalisation.

Source: World Bank (2018b), World Development Indicators (WDI) and Global Financial Development Databases.

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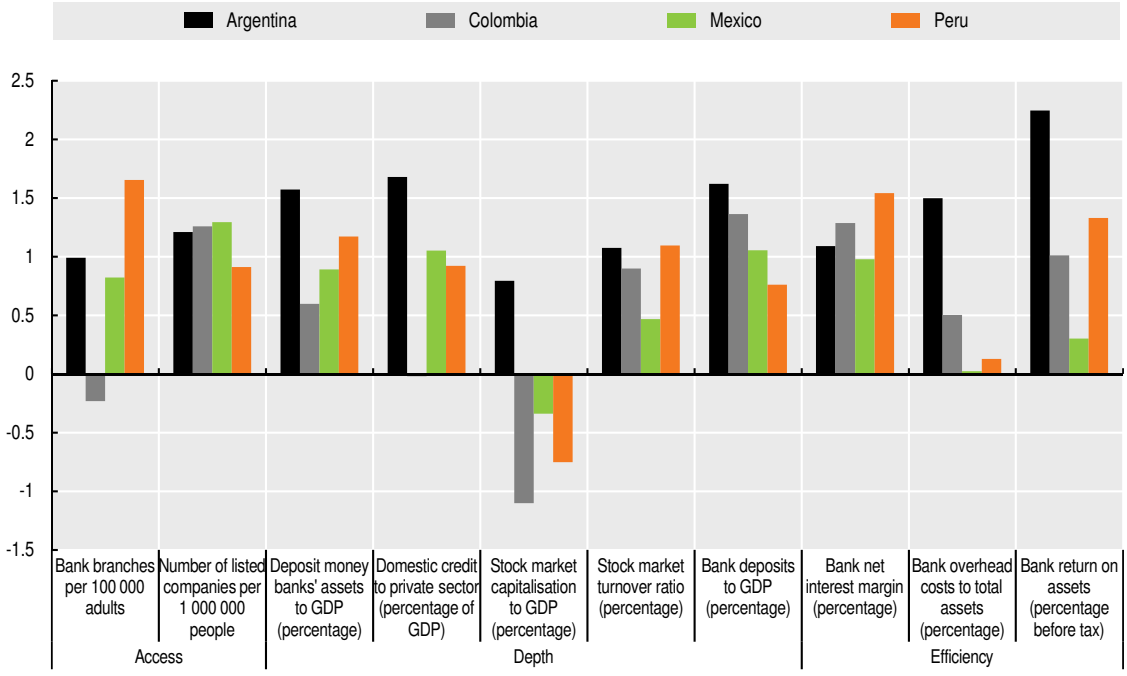
Although policy priorities differ across countries in the region to improve financial development, some common challenges remain. For example, based on experiences of Asian and OECD member countries, further inclusive access, depth and efficiency remain a concern for banking systems in Argentina, Colombia, Mexico and Peru. There are some exceptions such as access to bank branches in Colombia. Capital markets also need strengthening. Stock market capitalisation to GDP is relatively high compared to other countries (apart from Argentina). However, inclusive access (number of listed companies) and further depth in terms of liquidity in these markets (stock market turnover) is needed (Figure 4.9).

Technology disruption and new spaces for financing development

The development of financial technologies (Fintech) brings new opportunities to increase financial depth and inclusion. Fintech consists of applying technology to improve financial activities (Schueffel, 2017). It implies the provision of financial services as an end-to-end online process through development of new applications, processes, products or business models. This makes it possible to make financial services more accessible to more households at lower cost and at a faster rate. These services include national and international electronic payments, loans through collective financing, financial advice, enterprise financial management and insurance. Fintech is already driving change in the financial sector as the boundaries between different types of service providers are blurring; entry barriers are changing and payment services improving.

Figure 4.9. **Policy gaps to financial development in selected LAC countries**

Standard deviation, five-year comparison before passing from middle to high income on a sustainable basis.



Note: Gaps are standardised. If a gap is positive, LAC economies must undertake improvements to move on a sustainable basis from middle income to high income.

Source: Arellano et al. (2018).

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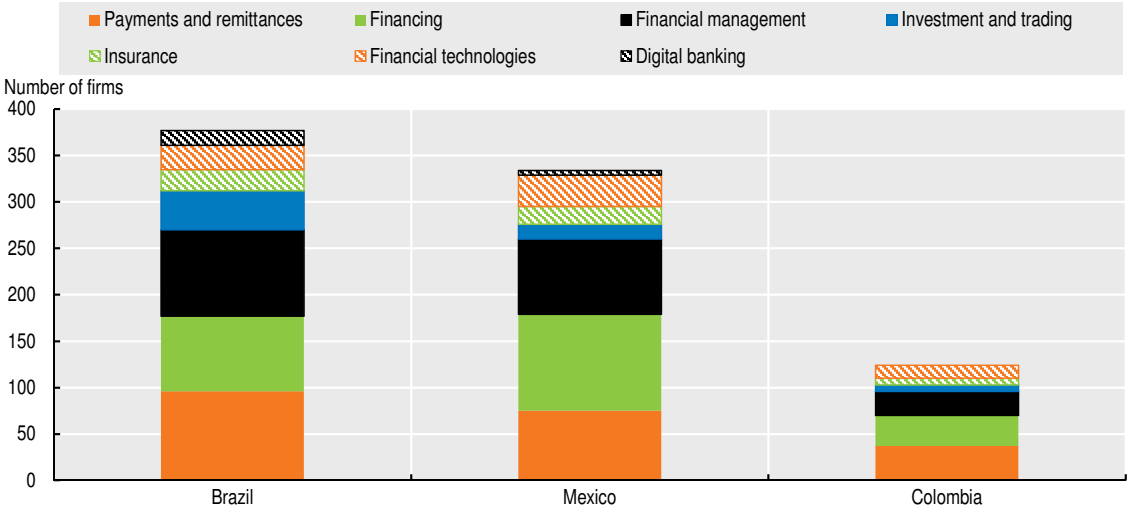
Multiple forces are driving the growth of Fintech. First, access to credit through traditional services, especially for small and medium-sized enterprises (SMEs), used to be costly. Fintech can help reduce related compliance costs. In addition, high penetration of mobile services and devices promote financial inclusion and digital payments characterised by transaction speed, low cost and high security. Meanwhile, benefits for loans are time savings, flexibility and less bureaucracy.

Fintech advances globally and Latin America is not far behind. Global Fintech transaction value was USD 3 590.6 billion in 2017, of which 80% corresponded to digital payments. Furthermore, according to the Fintech Adoption Index 2017, two of the ten countries with the highest rate of Fintech adoption by their population are from Latin America. More than 35% of populations in Brazil and Mexico were digitally active consumers using Fintech services. However, this result remains relatively low compared to China (69%), India (52%) or the United Kingdom (42%) (EY, 2016). Brazil offers the biggest ecosystem in the region for Fintech with 377 companies in 2017, followed by Mexico (more than 330 Fintech companies) and Colombia (more than 120 companies). The three LAC countries share the same main Fintech segments: payments and remittances, lending and enterprise financial management (Figure 4.10).

Fintech needs more investment in infrastructure and proper regulatory models to continue developing and providing services. The regulatory model must be adjusted to balance efficiency with stability. Given the transactional nature of these technologies, it is essential to work in a framework of international co-operation (IMF, 2017). In the case

of infrastructure, access to a simple mobile phone or the Internet can potentially open access to mobile money accounts and other financial services. But digital technology alone is not enough to increase financial inclusion. A well-developed payments system (public and private), good physical infrastructure, appropriate financial regulations and consumer protection are all essential for people to benefit from the potential of Fintech. Solutions also need to be tailored to the users, individuals or small businesses operating predominantly in the informal economy (World Bank, 2018b).

Figure 4.10. **Numbers of Fintech start-ups per segment (to August 2017)**



Source: ECLAC based on Finnovista (2018).
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National development banks, a complement to financial markets

National Development Banks (NDBs) play a crucial role in financing for development as a complement to traditional private banking. Private financial markets are essential to help drive development, but can generate inefficiencies. NDBs can correct these efficiencies in several ways. First, NDBs help counteract the pro-cyclical behaviour of private financing. Second, they help promote innovation and structural transformation, a key challenge in LAC. Third, they can enhance financial inclusion by providing financial services to SMEs. They are also essential in the financing of strategic infrastructure investment and supporting provision of public goods (Griffith-Jones and Ocampo, 2018).

Since 2000, NDBs have become increasingly relevant in the Latin American financial system. Between 2000 and 2011, net loans grew at a rate of 18% per year to reach close to USD 750 billion in 2011, more than three times the totals of 2001 (USD 192 billion). In Costa Rica, Uruguay and to a lesser extent Argentina, Brazil and Dominican Republic, this sector plays an important role in the total credit of the financial system (ECLAC, 2018b). In 2012, the private sector in Latin America received 22% of its total credit from NDBs.

NDBs in the region have recently played a central role in the financing of micro-enterprises and SMEs (MSMEs). NDBs in LAC provide about 59% of their loans to MSMEs. The access of MSMEs to credit is affected by information asymmetries and high financial costs, as well as characteristics of the Latin American financial system noted earlier (ECLAC, 2018b).

NDBs play an important role in promoting innovation for financing, both directly and indirectly. Regional and sub-regional development banks complement their national

counterparts thanks to common objectives and instruments. However, there is also room for developing greater synergies with the private banking sector that could lead to mutually beneficial innovations. New instruments can arise and could contribute, for instance, to the inclusion of SMEs and to strengthening complementarity between public and private financial intermediaries (ECLAC, 2018b).

There is no "one size fits all" model for development banking. In Latin America, the approximately 100 financial development institutions are diverse in terms of mandates, modalities, functions and organisation (Box 4.2). Mexico, for example, has six main development banks specialised in different areas, including infrastructure, international trade, housing and MSMEs. In this sense, the structure of development banking is segmented without explicit institutional co-ordination, which can duplicate functions and limit their scope and impact of development banking. Conversely, in Brazil, a single large development bank, the BNDES, finances a wide range of activities (Box 4.2) (ECLAC, 2018b).

Box 4.2. **Selected national development banks in Latin America**

Brazil's National Economic and Social Development Bank (BNDES). Founded in 1952, the BNDES has had a central role in promoting transformational investments in different phases of the country's socio-economic development. Low public and private investment levels have led to a sizable overall infrastructure gap in Brazil. From 2002-15, the bank offered more support for key infrastructure and logistics projects, and its lending level increased exponentially. The BNDES could, and should, play a critical role in developing infrastructure and logistics for investment financing. It can do this through fostering project development capacities, and financing, leveraging and crowding-in private resources for the sector.

Mexico's Nacional Financiera (NAFINSA). NAFINSA, one of Mexico's NDBs, contributes to economic development through facilitating access to financial resources to MSMEs and priority investment projects. It also provides services to finance business development, contributes to the formation of financial markets, and acts as trustee and financial agent of the federal government. Based on credit directly granted as a first-tier or second-tier financial intermediary, NAFINSA is second in importance after Banco Nacional de Obras (BANOBRAS). NAFINSA's share in the aggregate flow of credit to the private sector is less than 4% of the total. All NDBs represent close to 16% of the overall credit to the private sector.

Chile's Corporación de Fomento de la Producción or Production Development Corporation (CORFO). In 2015, CORFO had total assets of USD 6 272 million. This represented 2.6% of the country's GDP, which was relatively small compared to other NDBs in the region. CORFO's main financial support to the private sector in recent years has been through loan guarantees to financial institutions rather than loans themselves. In terms of activity, CORFO has three focal areas: productive diversification, support to innovation and entrepreneurship, and foreign and national investment promotion. In recent years, CORFO has developed several innovative instruments. These include the Start-Up Chile programme, which has received international recognition and been emulated by other Latin American countries.

Colombia's system of NDBs. Colombia's NDBs constitute a system of multiple and specialised institutions, including FINAGRO, BANCOLDEX, FINDETER and FDN. These banks have been active in infrastructure development (and associated long-term lending), financial inclusion and entrepreneurial growth. Except for FDN, which has minority strategic partners who chair the board and have control over critical decisions, the other institutions are controlled by the national government (though with minority private ownership in the case of FINAGRO).

Source: Based on Griffith-Jones and Ocampo (2018).

International experiences on development banks are useful for the region. For instance, the role of the European Investment Bank and other European national banks, such as the Banque Publique d'Investissement (BPI) in France and KfW in Germany, provide insights in terms of lending and advising activities to promote entrepreneurship, local development and innovation in the region.

The role of public-private partnerships to finance development

Public-private partnerships can be another source of financing for development and help the state finance the provision of public goods. Addressing traditional social gaps and emerging development challenges increasingly means that public and private actors must seek greater efficiency, quality and sustainability in the delivery of public goods and services.

In the past decade, private investment in infrastructure over GDP has remained stable and below 1.5% of GDP in Latin America almost every year (Infralatam, 2018). Public-private partnerships could be a much-needed tool to promote more effective, long-term investment in infrastructure.

Yet, public-private partnership arrangements are not without risk: some transport projects in LAC with private and public partners have been inefficient, increasing total costs. Flaws in contract design for concession contracts have caused excessive costs in Latin America (Bitran, Nieto-Parra and Robledo, 2013). Over the past 40 years, deficient planning, reduced access to resources, lack of community benefits and lack of adequate consultation were the most prominent drivers of conflict in public-private partnerships projects within the region (Watkins et al., 2017).

Using public-private partnerships to increase fiscal space can end up costing future governments. Several criteria determine whether a government should opt for a public-private partnership or another modality to finance infrastructure projects. These include the availability of risk management expertise among the partners for the specific steps of an infrastructure project.

Concessions should be chosen based on value-for-money. Cost-benefit analyses identify which infrastructure projects help determine the most appropriate mode of financing. The OECD 2012 Council Recommendation on PPPs provides guidelines as to when concessions are worth pursuing and addresses their budgetary consequences (OECD, 2012).

Some countries in the region have improved regulatory and institutional frameworks for public-private partnerships. For instance, in the past five years, Colombia, Honduras and Peru have achieved more effective private participation in infrastructure through enhanced regulations (OECD/CAF/ECLAC, 2018).

Exploiting the benefits of concessions requires strong capacity for evaluating, tendering and managing contracts. Following a social feasibility analysis, value-for-money assessments can be used to decide whether a concession contract would be more appropriate than publicly funded work. Additionally, mechanisms are needed to limit the possibility of projects running behind schedule or over budget. Most countries in the region have room to improve in that area.

Finally, better fiscal-accounting procedures in the region could improve selection of contractors. This would prevent use of public-private partnerships solely to preserve fiscal space.

Conclusions

This chapter stressed the need to continue enhancing domestic capacities to overcome development traps. NDPs are a key starting point to prioritise policies and adopt a well-organised and comprehensive approach to move from vicious circles to virtuous circles of development. The design and implementation of these plans presuppose that country strategies should go beyond GDP and become the basis of the development agenda. Such an agenda should consider the importance of global public goods, as well as the international context, where interlinkages with domestic challenges have been increasingly important.

Although specific plans vary across countries, they have common targets and challenges in design and implementation. Most plans focus on key issues to tackle the institutional trap, followed by measures to address the productivity and social vulnerability traps. In addition, most countries have articulated their NDPs in light of the Agenda 2030. Main constraints against achievement of the plans include lack of technical capacity for design, insufficient continuity in implementation and disconnection between design and budget.

Successful implementation of NDPs depends on spending "more and better" in several policy areas that affect development traps. The impact of the rising middle class, along with new challenges, requires increasing effectiveness of expenditures. To achieve the SDGs and promote further sustainable development, governments need to invest more resources through NDPs.

Navigating the political economy of NDPs is as important as defining their priorities. Adoption and implementation of these plans have been affected by the policy-making process. In some cases, the involvement of several actors has undermined implementation. With some exceptions, business groups have influenced the policy and direction of the NDBs. The region needs to continue increasing transparency and implementing measures to avoid capture mechanisms.

Domestic financing for development is fundamental for implementation of NDPs. Some key areas of action include improved a taxation structure, further inclusion in financial markets, an active role for NDBs and well-regulated public-private partnerships. Regarding public resources for development, recent experiences stressed the importance of considering citizen demands. Government also needs to define the sequence of policy changes needed to navigate the political economy of tax reforms more effectively. This would require better communication and interaction with the expenditure side.

Political will is needed to ensure that the design, adoption and implementation of NDPs are strictly linked to effectiveness of public spending and resources of financing for development. To enhance sustainable development, well co-ordinated work with international co-operation as a facilitator in the region is fundamental (Chapter 5).

Annex 4.A1. National Development Plans in Latin America covered in the analysis

As many as 18 Latin American countries have at least one national instrument for development. Cuba and Uruguay are formulating a National Development Plan or equivalent with a long-term vision (see Chapter 6 for Caribbean small states).

Country	National Development Plan or equivalent	Authority in charge of planning
Argentina	Objetivos de Gobierno de Argentina 2015-2019 [OBJECTIVES OF THE GOVERNMENT OF ARGENTINA 2015-2019]	Ministerio del Interior, Obras Públicas y Vivienda [MINISTRY OF THE INTERIOR, PUBLIC WORKS AND HOUSING]
Bolivia	Agenda Patriótica 2025 [PATRIOTIC AGENDA 2025] Plan de Desarrollo General Económico y Social para el Vivir Bien [PLAN FOR GENERAL ECONOMIC AND SOCIAL DEVELOPMENT AND WELL-BEING] Plan de Desarrollo Económico y Social en el marco del Desarrollo Integral para Vivir Bien 2016-2020 [PLAN FOR ECONOMIC AND SOCIAL DEVELOPMENT WITHIN THE FRAMEWORK OF THE GENERAL DEVELOPMENT FOR WELL-BEING 2016-2020]	Ministerio de Planificación del Desarrollo (MPD) [MINISTRY OF PLANNING AND DEVELOPMENT]
Brazil	Plan Plurianual 2016-2019 [PLURIANNUAL PLAN 2016-2019]	Ministério do Planejamento, Desenvolvimento e Gestão [MINISTRY OF PLANNING, DEVELOPMENT AND MANAGEMENT]
Chile	Programa de Gobierno 2014-2018 [GOVERNMENT PLAN 2014-2018]	Presidencia de la República [PRESIDENCY OF THE REPUBLIC]
Colombia	Plan Nacional de Desarrollo 2014 - 2018 "Todos por un nuevo país" [NATIONAL DEVELOPMENT PLAN 2014-2018 "ALL FOR A NEW COUNTRY"]	Departamento Nacional de Planeación (DNP) [NATIONAL PLANNING DEPARTMENT]
Costa Rica	Plan Nacional de Desarrollo 2015-2018 "Alberto Cañas Escalante" [NATIONAL DEVELOPMENT PLAN 2015-2018 "Alberto Cañas Escalante"]	Ministerio de Planificación y Política Económica (MIDEPLAN) [MINISTRY OF PLANNING AND ECONOMIC POLICY]
Dominican Republic	Estrategia Nacional de Desarrollo 2010-2030. "Un viaje de transformación hacia un país mejor" [NATIONAL DEVELOPMENT STRATEGY 2010-2030. "A TRANS-FORMATIONAL PATH TOWARDS A BETTER COUNTRY]	Ministerio de Economía, Planificación y Desarrollo (MEPyD) [MINISTRY OF ECONOMY, PLANNING AND DEVELOPMENT]
Ecuador	Plan Nacional para el Buen Vivir 2017-2021 [NATIONAL PLAN FOR WELL-BEING 2017-2021]	Secretaría Nacional de Planificación y Desarrollo (SENPLADES) [NATIONAL SECRETARIAT FOR PLANNING AND DEVELOPMENT]
El Salvador	Plan Quinquenal de Desarrollo 2014-2019 "El Salvador productivo, educado y seguro". [FIVE-YEAR DEVELOPMENT PLAN 2014-2019 "EL SALVADOR PRODUCTIVE, EDUCATED AND SAFE"]	Secretaría Técnica y de Planificación (SETEPLAN) [TECHNICAL SECRETARIAT FOR PLANNING]
Guatemala	Plan Nacional de Desarrollo: K'atun Nuestra Guatemala 2032 [NATIONAL DEVELOPMENT PLAN: K`ATUN NUESTRA GUATEMALA 2032]	Secretaría de Planificación y Programación de la Presidencia (SEGEPLÁN) [SECRETARIAT FOR PLANNING AND PROGRAMMING OF THE PRESIDENCY]
Honduras	Visión de País 2010-2038 [COUNTRY VISION 2010-2038] Plan de Nación 2010-2022 [NATION PLAN 2010-2022]	Secretaría de Coordinación General de Gobierno [SECRETARIAT FOR GENERAL GOVERNMENT CO-ORDINATION]
Mexico	Plan Nacional de Desarrollo 2013-2018 [NATIONAL DEVELOPMENT PLAN 2013-2018]	Presidencia de los Estados Unidos Mexicanos [PRESIDENCY OF THE UNITED STATES OF MEXICO]
Nicaragua	Plan Nacional de Desarrollo Humano 2012-2016 "A seguir transformando Nicaragua" [NATIONAL PLAN FOR HUMAN DEVELOPMENT 2012-2016 "FOLLOWING THROUGH ON THE TRANSFORMATION OF NICARAGUA"]	Consejo Nacional de Planificación Económica y Social (CONPES) [NATIONAL COUNCIL FOR ECONOMIC AND SOCIAL PLANNING]
Panama	Plan Estratégico Nacional con Visión de Estado Panamá 2030 [NATIONAL STRATEGIC PLAN WITH VISION OF THE STATE OF PANAMA 2030] Plan Estratégico de Gobierno 2015-2019 [STRATEGIC PLAN OF THE GOVERNMENT 2015-2019]	Ministerio de Economía y Finanzas (MEF) [MINISTRY OF ECONOMY AND FINANCE]
Paraguay	Plan Nacional de Desarrollo: Paraguay 2030 [NATIONAL DEVELOPMENT PLAN: PARAGUAY 2030]	Secretaría Técnica de Planificación del Desarrollo Económico y Social (STP) [TECHNICAL SECRETARIAT FOR ECONOMIC AND SOCIAL DEVELOPMENT PLANNING]
Peru	Plan Bicentenario: El Perú hacia el 2021 [BICENTENARY PLAN: PERU TOWARDS 2021]	Centro Nacional de Planeamiento Estratégico (CEPLAN) [NATIONAL CENTRE FOR STRATEGIC PLANNING]

Note

1. Regional average is computed by taking a simple average of country-level point estimates. For each economy, only the latest available year of enterprise survey data is used in this computation. Only surveys, posted during the years 2010-17 are used to compute regional average. Based on Enterprise Surveys (http://www.enterprisesurveys.org), World Bank.

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Chapter 5

International co-operation as a facilitator to address new domestic and global challenges

This chapter presents three dimensions for rethinking international co-operation as a facilitator to support LAC countries in their transition paths to sustainable development. The first dimension looks at redefining governance based on inclusiveness. It calls for countries at all income levels to build multi-stakeholder partnerships as equal partners. The second dimension looks at strengthening institutional capacities. It places national strategies front and centre and strengthens domestic capacities by prioritising, implementing and evaluating development plans, aligning domestic and international priorities, and supporting countries in maintaining a role on the global agenda. The third dimension looks at broadening the tools of engagement to include knowledge sharing, multilateral policy dialogues, capacity building, and co-operation on science, technology and innovation. Expanding international co-operation modalities welcomes a range of actors, including public actors from different ministries in a "whole-of-government" approach. The chapter calls for ongoing analyses with LAC countries on concrete options for implementing these dimensions.

Re-thinking international co-operation: 3 ways to better support LAC countries

LAC is fertile ground for rethinking international co-operation as a facilitator of sustainable, inclusive development

How?

By building stronger domestic capacities

Promote nationally driven processes based on national development plans

Align national and global priorities

Promote active participation of LAC in the global agenda

By working inclusively

Invite countries at all development levels in policy partnerships on an equal footing

Engage new actors in multi-stakeholder partnerships

Find multi-dimensional responses to complex challenges

By co-operating with a broader set of tools

Increase technical co-operation based on knowledge: policy dialogue, capacity building, technology transfer

Scale up South-South and triangular co-operation

Promote integrated "whole-of-government" approaches

Introduction

While LAC countries have observed development improvements in the 21st century, sustainability is at the heart of their development agendas. The region has experienced significant socio-economic and institutional achievements. Despite heterogeneity, most countries have improved access to education and health; the emergence of the middle class has been accompanied by poverty reduction; and some countries have strengthened their macroeconomic frameworks (Chapters 1, 2 and 3). In addition, countries have enhanced their institutional capacities. For instance, National Development Plans (NDPs) are aligned to the 2030 Agenda and respond to new development challenges. Regulatory and institutional frameworks have been improved to involve the private sector and the region has more domestic resources to finance development (Chapter 4). Yet, obstacles to sustain higher levels of development, exacerbated by the growing interconnectedness of the rapidly evolving global context, create new and increasingly complex development conditions.

The "new" development traps of LAC countries described in Chapter 3 represent self-reinforcing dynamics that can be transformed into development opportunities if adequate policy responses are put in place. Overcoming these development traps to turn these vicious circles into virtuous dynamics is critical to reach national development objectives and pursue the broader objectives of the 2030 Agenda for Sustainable Development.

Yet, traditional recipes are not enough to overcome these development traps. The increasingly multidimensional nature of development in LAC demands sophisticated policy responses, and these require stronger domestic institutional capacities (Chapter 4). Furthermore, many of these domestic challenges either have a global scope or are strongly connected to the changing global context. Countries in the region have already shown important advancements in their domestic institutional capacities over the past decades. They have also been active in the global development agenda and therefore expressed a commitment to addressing global shared challenges. Political will and increased capacities are key for successfully converting current development challenges into opportunities. This more complex landscape calls for rethinking international co-operation for development to make it more pertinent, more participative and stronger to support LAC countries transitioning towards sustainable development.

This chapter is organised as follows. First, it presents the LAC region as a fertile ground for rethinking how international co-operation can better support the region in its transition to sustainable development. Then, it presents the role of a redefined international co-operation for development that acts as a facilitator for the region's development efforts. The chapter goes on to suggest three concrete approaches or principles that could underpin international co-operation's role as a facilitator, while ensuring a continued engagement with countries in the region at all levels of development. These approaches or principles embrace working inclusively, building stronger domestic capacities and operating with different and a broader set of knowledge tools. The chapter concludes with a call to continue a robust dialogue and further analysis with LAC countries to determine how best to implement concretely this vision and proposed approaches.

Is LAC ready for the new development opportunities offered by changing global and domestic contexts?

Tapping the opportunities of a shifting global development landscape

The global context is experiencing extraordinary economic, social and political changes. Several notable megatrends are shaping today's world as well as LAC's prospects

for development. These include climate change, an ageing population, rapid technological progress, increased migration flows, the heterogeneous impact of globalisation across different socio-economic groups and the rise of social discontent across the globe.

The digital revolution, for instance, is transforming the nature of work, with the potential to both destroy and create jobs in the LAC region. Thriving in the midst of this transformation will demand ambitious policies to improve education and skills systems, to better match the demand and supply of skills, and to develop innovative social protection systems. Likewise, the digital revolution offers opportunities for LAC countries to leapfrog certain phases of their respective development paths through innovative technological solutions. Climate change also imposes significant economic losses, particularly for the most vulnerable countries, while the transition to a green economy demands large investments. However, if the right policies are put in place, then a green transition can drive job creation, competitiveness and more inclusiveness in the region.

The process of *shifting wealth*, by which the centre of gravity of the world economy has been moving towards Southeast Asia, has important implications for LAC's development. As one major element of this process, China, for example, is transforming its model of growth from investment to consumption, and its middle class has been growing steadily. This, amongst other effects, will transform Chinese demand for goods and services, with direct implications on trade dynamics between many LAC countries and China. This, together with other key trends, including the growth of India, the emergence of new low-cost labour manufacturing hubs and stronger links between developing countries, can open up new opportunities for the region (OECD, 2018a).

Tapping the right policies to convert new development traps into virtuous dynamics for ongoing change

The region has made notable socio-economic progress since the beginning of the century. For instance, it has significantly reduced poverty (from 45.9% in 2002 to 27.8% in 2014; see Chapter 1) and to some extent inequality. It has enjoyed a remarkable expansion of the middle class, which now represents more than one-third (35.4%) of the population.

Yet, LAC's critical domestic transformations require new policy responses. Productivity has been declining and remains at only around 40% of the labour productivity of the European Union (75% in 1950). Following poverty reduction, around 40% of the population is vulnerable, meaning that most work in informal jobs, with little or no social protection. Hence, they could easily fall back into poverty if they are hit by unemployment, sickness or problems associated with ageing. Additionally, linked to higher aspirations of the increasing middle class, 64% of the population have no confidence in their national governments, with 74.5% believing their institutions are corrupt. All these trends occur in a region that is home to 40% of the world's biological diversity and where the impact of environmental challenges, mainly climate change, is already visible.

In short, LAC is facing new dynamics between past improvements in socio-economic conditions, longstanding weaknesses, the new challenges that are emerging as the region progresses towards higher income levels, and the impact of the changing global context. The combination of these factors has thus created increasingly complex development conditions – what LEO 2019 calls the "new" development traps (Chapter 3). These productivity, social vulnerability, institutional and environmental traps (Table 5.1) act as circular, self-reinforcing dynamics that limit sustainable development in LAC. Innovative structural reforms are needed to turn these vicious circles into virtuous dynamics, requiring more sophisticated policy mixes and further policy co-ordination and coherence.

Table 5.1. **LAC's Traps**

Trap	Description of the trap
Productivity trap	The export profile of some LAC countries has concentrated on primary and extractive sectors. Following openness to international markets and new international trade conditions, this concentration undermines the participation of LAC in global value chains (GVCs), and therefore leaves a large share of the productive system disconnected from trade, technology diffusion and competition.
Social vulnerability trap	It affects most informal workers, or almost half of the active population, who escaped poverty and represent the vulnerable middle class. Low levels of social protection and a low capacity to invest in improving their productivity through education and skills limits the ability of these workers to access better quality jobs.
Institutional trap	It has emerged alongside the expansion of the middle class and the associated rise of aspirations. Levels of trust and citizen satisfaction have declined, eroding the willingness of citizens to pay taxes (tax morale). This, in turn, is limiting available resources for public institutions to respond to increasing demands.
Environmental trap	Concentration in material and resource-intensive sectors may be leading towards an environmentally and economically unsustainable dynamic. The reversal to a low-carbon economy is costly and difficult, and it will become harder as the global stance against the impact of climate change may impose further costs on high-carbon models. Likewise, a high-carbon model is unsustainable since it depletes natural resources on which it is based.

Source: Own elaboration.

In sum, socio-economic progress in LAC has come with new development challenges, which are also related to the changing international context. This context of growing interconnectedness across countries accentuates the global nature of various challenges and hence the need to adopt internationally co-ordinated responses. This is the case for global and regional public goods, including security, financial and trade stability, environmental sustainability, access to energy, and public health. These represent issues with cross-border externalities and whose preservation will very much depend on the capacity to act together. While the governance of the multilateral system is not equipped to effectively support these global and regional public goods, LAC countries can contribute to its improvement through greater involvement in it, which international co-operation can facilitate.

Tapping international co-operation opportunities to address LAC's development traps

Turning LAC development traps into broad development opportunities will demand therefore a shift in international co-operation approaches with the region. Examples abound in a number of policy areas for international co-operation to back up further, support, strengthen, deepen and reinforce LAC's domestic reform agenda for sustainable development (Table 5.2). In rethinking international co-operation with the region, it is important to better understand and map out what efforts exist, what impact has been achieved, what is missing, and what could be the shift of scale and focus for international co-operation to fully acknowledge the increased complexity and global interdependence of challenges.

For instance, sharing international experiences through policy dialogue helps boost productivity in LAC and promote structural transformation. Such international policy dialogue can support the integration of local firms into international markets and global value chains (GVCs) and the integration of small and medium-sized enterprises (SMEs) into the formal productive structure. Moreover, international investment supports increases in research and development (R&D) in specific innovative sectors and helps define innovative clusters in partnership with public R&D institutions, businesses and other national and sub-national stakeholders. Capacity building can also aid the design and implementation of a national strategy.

Table 5.2. **Addressing LAC's Traps: Beyond traditional co-operation**

	Modality	Partners	Objective
Productivity trap	Triangular co-operation	European Union and Colombia co-operating with Central American countries (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama)	***Entrepreneurship and Business Development in Mesoamérica:*** Learning about successful entrepreneurial strategies developed in Colombia, such as the experience of the Regional Network of Entrepreneurship of the Cauca Valley, to inform their own national entrepreneurship policies. This project involves both financial and technical support. So long as it can support dynamic entrepreneurship, it deals directly with some of the issues at the core of the productivity trap.
Productivity and social vulnerability traps	Multilateral co-operation	Food and Agriculture Organization of the United Nations (FAO) and the Brazilian Co-operation Agency in seven LAC countries (Argentina, Bolivia, Ecuador, Colombia, Haiti, Paraguay and Peru)	***Project + Cotton (Proyecto + Algodon)*** Developing the cotton sector. Based on the technical expertise of Brazil, the project aims to fight rural poverty and improve the living conditions of rural farmer households by assuring their food and economic security through the productive and sustainable development of the cotton sector.
Environmental trap	Triangular co-operation	Germany with Morocco and Costa Rica	***Improvement of sustainable management and use of forests, protected areas and watersheds in the context of climate change*** Exchanging experiences on the prevention of forest fires, the protection of biodiversity, ecotourism and the development of value chains.
Institutional trap	South-South co-operation	Panama and Mexico	***Memorandum of Understanding of the High-Level Group on Security*** Deterring and preventing violence through the sharing of intelligence, judicial co-operation and joint action on border affairs.
Environmental trap	Multi-stakeholder partnerships	European Union and Bill Gates-led Breakthrough Energy	***Clean Energy Fund*** Helping European companies that would like to develop and bring to the market new clean energy technologies.

Source: Own elaboration.

To reinforce the social contract and eliminate social vulnerabilities, capacity building can strengthen human capital, improving vocational education and training programmes to support the vulnerable middle class. International evidence and experiences in labour regulations or the promotion of selected education programmes in science, technology, engineering and mathematics (STEM) helps vulnerable young women participate in the formal labour market. Lessons learned from other countries can be critical to support the design and sustainability of social protection systems. International fora are also key for discussing and designing policy responses related to digital transformation, turning it into an opportunity to create better jobs in the formal labour market.

To strengthen local institutions, capacity building and technological transfers greatly support the delivery of public services, such as the management of public schools and hospitals. Sharing international experiences, including on regulatory and institutional frameworks for public procurement and public-private partnerships, can help involve the private sector in public services delivery. Capacity building and new technologies in tax administration also support LAC countries' tax capacity, along with better enforcement and communications to increase tax morale. Moreover, international co-operation, including through tax agreements and anti-corruption conventions, support anti-corruption actions as well as co-ordinated measures against domestic tax evasion and avoidance.

To promote an environmentally sustainable economic model, R&D co-operation, for instance, as well as training and technology transfers to local researchers can support diversification of exports based on countries' biodiversity. Stronger design and implementation of regulations for legal mining and environmental licences can mitigate

environmental damages. Technological transfers and targeted support in waste management can reduce adverse effects on human health and the environment. Building and enhancing international co-operation through the Paris Agreement or other international fora is an essential part of the fight against the consequences of climate change.

Strong linkages exist across all these policy issues. Policy responses, included at the international level, must be designed within the framework of shared development objectives and priorities and a common long-term vision, usually contained in individual National Development Plans of LAC countries. Adopting a "whole-of-government" approach will be critical to ensure co-ordination across ministries and across levels of government, to favour policy coherence, promote synergies and account for potential trade-offs.

Ultimately, embracing the ambition to rethink international co-operation with the region to turn LAC traps into broad opportunities for sustainable development will very much depend on whether the LAC region is ready for such a change. The next section provides some insights on how the ground is indeed fertile for changing international co-operation with the region.

Institutional capacities, social aspirations and political will: Are these enough for LAC to embrace a new international co-operation?

Several factors seems to indicate that LAC is indeed prepared – and ripe – to transition to a new international co-operation for development

First, institutional capacities have become stronger in the past decades (Chapter 4). While large room for improvement remains, LAC today has more capable and open institutions, and efforts are being made to improve trust and spur innovation in the delivery of public services (OECD/CAF/ECLAC, 2018). For instance, National Development Plans in LAC consider the multidimensionality of development and are aligned with the 2030 Agenda. Also, the regulatory and institutional frameworks to include the private sector have improved, particularly regarding public procurement and public-private partnerships. Additionally, anti-corruption measures have been strengthened and transparency and open government policies are being implemented (OECD/CAF/ECLAC, 2018). To finance development, most countries have increased the level of taxes relative to GDP and are actively attempting to decrease tax avoidance and evasion at the local and international levels (OECD/ECLAC/CIAT/IDB, 2018).

Second, social aspirations have increased in the region, mainly as a result of the expansion of the middle class, which now represents more than a third (35.4%) of the population (Chapters 2 and 3). Equally, 25% of the population in LAC is aged 15-29, representing a group of people born and raised in democracy, as another key driver of increased social aspirations. Growing dissatisfaction with national governments and with the quality of public services confirm this direction. As many as 64% of Latin Americans have no confidence in their national governments, and 44% are not satisfied with public education (Chapter 3). Increased social demands generate the momentum for ambitious policy reforms and for co-ordinated and comprehensive efforts to build a new *state-citizens-market nexus* that can address existing and forthcoming challenges, reconnect with society, and foster well-being for all (OECD/CAF/ECLAC, 2018).

Third, political will is also a pre-condition to make reform happen in the region to boost inclusive and sustainable development. Political will is fundamental to overcoming a complex set of bargains and exchanges amongst several actors with their own interests, incentives and constraints during the policy-making process of reform (Chapter 4). The possibility of alternating political power in government should give individuals the power to punish corruption, diminish the capture of states and to advance in the development

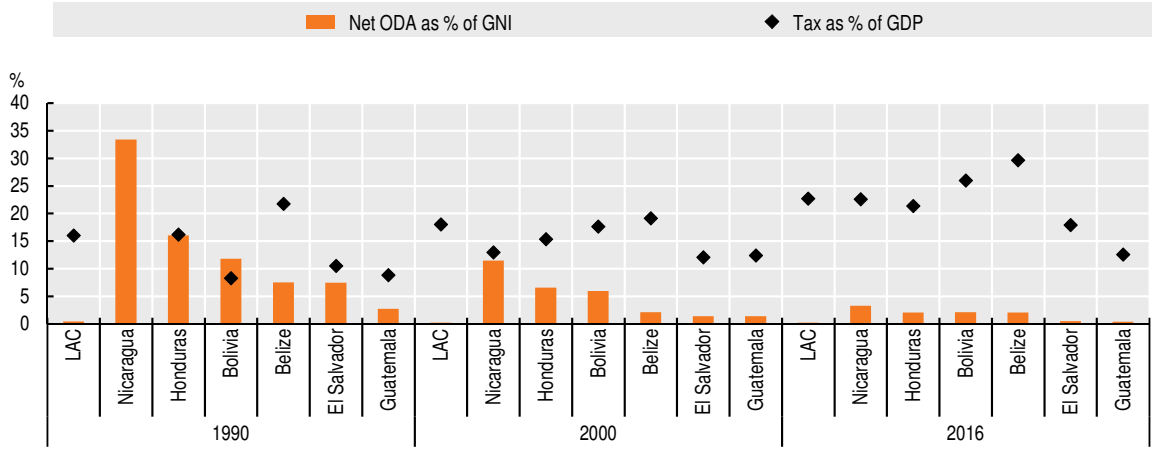
agenda. Between 2018 and 2019, more than ten new governments have been elected in the region, opening new opportunities for implementing necessary reforms in those countries. Since democracy is based upon the existence of checks and balances between state powers, strengthening the tools and institutions to enforce these principles effectively is fundamental (OECD/CAF/ECLAC, 2018).

The Latin American region's evolving relationship with official development assistance: From aid dependence to aid as a catalyser

Another factor fuelling the evolution of international co-operation with Latin America is the changing nature of official development assistance (ODA) (Box 5.1). Latin American countries are not aid dependent. When compared to other flows, such as taxes, the relative importance of ODA has decreased over the past few decades (Figure 5.1). In the 1990s, most aid-dependent countries received ODA flows higher than or similar to the local level of taxation; since then, the level of public revenues has become more important than ODA. Therefore, when looking at different sources of financing for development, relative ODA flows have decreased gradually compared to domestic public sources of financing. This has occurred even though tax levels remain low compared to OECD member countries.

Figure 5.1. **Taxes and ODA in the six most aid-dependent Latin American countries in 1990**

(1990, 2000 and 2016)



Note: Net ODA received as a percentage of GNI and tax revenues as a percentage of GDP. Net ODA consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries. It includes loans with a grant element of at least 25%.

Source: OECD, www.oecd.org/dac/stats/idsonline and Global Revenue Statistics database (2018) and World Bank (2018).

StatLink https://doi.org/10.1787/888933937109

As international co-operation evolves to better respond to today's realities, ODA, even in decreasing amounts, can still play a role in catalysing change in middle-income countries. This is particularly true for LAC, which is mostly a middle- and upper middle-income region. Rather than graduating from aid itself, countries emerge from dependence on aid, which is a crucial distinction. Dependence on ODA can undermine the development of institutions and domestic capacities over the long term. Overall, dependence on aid is generally agreed to be harmful (Glennie, 2008).

However, low aid dependency levels, compared to GDP and government expenditures as LAC shows, can support progress. Country-specific studies demonstrate this particular point. For instance, the evaluation of aid to Colombia found that in certain fields – such as the environment, institutions and productive system as well as problems related to the struggle against inequality, internal displacement and human rights violations – the selective use of aid financing, expertise and shared experiences was a determining factor in achieving better development results (Wood et al., 2011).

Box 5.1. **Development assistance in Latin America and the Caribbean**

ODA flows to the LAC region have decreased given the composition of countries by level of income. Only one country in LAC is a member of the least developed countries (LDCs) and other low-income countries (LICs) category (Haiti). Only four are members of the lower middle-income countries (LMIC) grouping (Plurinational State of Bolivia, El Salvador, Honduras and Nicaragua). The upper middle-income country (UMIC) grouping has seen substantial falls in ODA from the OECD Development Assistance Committee (DAC). All other countries in the region are either in UMIC or the high-income country (HIC) grouping (including Argentina, Panama, Trinidad and Tobago, and 13 other Caribbean economies). Chile and Uruguay are now formally HICs and are graduating from ODA.[1]

The data are somewhat ambiguous regarding official development assistance provided to the LAC region. While some declines are clear relative to other regions, LAC has maintained a certain amount of real-term spending. Nevertheless, the need is clear to engage with the changing context and prepare for a future with potentially reduced levels of ODA. In the case of LAC, several economies have improved their income status in recent years. For instance, from 2010 to 2019, Belize, Ecuador, Guatemala, Guyana and Paraguay moved from the lower middle-income to upper middle-income category. Other economies also upgraded to high-income status during the same period, including Antigua and Barbuda, Chile, Saint Kitts and Nevis, and Uruguay. In 2019, Argentina and Panama joined this group as well. Some upper middle-income countries (such as Costa Rica and Mexico amongst others) are expected to become high-income in coming years if they maintain levels of per capita income growth.[2]

As in other regions, most ODA to LAC is directed at social sectors (USD 4.4 billion in 2016). About USD 2.2 million is spent on economic infrastructure and services and about USD 936 million on production sectors. While social sectors receive twice as much ODA as economic infrastructure, the latter has seen a sevenfold increase in recent years. Specifically, funding for economic infrastructure has increased from just over USD 300 million (in constant 2016 USD) to over USD 2.1 billion between 2002 (when figures begin) to 2016. In contrast, spending on social sectors dropped from a high of USD 5.2 billion to just under USD 4.4 billion between 2011 and 2016. This implies that a gradual shift from social to economic spending has been underway for at least a decade.

1. See World Bank income classification at https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.

2. Based on International Monetary Fund projections for GDP per capita applied to World Bank GNI per capita figures (Atlas method, current USD) for countries on the DAC list of ODA recipients. To consider inflation, an annual increase in the income threshold is applied equivalent to the average increase offer over the five years from 2010-16 in the deflator for Special Drawing Rights (SDR); this is used for annual revisions of all income categories. For the period beyond IMF projections, the dataset is extrapolated based on the average projected growth rate of the five years from 2018-23. The extrapolated growth figures are capped at a maximum of 10% per year.

LAC's particularities, including the region's evident non-dependence on ODA, increased capacities, will for progress and increasingly active global role, represent an opportunity to test how different frameworks and modalities of co-operation can help leverage domestic efforts. It is also an opportunity to show how ODA can act as a catalyser of other sources of funding and how both financial and non-financial resources can be combined and directed to advance nationally owned and driven development processes.

The role of international co-operation for development as a facilitator

What does a facilitating role in international co-operation mean?

The role of international co-operation as a facilitator needs to draw on ODA as a catalyser of additional resources. Yet, using aid as a catalyser of further financial resources is not new. A similar concept of "aid as a catalyst" emerged in the late 1960s, claiming that financial assistance should be allocated where it is expected to have the maximum catalytic effect on mobilising additional national efforts (Rosenstein-Rodan, 1969; Pronk, 2001, Kharas et al., 2011). Similarly, scholars have emphasised the idea of co-operation based on incentives, specially when it comes to co-operating with middle-income countries (Alonso, 2014).

But, the catalytic role of ODA at present is not enough. Mobilising sufficient resources beyond ODA, leveraging the synergies between them and ensuring that investments of all types are contributing to the SDGs are overarching challenges for governments in financing sustainable development. Domestic resource mobilisation is central to this agenda. In fact, while the level of taxes in relation to GDP has been increasing in the past years (by close to two percentage points in the last decade), this ratio is still low. In 2016, the average tax-to-GDP ratio at 22.7% for LAC countries was low compared to 34.3% for OECD countries (OECD et al., 2018).

Still, international co-operation's facilitating role needs to draw on other key tools for supporting countries in implementing their national development priorities and aligning them with the SDGs. These tools include capacity building, policy dialogue and technical assistance. Governments need to strengthen their policy and institutional frameworks to manage national challenges.

International co-operation as a facilitator of countries' development efforts promotes nationally driven development processes, aligns countries on an equal footing as peers for exchanging knowledge and learning, builds on existing capacities of countries and creates new ones to spur national and global reforms, and supports aid as a catalyser for additional and varied sources of funding. As the international community responds to the more comprehensive and universal 2030 Agenda, as countries converge towards similar levels of development and therefore share an increasing number of domestic and global challenges, and as dependence on ODA diminishes, the role of international co-operation as a facilitator of a country's own development seems to be rising as a viable response to current realities.

LAC has a fertile ground for testing international co-operation as a facilitator for development. International co-operation can play a facilitating role in supporting governments in the region turn current development traps and vicious circles into virtuous ones that reinforce positive dynamics at the institutional, social, productive and environmental levels. It can also ensure that LAC governments have sufficient capacity at national and sub-national levels to shape and deliver the global public goods agenda. This may be particularly relevant with respect to global public goods related to the environment. Compared to other ministries, environmental entities tend to be politically weaker and with fewer resources (Nunan et al., 2012).

What can also offer some good practices for exploring how the region can embrace international co-operation as a facilitator is LAC's existing regional co-operation. Such regional co-operation takes many forms. Heads of Government in a geographical region, for example, can agree to work together on a range of issues at political fora. For their part, academics, scientists or public servants can build regional platforms to share insights. For instance, the Pacific Alliance, an initiative by Chile, Colombia, Mexico and Peru, promises to drive further growth, development and competitiveness in the region. At the same time, it is a platform for political, economic and commercial integration (Pacific Alliance, 2019). Regional co-operation can very well be a first attempt at international co-operation as a facilitator.

Adapting approaches to current realities: The context is ripe for a facilitating role for international co-operation

Changes in the developing world's specific reality, including the LAC region's particularities, have been accompanied by an ongoing macro-evolution of international co-operation as a development tool. Technical assistance was followed by community support in the 1950s. Trade and investment were the key tools in the 1960s, fulfilment of basic human needs in the 1970s, assistance for structural adjustment and debt relief in the 1980s, humanitarian assistance in the 1990s, and, at the turn of the century, human development was at the top of the priorities (Pronk, 2001). These different approaches created many lessons for how to deal with different phases of development, since achieving socio-economic successes has also given rise to new bottlenecks requiring alternative policy responses.

With the Millennium Development Goals (MDGs), the focus was primarily on achieving national development goals in developing countries, such as ending poverty and hunger, achieving universal primary education, reducing child mortality, or improving maternal health. The decision reflected a preoccupation with the realities of poverty and economic and social differences amongst countries. In 1981, poverty and extreme poverty rates were globally high: 44% of the world's population lived in absolute poverty. Since then, the share of poor people has declined faster than ever before. In 32 years, the share of people living in extreme poverty was divided by four, reaching levels below 11% in 2013 (Roser and Ortiz-Ospina, 2017). In LAC specifically, poverty decreased from 11.5% to 3.7% between 2000 and 2016 (World Bank, 2019).

As the MDGs ended in 2015, international co-operation needed a much wider focus. The different agreements reached in 2015, along with the 2030 Agenda, reflect a world that is converging. Since the 2000s, 26 countries moved from low-income to middle-income status, and 14 from middle-income to high-income status (World Development Indicators, 2017). LAC economies are converging as well, transforming the region into middle-income status. In 2018, Chile and Uruguay joined a growing list of high-income countries in LAC that includes Antigua and Barbuda, Bahamas, Barbados, Saint Kitts and Nevis, and Trinidad and Tobago. In 2019, Argentina and Panama also joined this list.

Unlike the MDGs, the 2030 Agenda sets out a wide range of economic, social and environmental objectives and calls for a new approach to face these objectives effectively, including integrated solutions given their interrelated character. In this sense, the 2030 Agenda gives special attention to global public goods with a holistic approach. This international agenda reflects a world with new development dynamics and sustainable goals that put global public goods at the centre of international policy. Amongst the 17 SDGs are those pertaining to, clean energy, responsible consumption and production, climate action, and biodiversity that clearly require the provision of global public goods. Furthermore, the

universal nature of the SDGs means that all countries – advanced, emerging and developing economies alike – have committed to delivering this agenda.

Adapting international co-operation approaches to the current global context is ongoing and still requires further efforts from the international community, particularly for shaping the most suitable tools, actors and frameworks for implementation. While reaffirming the principle of common but differentiated responsibilities of the Rio Declaration on Environment and Development, the 2030 Agenda's broader scope suggests a call, for instance, for more inclusive governance settings. Such settings allow diverse actors to interact on an equal footing to tap into existing efforts and capacities of countries who have the will to continue pursuing their path to development and to tap into a wider range of tools, including those, in many cases, deployed by non-traditional actors in development co-operation (Box 5.2).

Box 5.2. **What is international co-operation?**

International co-operation is a broad concept covering all aspects of co-operation between nations. Co-operation can be defined as "the co-ordinated behaviour of independent and possibly selfish actors that benefits them all", as opposed to working in isolation, conflict or competition (Dai et al., 2010). And, global governance can be understood as the institutionalisation of this co-operation (Lengfelder, drawing on Keohane, 1984).

International co-operation can include a variety of instruments for co-operation between countries; international co-operation for development is defined as international action intended to support development in developing countries. It includes different sources of financing, sometimes blended in various ways, and involves a range of different actors, beyond the usual development co-operation actors. It includes technology facilitation and capacity development as well as multi-stakeholder partnerships clustered around sectoral or thematic issues. It also includes normative guidance and policy advice to support implementing agreed goals (ECOSOC, 2015).

The context is therefore ripe for starting a reflection process for how best to stress international co-operation as a facilitator. Time is short, and the need for transformation is enormous. The next section suggests some options or principles for speeding up this transformation when it comes to LAC.

How to speed up the transformation of international co-operation as a facilitator for sustainable development?

International co-operation as a facilitator for sustainable development should be strengthened gradually. To feed this gradual transformation, the following sections present some ideas on next steps for international co-operation to continue evolving towards an inclusive model that fully involves all countries on an equal footing, despite their level of development, along with a wider range of actors and a wider range of tools.

At the core of this inclusive model, multilateral and multi-stakeholder partnerships should be mutually beneficial and focused on shared domestic and global issues. Co-operation efforts should be integrated and nationally shaped and driven, putting LAC development priorities and plans front and centre. Emphasis should be placed on strengthening countries' domestic capacities, including contributing to the alignment between domestic and international priorities, but also supporting countries in the region as they continue playing an active role in the global agenda. Additionally, international co-operation needs to expand its set of modalities or instruments to fully embrace the expertise from a wider range of actors. This requires paying special attention to bringing

in public actors from different ministries in a "whole-of-government" approach. A greater focus should be given to technical co-operation, such as knowledge sharing, multilateral policy dialogues, capacity building, access to technology, and co-operation on science, technology and innovation.

Speeding up the transformation of international co-operation requires therefore rethinking systems structurally and building a fit-for-purpose machinery that will be better adapted to current realities. Three key dimensions (Table 5.3) are at the core of the proposed evolution that international co-operation should pursue for a more inclusive, integrated and balanced approach that better responds to current domestic and global realities. Subsequent sections will expand and describe more in detail each one of these three dimensions.

Table 5.3. **Key dimensions for rethinking international co-operation as a facilitator for sustainable development in LAC**

Dimensions	Description
Working inclusively	Engaging countries at all development levels on equal footing as peers, to build and participate in multilateral and multi-stakeholders partnerships to tackle shared multidimensional development challenges with multidimensional responses.
Building domestic capacities	Strengthening countries' capacities to design, implement and evaluate their own development policy priorities and plans, encouraging the alignment between domestic and international priorities and ensuring integrated approaches to more complex and interlinked challenges.
Operating with more tools and actors	Expanding instruments for greater international co-operation, such as knowledge sharing, policy dialogues, capacity building, technology transfers, and including more actors, including public actors in a "whole-of-government" approach.

Source: Own elaboration.

The governance model: Working inclusively on shared issues

New actors, but an outdated governance structure

The last globalisation wave revealed a new level of multi-polarity and complexity associated with the growing economic and political relevance of emerging actors. National and location-specific perspectives are not enough to harness change in a borderless world. New and more comprehensive perspectives for co-operation are needed as development challenges spread across regional and national borders.

For instance, the intergovernmental association of Brazil, Russia, India, China and South Africa (BRICS) had already become a significant weight in the global economy by 2006. BRICS represent 42% of the world's population, 26% of land territory and nearly 30% of world GDP (RIS, 2016). These new agents of development have transformed the dynamics of development co-operation, bringing a vast range of co-operation modalities to the agenda.

Equally, the international public finance system is increasingly a significant actor in international co-operation. The creation of both the Asian Infrastructure Development Bank and the New Development Bank increased the amount of capital available for infrastructure development. These could provide global public goods, for example, by financing clean energy and mitigating the consequences of climate change.

Consequently, the governance structure has to adapt to reflect this new context, emerging issues and rising actors. New governance schemes, including partnerships, are needed for the world to face increasing development challenges. The governance of financing co-operation should go beyond ODA and increasingly promote and encourage countries at all income levels to collaborate, as equal partners, to discuss and exchange on shared policy issues, including how to address global trends and global public goods.

Policy partnerships: Countries exchange as peers on shared domestic and global issues

Successfully adapting global efforts or governance frameworks to the new set of shared goals, as stated in the SDGs and the 2030 Agenda, requires building *collective and co-operative action* at the international level. This entails more horizontal relationships amongst all countries, moving away from traditional bilateral relations and from existing country categorisations sometimes based on income. More concretely, such action needs to take on board policy dialogues on shared issues amongst countries as equal partners or peers.

Existing country categorisations might have already limited collective and co-operative action on shared challenges. While dominant analytical country categories used to classify developing countries by income levels are useful for worldwide comparisons, they fall short for a policy analysis of development. These categories have been contested for not allowing aid agencies in particular – and international co-operation actors overall – to understand the development challenges facing the diverse developing world (Vazquez and Sumner, 2013).

Equally, country groupings – such as those defined by income, conflict and fragility, indebtedness, or landlocked status – often signal certain policy priorities for aid donors. Yet, the proliferation of these categories has shown very limited scope for coherently tracking the developing world's increasing heterogeneity and the international community's growing diversity. Adapting international co-operation to the current needs of development may very well make it necessary to evolve towards other types of country classifications. Identifying critical development issues and then defining corresponding ad hoc groups to discuss co-operative responses to those particular issues is one concrete way of changing the focus of policy partnerships (Alonso et al., 2014).

Effectively tackling domestic and global shared issues requires policy dialogues amongst countries as equal peers. Development dialogues and ensuing strategies need to be multilateral to allow developing countries to be heard, transforming the formation of individual country agendas into the proactive shaping of global policies (OECD, 2018a). Discussions should be on shared issues, rather than sectors. This allows integrated approaches, where countries better understand and tackle potential transboundary or spill-over effects of policies from other countries, ultimately promoting policy coherence at the international level.

Multi-stakeholder partnerships: Development actors unleash the fuller potential of co-operation

Partnerships including actors other than governments, such as the private sector or civil society, have great potential too. In fact, the adoption of multi-stakeholder partnerships has gained political terrain in recent years as a good, inclusive alternative for responding to increasingly interconnected global challenges (Box 5.3). For instance, the *Open Government Partnership (OGP)* brings together government reformers and civil society leaders in LAC to create action plans that make governments more inclusive, responsive and accountable. Already, 16 LAC countries have signed the OGP's Open Government Declaration, a multilateral initiative for promoting transparency, fighting corruption and empowering citizens. Of the 16 signatories, 11 have already presented second or third-generation action plans, highlighting their commitment to the initiative (OECD/ECLAC/CAF, 2018).

Multi-stakeholder partnerships help address the lack of regulations and solve collective problems at the international level. By bringing together key actors from

civil society, government and business, these partnerships face three main governance deficits of inter-state politics: the regulatory deficit (providing avenues for co-operation in areas were inter-governmental regulation is lacking), the implementation deficit (addressing the poor implementation of inter-governmental regulations that do-exist), and the participation deficit (giving voice to less privileged actors) (Biermann et al., 2007). In this scenario, multi-stakeholder partnerships represent an alternative for facing the most urgent needs of global sustainable development, and their potential has to be fully realised as more inclusive governance models are designed.

Box 5.3. **Multi-stakeholder partnerships: Still unmet potential?**

The multi-stakeholder partnership governance model has long been a key tool for facing globally interconnected issues. In the Johannesburg World Summit on Sustainable Development in 2002, "Type II partnerships" were defined as collaborations between national or sub-national governments, private sector actors and civil society actors, who form voluntary transnational agreements to meet specific sustainable development goals (Dodds, 2015). Since then, these types of partnerships have been an integral part of most of the multilateral agreements on development. Guidelines and recommendations are constantly updated and implemented for how to build more inclusive and effective partnerships (for instance, the Bali Guiding Principles).

One of the keys to the success of multi-stakeholder partnerships is that they are based on shared challenges or policy issues. Goal-based public-private partnerships have delivered results in the health sector through, for example, the Global Fund to Fight Aids, Tuberculosis and Malaria, and the Global Alliance for Vaccines and Immunisation, bringing immunisation to developing countries in conflict. Other examples are the Global Polio Eradication Initiative, the Renewable Energy and Energy Efficiency Partnership, the Forest Stewardship Council and the UN Global Compact (Biermann et al., 2007). Results are achieved precisely because of the issue-specific clusters of expertise around which diverse actors gather.

Today, multi-stakeholder partnerships are a fundamental tool for progressing towards the SDGs. These types of partnerships offer a new way of doing business: having genuine debates about policy, clear commitments from every side, good procedures for independent review and the possibility of redress if things go wrong (Maxwell, 2004). For the future implementation of the 2030 Agenda, such an approach offers the opportunity to assess progress and implement changes for more impactful results in the long term.

Financing "inclusiveness" in the era of global public goods: Lessons from ODA and development banks

Global public goods certainly need partnerships set on equal footing and inclusive governance mechanisms, but these alone may not be enough. The provision of many global public goods will require massive investment in and by developing countries. These governments, however, may be inclined to focus resources on national policy priorities (Kaul et al., 2015). If low- and middle-income countries are to participate fully in providing global public goods, then the international community must redesign the multilateral system. Ultimately, it must ensure these countries have access to appropriate international public finance (Kaul et al., 2015; Rogerson, 2017).

In this vein, some have argued for the conceptual and practical separation of ODA and finance for global public goods (Kaul, 2003; Kaul et al., 2015, 1999). While ODA can be considered as transfers to finance development in low- and lower middle-income

countries, for example, finance for global public goods could be seen as a payment for a service. Applying this principle could transform the system of international public finance and unlock resources for LAC countries to participate more fully in the provision of global public goods.

Multilateral Development Banks (MDBs) also have a role to play in delivering global public goods via global agreements (Battacharya et al., 2018). In addition to traditional country-lending programmes, MDBs could lead strategies to help middle-income countries address global challenges. While some countries may be unwilling to incur debt for projects whose benefits will have positive spillovers regionally or globally, such as climate change mitigation or disease control (Prizzon, 2017), MDBs could, for instance, provide incentives and act as multilateral co-ordinators to undertake these collective efforts.

Both MDBs and regional banks have proven highly effective at helping countries strengthen policy and institutional foundations and leverage finance. This is particularly evident for the Development Bank of Latin America (CAF) and the Inter-American Development Bank (IDB). Loan disbursements reached around USD 51.7 billion and USD 38.1 billion from the IDB and CAF, respectively during the period 2013-17. In 2017 alone, both institutions disbursed more than USD 10 billion; more than half of their loans were allocated to infrastructure sectors (CAF, 2018; IDB, 2018). In this scenario, the ground is fertile for these banks to realise their full potential by supporting countries in the region as key players in a more inclusive co-operation for development that also supports global public goods.

Building capacities of countries in Latin America and the Caribbean

Building stronger institutional capacities at the domestic level in LAC countries is another pillar in rethinking the role of international co-operation as a facilitator to higher levels of development. Despite countries in the region having improved their capacities, developing even stronger and more innovative skills is still crucial for governments in the region to be able to face both changing and challenging global and domestic contexts as well as the increasing interrelation between the two.

A renewed international co-operation with the region should have at its core the national development strategies developed by LAC countries. It should focus on improving their planning exercises by strengthening individual country capacity to design, implement and evaluate their own development policy priorities and plans. The plans should be based on the principles of policy coherence, and should be accompanied with additional instruments that go beyond the political cycle (Chapter 4). Simultaneously, such co-operation encourages the alignment of national efforts with global shared challenges and global public goods to increase efficiency and facilitate an active and seamless participation of LAC countries in the global agenda.

Building capacities for better aligning planning with the global context

The nature of today's regional and global challenges requires thinking beyond countries' borders. National strategies should further internalise regional and global public goods, accounting for the interdependence between domestic policies and global dynamics. The new development context has new rules, new environmental constraints, new technologies and more competition. Domestic development strategies need to adapt to these changes and reflect a country's context, endowments and institutions (OECD, 2018b).

LAC countries are already active in connecting their national development priorities to the SDGs. Most NDPs in the region are aligned with the 2030 Agenda and monitor the

advances of several indicators within the 17 SDGs. Indeed, SDGs have been used as a tool for both policy priorities and also for monitoring achievements of such plans. All of the last development plans in 12 Latin American countries were aligned for each of the objectives or policy pillars for one or more of the SDGs.[1]

Yet, NDPs in LAC fall short when considering global mega trends, challenges and opportunities. Global public goods, such as safeguarding the environment, and global mega trends have traditionally played a small role in these plans. Most NDPs focus on modernising public services, citizen security, growth and formal employment, infrastructure development, investments in science and technology, quality of education, and access to basic services (Chapter 4). Many also include elements where the global agenda is crucial for achieving these priorities, such as the future of work, digitalisation and productivity, but they do not necessarily emphasise collective efforts to achieve these common goals.

For international co-operation's facilitation role with the region towards higher levels of development, stronger efforts could build the capacities of government officials and planning ministries in LAC to better understand the links between global trends, global public goods and domestic policy choices, including the transboundary effects of national policies from other countries. Additionally, spaces could be created to exchange this knowledge amongst countries, share experiences and identify best policy solutions given the global context.

Building capacities for better connecting planning with co-operation efforts

The Addis Agenda reiterated that nationally owned sustainable development strategies supported by integrated national financing frameworks should guide how a country engages in development co-operation. The reason behind this is that, at the country level, implementing well-defined national development co-operation policies, linked to a country's national sustainable development strategy, has been identified as a practical step for more accountable and effective development co-operation (UN, 2017).

Drawing from this lesson, connecting planning with international co-operation efforts is particularly relevant for LAC where most of the countries are often both donors and recipients. To strengthen policy design, implementation and learning, countries should ensure national development strategies inform how they engage in international co-operation. Such co-ordination is likely to increase the impact of both national strategies and international co-operation. This is especially challenging for countries where different institutions lead each of these strategies. Co-ordination between planning and co-operation efforts takes place in various ways in the LAC region, from the same ministry co-ordinating both planning and co-operation priorities to specific structures following co-ordination, to simple regular communication and co-ordination amongst different institutions (Table 5.4).

To ensure alignment and increasing effectiveness in both planning and international co-operation efforts, capacities should be deepened in LAC governments to create appropriate co-ordination mechanisms. These can take the form of specific bodies or co-ordination systems amongst institutions. Exchanges of good practices between countries could also be put in place to facilitate learning amongst countries' experiences on these issues.

Table 5.4. **Co-ordination institutions in selected Latin American and Caribbean countries**

Type of co-ordination		Example
The same institution deals with planning and co-operation priorities	Dominican Republic	The Ministry of Economy, Planning and Development has a dual role in planning. It co-ordinates both the country's development plan and its international co-operation strategy, creating synergies amongst both.
The same institution in the country deals with planning and co-operation priorities	Guatemala	SEGEPLAN (*Secretaría de Planificación y Programación de la Presidencia*) oversees planning, capital public expenditure and international co-operation. These complementary roles help align international co-operation policies with national priorities, and in particular the NDP called "*K'atun, nuestra Guatemala 2032*".
Other structures could also allow co-ordination between co-operation and policy priorities	Uruguay	The international co-operation strategy is aligned with the country's national development strategy through its five-year results-based budget. Priority areas are well detailed in the budget. Thus, international co-operation supports such priorities through both sectoral policies and transverse medium- and long-term policies (such as climate change and gender).
Regular co-ordination amongst different institutions	Colombia	International co-operation efforts are aligned with the NDP, which is itself aligned with Agenda 2030 and the SDGs. The Ministry of Foreign Affairs, with support from the Colombian Agency for Co-operation and the National Planning Department, leads negotiation of co-operation with bilateral and multilateral donors.
Regular co-ordination amongst different institutions	Brazil	The Brazilian Co-operation Agency of the Ministry of Foreign Affairs has the legal mandate to ensure alignment of international co-operation with the country's foreign policy and NDPs.
Regular co-ordination amongst different institutions	Argentina	The General Directorate of International Co-operation of the Ministry of Foreign Affairs and Worship co-ordinates technical co-operation in line with the country's national plan
Regular co-ordination amongst different institutions	Costa Rica	International co-operation follows priority sectors defined in the NDP.

Source: Own elaboration.

Building capacities for successfully participating in the global agenda

LAC countries play a crucial role in the global agenda. Indeed, they have taken part in major global agreements. For example, 32 LAC countries have signed and ratified the 2015 Paris Agreement on climate change. More recently, most countries in the region signed the Global Compact for Safe, Orderly and Regular Migration in December 2018.

Beyond signing agreements, LAC countries have actively shaped negotiations. During discussions for the 2030 Agenda, Brazil proposed the principle of "common but differentiated responsibilities". This was in line with outcomes of the "Rio+20" United Nations Conference on Sustainable Development in 2012, and strongly pushed the technology transfer agenda (Lucci et al., 2015). Colombia also played a key role in formulating the SDG agenda and provided an influential first proposal for the SDGs (Lucci et al., 2015). In fact, several LAC countries were closely involved in defining the SDGs. These countries now actively report progress in aligning their development plans with the SDGs on the occasion of the High Level Political Forum, which plays a central role at the global level in the follow-up and review of the 2030 Agenda.

International co-operation as a facilitator in the region should ensure that LAC countries remain active and have the capacities they need to continue contributing to the global agenda. From environmental issues, to migration, to global social protection, or to health, ensuring this active role from LAC can bring positive spill-overs for other countries and help the global community better face global challenges.

Tapping into a broader set of instruments and actors

Shifting international co-operation as a facilitator to higher levels of development in LAC also needs a broader set of tools beyond traditional ones, including a more technical conversation amongst partners based on knowledge sharing, policy dialogues, capacity building exchanges, and technology transfers. It should also use the potential of South-South and triangular co-operation as stepping stones for using this broader box of tools. Equally, important will be to place these tools in the hands of a wider range of public actors, including those across various ministries in a "whole-of-government" approach. The use of these expanded toolbox can generate richer interactions from diverse sources of expertise to tackle complex social, economic and environmental sustainability issues. The 2030 Agenda already offers some ways for rethinking the set of modalities that would better suit the specificities of the LAC region.

Co-operation modalities in the post-2015 era

The 2030 Agenda and the SDGs come with a wider set of instruments or modalities. Supporting a new international development framework that goes beyond just poverty reduction and also includes social, environmental and economic sustainability entails using a much wider range of instruments. The array of options is wide and could expand in the years ahead given the increasing number of shared and interlinked challenges between countries. SDG 17 covers comprehensively many of these modalities (Table 5.5).

Table 5.5. **Examples of co-operation modalities for development based on SDG 17**

Finance	• Additional financial resources from multiple sources • Long-term debt sustainability through co-ordinated policies aimed at fostering debt financing, debt relief and debt restructuring • Investment promotion regimes
Technology	• North-South, South-South and triangular regional and international co-operation on, and access to, science, technology and innovation • Development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries • Technology bank, and science, technology and innovation capacity-building mechanism
Capacity building	• Effective and targeted capacity building to support national plans
Trade	• Universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization • Increased exports of developing countries • Timely implementation of duty-free and quota-free market access
Policy and institutional coherence	• Enhanced global macroeconomic stability, including through policy co-ordination and policy coherence • Enhanced policy coherence for sustainable development • Respect for each country's policy space and leadership
Multi-stakeholder partnerships	• Multi-stakeholder partnerships that mobilise and share knowledge, expertise, technology and financial resources • Effective public, public-private and civil society partnerships
Data, monitoring and accountability	• High-quality, timely and reliable data (disaggregated) • Measurements of progress on sustainable development that complement gross domestic product • Statistical capacity building in developing countries

Source: Based on SDG 17 targets available at https://sustainabledevelopment.un.org/sdg17.

Opportunities abound to enhance international co-operation with alternative tools. As the number of shared global challenges is increasing and many countries are gradually rising up the income ladder to emerge, on the international scene, they become interested in sharing, learning and exploring complementary strengths with their peers that go beyond traditional roles. Latin America is already leading in this rebalancing of the mix

of co-operation modalities. Countries in the region are key actors in knowledge sharing, an increasingly used modality of international co-operation for development. Brazil, for example, has made a concerted effort to step-up its international participation, increasing relations and South-South knowledge exchanges with African and other Latin American countries.

Rebalancing the set of modalities: Adapting to LAC's specificities

Stronger institutional capacities, increasing social aspirations, deeper political will for reform and growing non-dependence on aid are just some of the reasons that confirm that the time is ripe to rethink how to rebalance the use of the various tools at hand when co-operating with LAC. Adding new tools is also necessary as LAC countries develop and face emerging challenges and development traps that require that they rely less on financial assistance,[2] including budget support and project aid (or in-kind), and benefit increasingly from other co-operation modalities.

Rebalancing instruments: Towards greater technical co-operation

Rebalancing the instruments used in the region might be a natural step to better using and catalysing decreasing financial assistance and leveraging exchanges amongst peers on key shared issues. A good example of such rebalancing can be found in the OECD's own history and evolution (Box 5.4). Some instruments that might be worth strengthening include capacity building and support, multilateral policy dialogue, technological transfers, efforts for policy exchanges, and more innovative blended financing.

If the region is to achieve the SDGs, then capacity support and mutual learning are key. Capacity building has long been an integral part of aid, but the changes in the international agenda suggest it will grow in importance in the years ahead. Mutual learning or policy dialogue remains a key component for development, particularly as countries experiment with new development strategies. Careful experimentation with different development strategies and improvisation guided by the knowledge of what has, and has not, worked around the world have been key in today's emerging economies and will continue to be crucial (OECD, 2018b).

Meanwhile, policy changes[3] will also be necessary for almost all of the SDGs in LAC. A crucial part of co-operation goes beyond transferring resources and sharing and building capacity. It also demands working together to build rules and implement agreements to further joint goals. This is the essence of international co-operation. At the national level, this implies reviewing public policies in light of their effects on the region's development agenda. At the international level, it implies building more enabling rules for regional governance.

Adopting a "whole-of-government" approach: Broadening actions, tools and actors

Effectively tackling the complexity of domestic and global shared challenges requires integrated approaches that involve different types of actors. Following a structure of isolated policy silos does not work. Adopting a "whole-of-government" approach will be critical to overcome the complex current development traps in LAC countries.

A clear example is the fight against informality in the LAC region, an issue of multiple causes and consequences. A comprehensive strategy to promote formal jobs must bring together policies that: improve productivity through more and better education and skills, adapt the institutional framework to provide incentives for firms and workers to become formal, create enabling conditions for the creation of formal jobs, and strengthen inspection and supervision capacities. Such a comprehensive strategy must involve

different tools and ministries, including education, labour, finance and production ministries, as well as national, regional and local representatives. The *Consejo Nacional de Competitividad y Formalizacion* in Peru, for instance, includes formalisation as a key item within the broader national development strategy and has the mandate to co-ordinate action across line ministries and agencies. Another relevant example is Colombia, where the 2012 tax reform involved not only the Ministry of Finance, but also the Ministry of Labour as one of the main objectives was to boost job formalisation by reducing non-wage labour costs for employers.

Box 5.4. From the Marshall Plan to the OECD: Evolution from financial to policy co-operation

As countries evolve and development challenges and opportunities change, co-operation should also adapt. A clear example of this was the shift from the Organisation for European Economic Co-operation (OEEC) established in 1948 to run the Marshall Plan for Europe's reconstruction to the birth of the Organisation for Economic Co-operation and Development (OECD). While co-operation led by the OEEC initially was based purely on financial aid, development dynamics transformed such co-operation into policy exchanges.

Sparked by the need to address Europe's post-war welfare, the Marshall Plan helped governments recognise the interdependence of their economies and it paved the way for co-operation to promote Europe's recovery (OECD, 2018a). It consisted mainly of a US initiative in 1948 to financially support most Western European countries with about USD 13 billion, an amount equivalent to around USD 135 billion in 2017.

Yet, once post-war Europe entered its new development path, the OEEC's mission ended and the organisation faced the choice of dissolving or re-inventing itself. In 1960, the organisation decided to re-invent itself and was repurposed for policy discussions as a more global OECD (Leimgruber and Schmelzer, 2017). A year later, the OECD Development Centre was created as an independent platform for knowledge sharing and policy dialogue between OECD and non-OECD member countries. The Development Centre allows these countries to interact on an equal footing (OECD, 2018a).

OECD member countries co-operate by providing and sharing knowledge, organising policy dialogues, setting international standards, and designing and implementing public policies based on evidence. Policy areas, which represent common challenges and demand a whole-of-government approach across various ministries, include economic development, education and skills, environment, financial and non-financial markets, public governance, labour and social affairs, science and technology, statistics, taxes and territorial development.

Moreover, OECD standards level the playing field, increase technical co-operation, boost efficiencies and prospects for development, and contribute to domestic implementation of shared global policy objectives. For instance, the implementation of Base Erosion and Profit Shifting (BEPS) measures is underway, closing loopholes that cost governments between USD 100 billion to USD 240 billion per year. The Automatic Exchange of Information (AEOI) identified EUR 93 billion in additional tax revenues through voluntary compliance mechanisms and offshore investigations (OECD, 2018c). The Programme of International Student Assessment (PISA) and the Programme for the International Assessment of Adult Competencies (PIAAC) measure the performance and returns on investments in skills and education. Finally, member governments and industry working through the OECD's Environment, Health and Safety Programme generate more than EUR 309 million in savings per year (OECD, 2019).

Another example is addressing international migration by aligning national strategies with international co-operation. In fact, the way national migration policies are designed and implemented can have transnational effects. Migration's potential can only be fully realised when policy makers avoid operating in silos (Box 5.5) (ECLAC/OECD, 2018).

Box 5.5. International co-operation and coherent policies can enhance migration's contribution to the development of Latin America and Caribbean countries

International migration has been an integral part of the LAC region's social and economic development. The number of international migrants who were born in LAC countries increased from 15.4 million in 1990 to 24.8 million in 2000 to 37.7 million in 2017 (UNDESA, 2017). The main destinations, namely the United States and the European Union, remain outside of the region. However, intra-regional migration has also been increasing and diversifying in recent years. In 2017, 64% of the 9.5 million immigrants living in the LAC region were born in another country in the region. This is a sharp increase from 58% in 2000.

These significant migration flows entail important development potential in LAC. The 2015 Addis Ababa Action Agenda (UN, 2015a) and the 2030 Agenda for Sustainable Development (UN, 2015b) acknowledge the positive contribution of migrants, both in their countries of origin and destination. Notwithstanding the challenges of migration, emigration relieves pressures on the labour market. Furthermore, remittances and return migration spur investment in financial and human capital in the countries of origin. In destination countries, immigration can help relieve labour shortages, create businesses, spur aggregate demand and trade, and finance social protection and pension systems.

A recent study finds that labour migration has a positive, but limited, impact in the economies of developing countries (OECD/ILO, 2018). Immigrants' contributions to the value added of production were estimated to be around 4% in Argentina, 11% in Costa Rica and 4% in Dominican Republic. These rates are above their population shares in the three countries. This implies that perceptions of possible negative effects of immigrants are unjustified. At the same time, it also means that most countries of destination do not sufficiently leverage the skills and expertise that immigrants bring. To maximise the positive impact of immigrants, policy makers should adapt migration policies to labour market needs and invest in immigrants' integration.

The multidimensional nature of development challenges, and hence the need to adopt a "whole-of-government" approach when dealing with them, must also be reflected in the way international co-operation for development operates. Often, donor countries designate responsibility for international co-operation solely to development co-operation or foreign affairs ministries. Instead, national line ministries could oversee both domestic affairs in their area of responsibility as well as the international dimension to better reflect the inter-connection between the domestic and global agendas (Jenks, 2015). Under this logic, for example, ministries of environment would work together as peers on climate change mitigation or ministries of health would engage internationally on disease control and prevention issues.

South-South co-operation and Triangular Co-operation: One of the keys to support the rebalancing of modalities

Achieving the 2030 Agenda requires engaging in multiple forms of co-operation, whether multilateral, bilateral, South-South co-operation (SSC) or triangular co-operation (TrC). Triangular co-operation in particular is quickly increasing, given its potential

to complement more traditional forms of co-operation. TrC has traditionally been an arrangement under which donors and international organisations support and complement specific SSC programmes or projects by providing technical, financial and material assistance. It usually involves a traditional donor from the OECD's Development Assistance Committee, an emerging donor from the South, and a beneficiary country in the South (Ashoff, 2010).

LAC is recognised as a leading region in the evolution of SSC[4] since hosting the Buenos Aires Plan of Action (BAPA) conference 40 years ago, with a particular focus on intra-regional SCC. Of the 1 475 SSC exchanges involving Latin American countries in 2015, 976 were bilateral projects or actions between countries within that grouping, and a further 101 were regional SSC programmes or projects. There were 168 triangular exchanges in the region in that year. The number of initiatives has been broadly steady over the past few years, although the last year with data (2015) shows a significant rise in the number of long-term projects and a significant decline in the number of SSC actions (SEGIB, 2017).

Triangular co-operation has the potential of helping to rebalance the instruments and tools used in international co-operation. It can serve to increase the efficiency of traditional aid by creating synergies, increasing the value for money of development assistance and leveraging local knowledge (by, for example, experts from emerging donors instead of experts from traditional donors). It can also support improving the quality of SSC by involving traditional donors and sharing successful experiences. More importantly, if scaled up in terms of acquiring a more strategic and integrated policy focus, and in terms of increasing the number of modalities used in more regular and streamlined methods, then TrC can respond to domestic and global challenges by building stronger partnerships that promote win-win-win situations, in which all partners learn, contribute – in financial and non-financial ways – and share responsibilities.

Conclusions and proposed next steps

A call to action: Building the machinery of international co-operation as facilitator

The LAC region is fertile ground for rethinking how international co-operation can – and should – facilitate pathways to sustainable and inclusive development. Even in the face of certain development traps associated with productivity, social vulnerabilities, institutional capacity and environmental challenges, the LAC region simultaneously demonstrates a firm and mature resolve to address these roadblocks to its greater prosperity. The region is acting on this resolve in three interconnected ways. It is harnessing existing domestic strengths and development plans. It is engaging globally on mutually relevant development issues, including the achievement of the 2030 Agenda and the Sustainable Development Goals. It is also increasingly linking the domestic and international spheres to sustain development that will make a lasting difference in the lives of its citizens.

The LAC region's particular experiences so far has a fertile ground for testing the principles and practices of a redefined international co-operation that acts as a facilitator to higher levels of development. On the basis of previous literature and on evidence from the region three concrete principles could underpin international co-operation's role as a facilitator: working inclusively, building stronger domestic capacities, and operating with a different and broader set of knowledge tools. First, by working inclusively, international co-operation as a facilitator seeks to engage countries at all development levels on equal footing as peers to build policy partnerships, tackle multi-dimensional development challenges with multi-dimensional responses, and enhance the participation of key

actors, such as the private sector and civil society. Second, by building stronger domestic capacities, international co-operation as a facilitator expects countries to design, implement and evaluate their own development policy priorities, placing them at the core of their actions and encouraging their alignment with shared global challenges and global public goods. And third, by tapping into a broader set of tools beyond traditional ones, international co-operation as a facilitator fosters a more technical conversation amongst partners based on knowledge sharing, policy dialogues, capacity building exchanges, and technology transfers. It uses the potential of South-South and triangular co-operation as stepping stones for implementing this broader box of tools. Placing these tools in the hands of a wider range of actors, including those across various ministries in a whole-of-government approach, creates richer interactions benefitting from diverse sources of expertise to tackle complex social, economic and environmental sustainability issues.

Given its universality and comprehensive approach to shared global challenges, the 2030 Agenda calls for adapting how we look at development and the tools we use to co-operate amongst countries. It may very well be the starting point for rebuilding multilateralism to make it stronger, more powerful, more participatory and more inclusive. This chapter looked at responding to this call by suggesting some principles that can drive the approach to international co-operation involving the LAC region. It requires, in short, adaptable, flexible and dynamic approaches to development. But what's critical now is putting these principles into practice. Doing so requires listening to and debating with stakeholders in the LAC region and beyond to assess if this re-engineered international co-operation system is actually fit for the purpose of facilitating greater development impact. Now is the time to heed this call for robust dialogue and further analysis to determine how to implement this vision and machinery for international co-operation as facilitator. Lessons from the LAC region are a most useful starting point for the way forward.

Notes

1. Countries include: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Mexico, Panama, Paraguay, Peru and Uruguay.
2. Broader than just ODA, financial instruments are captured by the new total official support for sustainable development measure (TOSSD), which includes climate funds, blended finance and debt-for-nature swaps.
3. Policy change refers to changes in the rules and activities (at national and international levels) that work to keep poor countries poor and in need of constant support (Alonso and Glennie, 2015).
4. As the LAC region has grown in prominence, it has made efforts to engage in development work beyond its own regional boundaries. In 2015, Ibero-America provided 292 SSC projects to other regions, and roughly a third were provided to the non-Ibero-American, Caribbean and another third to Africa, about one quarter were provided to Asia. Yet, there is a significant room for improving the collaboration of Latin America on SSC frameworks across regions. Asia was the top provider of SSC to Latin America in 2015, providing almost 80% of the 38 initiatives recorded (with Africa and the Middle East providing the remainder) (SEGIB, 2017).

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Chapter 6

Special feature: The Caribbean small states

This chapter offers a brief diagnosis of economic, social, environmental and institutional challenges in the Caribbean and suggests possible policy actions to address them. First, it reviews key economic issues related to the lack of competitiveness, trade deficits and the region's high debt-to-GDP ratio, which in turn reduces its fiscal space and public investment. The following section evaluates the lag in social investment and the need to tackle poverty and inequality, youth unemployment, poor education, lack of social protection, better health and social care, ageing demographics and gender disparities. This chapter also describes the environmental vulnerability of the Caribbean, due to its geo-ecological characteristics, population distribution and economic activity, and analyses challenges related to climate change adaptation, water resources and solid waste management, energy transition and sustainable transportation. The institutional situation is also assessed by exploring the content of development plans and problems regarding access to grants and concessional resources because of the graduation of Small Island Developing States (SIDS). Both local and global actions play a role to overcome these challenges and ensure higher inclusive and sustainable economic growth.

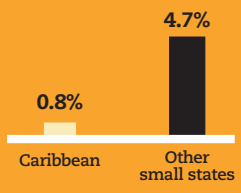
Caribbean states have made significant progress, but structural challenges remain

Low growth is mainly due to structural imbalances and lack of competitiveness

Growth

Caribbean economies have weak economic growth

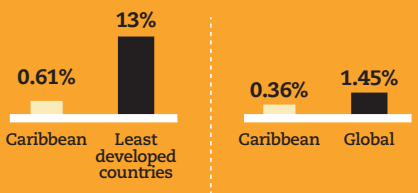
Annual GDP growth average



Trade

The Caribbean region has been underperforming

Merchandise exports growth



Debt

Debt-to-GDP ratio is above 60%

By 2020, nearly three-quarters of small states with unsustainable debt levels will be Caribbean countries

The region made significant progress in addressing poverty between 2002 and 2014

Still, almost one in five Caribbean people lives below the poverty line

Youth and children are among the most affected

Youth unemployment rates have reached alarming levels

The Caribbean is the second most environmental hazard-prone region in the world

Natural disasters are the main environmental challenge, along with climate change, loss of biodiversity, damaged freshwater and pollution

Climate change is expected to have a major impact on the Caribbean

Annual temperature is expected to rise between 1-5°C by 2080

Introduction

This chapter draws attention to the main economic, social, environmental and institutional challenges faced by Caribbean countries, particularly the small states. These countries, known as the Caribbean small states (CSS), include Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Monserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

Despite high heterogeneity across countries, CSS face many economic challenges. Long-standing low growth and lack of competitiveness are the primary structural challenges. This condition aggravates accumulation of current account deficits and unsustainable debt levels. Fiscal constraint has been affecting public investment in social areas. The labour market has been particularly inefficient, restricting the economic potential of the sub-region. Policy priorities should include industrial restructuring to improve inclusive growth performance through development of new activities and modernisation of infrastructure in key sectors.

CSS need to increase expenditure in social programmes to tackle poverty and inequality. Although the sub-region has dramatically reduced poverty in recent years, half of the population remains vulnerable to falling back into poverty. Also, CSS experience urban-rural gaps on housing stock and access to services. Empowerment of women, human capital development and education can significantly improve competitiveness and be a force for development. The sub-region must address youth unemployment, along with increased migration of highly skilled individuals, in order for countries to move towards a knowledge-based economy.

In the environmental sphere, the impact of natural disasters is the main challenge of the sub-region and public policy must provide coherent direction to face it. Key policy areas to be tackled are climate change adaptation, water resources, solid waste management, sustainable transportation and a transition towards sustainable energy. The external economic and environmental vulnerabilities of CSS are linked to their geo-ecological characteristics. Thus, the combination of climate change impact, population distribution on the coast and pressure on water resources makes it necessary to find synergies among stakeholders to overcome environmental damages.

Policy actions from the global community to invest and provide functional co-operation are fundamental to promote inclusive and sustainable development in this sub-region. Strengthening relationships and partnerships, beyond their level of income per capita, is therefore crucial. Most of these countries still face challenges in their access to finance and grants, while remaining vulnerable to external environmental and economic shocks. CSS should find mechanisms to implement the Sustainable Development Goals (SDGs), and align them with national development plans. They should ensure institutions have multi-sectoral and cross-cutting mechanisms in place to implement the SDGs and reinforce evidence-based processes.

Economic challenges: Structural imbalances, and lack of competitiveness and productivity

Although CSS have improved income per capita in the past decades, economic performance has remained poor. Since 2010 the countries have shown persistently weak economic growth. Annual gross domestic product (GDP) growth rates average only 0.8% compared with 4.7% in other small states. In 2016, CSS grew on average by 0.7% (ECLAC, 2018). Most CSS countries exhibit high levels of growth volatility, creating uncertainty, hindering economic growth and negatively affecting public finances (Beuermann and Schwartz, 2018).

Low growth in CSS has two key sources: structural imbalances and lack of competitiveness. These imbalances are mirrored in the region's persistent current account deficits and high levels of public debt (Alleyne, 2018).

Trade, debt and fiscal situation

The Caribbean region (CARICOM) has been underperforming on trade – compared to other developing countries – before and after the 2008-10 recession. Between 2005-10, the sub-region's merchandise exports grew by only 0.61% compared to exports of least developed countries, which grew by 13.07%. After the crisis, Caribbean countries' merchandise exports grew annually by 0.36% on average, which was lower than global exports which grew at 1.45% annually. The sub-region is failing to maintain its share of global markets, both in services and goods. This trend has been reinforcing the accumulation of current account deficits, as foreign direct investment and official development assistance (ODA) inflows have also declined in recent years (ECLAC, 2018).

The sub-region faces various challenges to participate in more value-added chains, while continuing to have low levels of market diversification. Better logistics, infrastructure and skills are necessary to produce medium-to-high technology products and engage in wider trade.

Debt in Caribbean countries has improved modestly in recent years. Nevertheless, the state debt-to-GDP ratio in two-thirds of Caribbean Community countries is above 60%. Most CSS record unsustainable debt levels; by 2020, nearly three-quarters of small states with unsustainable debt levels will be Caribbean. In 2015, 4 of the 25 most highly indebted countries in the world (measured by gross general government debt levels relative to GDP) were in the Caribbean: Antigua and Barbuda, Barbados, Grenada and Jamaica. The sub-region's total debt service payments represented, on average, over 20% of total government revenue in 2015.

The high cost of debt service has greatly reduced countries' fiscal space and undermined their ability to fund development priorities. There are several main drivers behind the fiscal deficit in CSS. These include poor economic performance, insufficient fiscal restraint and high financing costs in capital markets. Equally important is the impact of climate change from frequent disasters that reduce both output and government revenue, and that demand high levels of expenditures (Rustomjee, 2017; IMF, 2016; IBRD/World Bank, 2016).

Most Caribbean economies still have space to increase tax revenues more effectively. In 2016, the average tax-to-GDP ratio in the Caribbean was 25.5%. All Caribbean countries had a tax-to-GDP ratio above the Latin America and Caribbean (LAC) average of 22.7%, but below the OECD average of 34.0%. Tax-to-GDP ratios varied widely between countries, ranging from 22.9% in Trinidad and Tobago to 32.2% in Barbados. More than half of tax revenues are collected from taxes on goods and services, which tend to be less redistributive. This is above the LAC and OECD average. The share of tax revenue collected from income and profits is 29.5% of total taxation, a figure above LAC (27.3%) and the OECD (34.1%). This share varies strongly in the Caribbean – from 0% in Bahamas to up to 49% in Trinidad and Tobago. On the other hand, social security contributions account for only 10% of total taxation, a figure below the 15.9% average in LAC and the OECD average of 25.8% (OECD et al., 2018).

Two additional challenges have arisen that add to the vulnerability of many Caribbean economies: greater de-risking by banks and renewed challenges to offshore financial centres. De-risking – in which banks tighten lending to countries at greater risk – leads to the loss of corresponding relations with international banks. De-risking strategies

by many large global banks could cripple investment, remittance flows and economic growth in the sub-region. At the same time, Caribbean islands are working to comply with international financial standards, but face renewed challenges. Changing regulations in developed countries could place a significant burden on states with limited negotiating leverage and constitute offshore financial centres. Both challenges require urgent policy interventions to provide viable options for economic diversification.

Fiscal pressures in CSS countries have been affecting public investment in key areas. For example, public capital expenditures rose on average by only 1 percentage point to 5.7% between 2000-15. This scenario is further complicated by a substantial fall of foreign investment and ODA flows (ECLAC, 2018).

Weak institutions lie at the heart of fiscal mismanagement of Caribbean economies. Weak institutions result in deficient policy planning, poor budget design and low fiscal discipline (see Chapter 3; the institutional trap). The lack of medium-term fiscal policy frameworks has worsened the fiscal stance, as fiscal policy tends to be procyclical. Furthermore, lack of, or weak, debt management systems and rules have similarly aggravated the fiscal position in Caribbean economies (Beuermann and Schwartz, 2018).

To boost competitiveness, the region needs to improve in key policy areas such as education and skills, energy, infrastructure and entrepreneurship

The Caribbean economy will continue to exhibit low economic growth rates unless it becomes more competitive. Structural imbalances indicate both lack of export competitiveness and low productivity. The sub-region needs an industrial policy complemented by enabling key factors such as education and skills and sustainable energy. Equally important, trade facilitation should promote new exports and better access to financing. Another enabling factor is stronger infrastructure and support for entrepreneurship, especially for micro, small and medium enterprises. Skills-intensive, creative and technology-driven production of goods and services should drive structural transformation (ECLAC, 2018).

The labour market is significantly inefficient, restricting its economic potential. Some inefficiencies are related to the lack of skilled individuals and the disjuncture between the educational system and the labour market. Despite progress, there are still major deficiencies in education and training. These deficits include low school performance and low pass-through rate from secondary to tertiary education. The region also suffers from low enrolment in science, technology, engineering and mathematics (STEM), particularly in engineering and science and technology. Several studies have addressed the mismatch between skills acquired and labour market needs, especially professional skills linked to specific technical demands, such as information and communication technologies. This highlights the need to align education and training with the requirements of a knowledge-based economy (ECLAC, 2018).

The high cost of energy is undermining the sub-region's competitiveness and growth. Energy costs in the Caribbean are among the highest in the world (PPIAF, 2014, p. 7). This suggests that development of renewables could mean a great opportunity for the sub-region. Nevertheless, economies faced considerable difficulties in financing renewable energy projects that typically require high upfront financial capital. Innovative financing instruments, such as combining loans and grants in blended financing, along with public-private partnerships, are an option to address these constraints.

Accessibility and mobility of people and goods are key for enhancing competitiveness. The development of the sub-region's air and maritime infrastructure and services is vital for the connectivity of the Caribbean. Many challenges persist in this area, as only

4 of 12 Caribbean economies had adequate port infrastructure (CDB, 2016). Over the next decade, the sub-region would require about USD 30 billion to modernise its power, transportation, telecommunications, water and wastewater sectors (ECLAC, 2014).

Social development: Overcoming the social vulnerability trap

Low economic performance in past years has been coupled with poor human development gains (Table 6.1).

Table 6.1. **The Caribbean and selected regions and groupings: Changes in Human Development Index ranking 2010-15**

Country	Change in HDI rank	Region or grouping	Average annual HDI growth (percentage)
Antigua and Barbuda	-7	Arab States	0.45
Bahamas	-6	Caribbean small states	0.30
Barbados	2	East Asia and the Pacific	0.92
Belize	-2	Europe and Central Asia	0.63
Dominica	-8	Latin America and the Caribbean	0.58
Grenada	-3	Least developed countries	1.08
Guyana	-2	Organisation for Economic Co-operation and Development	0.33
Haiti	-2	South Asia	1.25
Jamaica	-6	Sub-Saharan Africa	1.04
Saint Kitts and Nevis	2	World	0.61
Saint Lucia	-8		
Saint Vincent and the Grenadines	-6		
Suriname	1		
Trinidad and Tobago	-5		

Source: UNDP (2018).

Evidence suggests the Caribbean has lagged in social investment in recent years, with debt servicing diverting resources from social development. In this regard, lack and inadequacy of resources have constrained social investment in such critical areas as education, sanitation, healthcare, housing, work programmes and skills development. Building sustainable development requires promoting inclusion, autonomy and empowerment, particularly for the most vulnerable.

The Caribbean sub-region needs to address several critical social challenges. These include tackling poverty and inequality; unemployment, especially among youth; access to inclusive and equitable education; inadequate social protection; access to quality health and social care; and preparation for an ageing population. Gender disparities remain primary obstacles to an inclusive and resilient society, which makes gender equality a central and cross-cutting issue (ECLAC, 2018).

Poverty and social inclusion

The Caribbean region made significant progress in addressing poverty between 2002 and 2014. Nevertheless, almost one in five Caribbean people lives under the poverty line. Children and youth are among the most affected (Table 6.2) (ECLAC, 2018).

Several significant factors influence poverty and vulnerability in the sub-region. These include gender, regional disparities, levels of education, occupation and sector of employment, household size and composition, number of household members employed, and quality of housing. Female-headed households, for example, are more vulnerable to poverty. Quality of housing can protect families from natural disasters and ease access to public utilities, which in turn secures better sanitary and health conditions.

Table 6.2. **The Caribbean: Poverty rate by age group, various years**
(in percentages)

Country	0–14	15–24	25–44	45–64	65+	All persons	Poverty line (USD per adult ale per year)	Year
Antigua and Barbuda	24.6	21.6	14.0	15.3	15.2	18.4	2366	2005–2006
Bahamas*	13.9	9.1	4.9	3.5	6.3	9.3	2863	2001
Belize	50.0	43.0	35.0	31.0	34.0	41.3	1715	2009
Dominica	38.7	29.1	27.2	21.2	23.0	28.8	2307	2008–2009
Grenada	50.8	47.7	33.0	24.8	13.3	37.7	2164	2007–2008
Jamaica	20.2	18.6	11.9	14.0	18.7	16.5		2009
Saint Kitts and Nevis	31.3	28.0	17.6	10.9	10.6	21.8	2714	2007
Saint Lucia	36.9	32.5	25.0	21.3	19.1	28.8	1905	2005–2006
Saint Vincent and the Grenadines	38.1	36.1	28.0	21.7	18.8	30.2	246	2007–2008
Trinidad and Tobago	23.0	22.1	15.6	11.5	6.7	16.7		2005
Average (simple)	32.8	28.8	21.2	17.5	16.6	25.0		
Average (population weighted)	24.1	21.9	15.1	14.3	15.6	18.8		

Note: Figures for the Bahamas correspond to the following age groups: 5–14, 15–19, 35–54, 55–64, and 65 and over.
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of F. Jones, "Ageing in the Caribbean and the human rights of older persons: twin imperatives for action", Studies and Perspectives series-ECLAC Subregional Headquarters for the Caribbean, No. 45 (LC/L.4130; LC/CAR/L.481), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2016, country poverty assessments and surveys of living conditions.

Inequality in the Caribbean varies widely, but on average is below LAC economies and considerably above levels in the OECD. Inequality measured by the Gini coefficient, for example, was below the LAC average of 47.8 in all Caribbean economies. However, it was considerably above the OECD average of 33.2. Inequality was highest in Suriname (43.8) and Bahamas (41.9), and the lowest in Barbados (32.2) (Beuermann and Schwartz, 2018).

Urban-rural gaps on housing stock and access to services are evident in the Caribbean. Additionally, decent work of household heads – employment with social benefits – is a significant variable in the incidence of poverty, along with higher education level.

Social programmes must be intensified. This includes active labour market policies, cash transfer programmes, food basket and medicines for those in need. However, poverty and inequality are also to a significant extent associated with structural heterogeneity and low-productivity sectors, which account for more than half of all jobs in some countries. Income is an important driver for addressing inequality, and across the sub-region there are significant disparities in this area (ECLAC, 2018).

Women's empowerment and autonomy

Women's potential can be reached only if they have physical, economic and decision-making autonomy. This means i) eliminating all forms of violence against women and girls; ii) accounting for and improving the gender distribution of unpaid domestic work and care responsibilities; iii) addressing inequity and disadvantages in the labour market and promoting entrepreneurship; iv) improving sexual and reproductive health services; and v) enhancing women's participation and leadership at all political levels in the sub-region (ECLAC, 2018).

Addressing gender-based violence is a major challenge in the Caribbean. Taking action first requires access to data and indicators that can identify the extent of the problem. Violence directly affects the way women develop in their diverse roles in life – from finding a job to having a better education. Likewise, women and girls who are subjected to violence are more vulnerable to human trafficking and international organised crime. Actions must be taken to fight all forms of violence against women and girls.

Other policies that will help empower women are related to reducing school dropout and easing young mothers' access to employment. Policies for childcare and parental

leave could also encourage better distribution of domestic workloads and secure better job development for women.

Human capital development and education

Attaining sustainable development requires without a doubt improvement of human capital. Human capital development can improve Caribbean competitiveness. This will involve complementing social programmes with an improved education system. The new economy also demands enhancing capabilities in STEM.

In terms of education coverage, the main challenges remain at pre-primary and tertiary levels. The Caribbean has achieved universal primary education and near secondary education, with some exceptions. Yet Caribbean countries lag behind in terms of early childhood and tertiary education (Table 6.3). Recent economic challenges have triggered a step backward in access to tertiary education. Some challenges are related to fiscal setbacks, which have led to reduced subsidies for higher education. The pass-through rate to tertiary education in the Caribbean is about 15%, less than half the rate of developed countries (ECLAC, 2018).

Table 6.3. **Caribbean community: Gross enrolment rates in education, average for 2008-14**

(Percentages of the population in the respective age group)

Country	Pre-primary age	Primary school age	Secondary school age	Tertiary institution age
Antigua and Barbuda	89	98	105	23
Bahamas	NA	108	93	NA
Barbados	79	105	105	61
Belize	49	118	86	26
Dominica	99	118	97	NA
Grenada	99	103	108	53
Guyana	66	75	101	13
Haiti	92	92	78	13.9
Jamaica	82	85	101	18
Saint Kitts and Nevis	60	100	88	14
Saint Lucia	78	105	103	NA
Suriname	96	113	76	NA
Trinidad and Tobago	83	106	86	12

Source: UNDP (2015).

Quality of education remains a challenge in the Caribbean. Only about 23% of students who entered the final Caribbean Secondary Education Certificate (CSEC) examinations in 2015 and 2016 took the exam. What is more, roughly only 65% of them achieved pass grades. Over the same period, CSEC pass rates in mathematics and most sciences declined. While the number of students passing the CSEC English-language exams increased slightly, only 15%-17% of all students succeeded in this component of the exam (Caribbean Examinations Council, 2015, 2016; ECLAC, 2018).

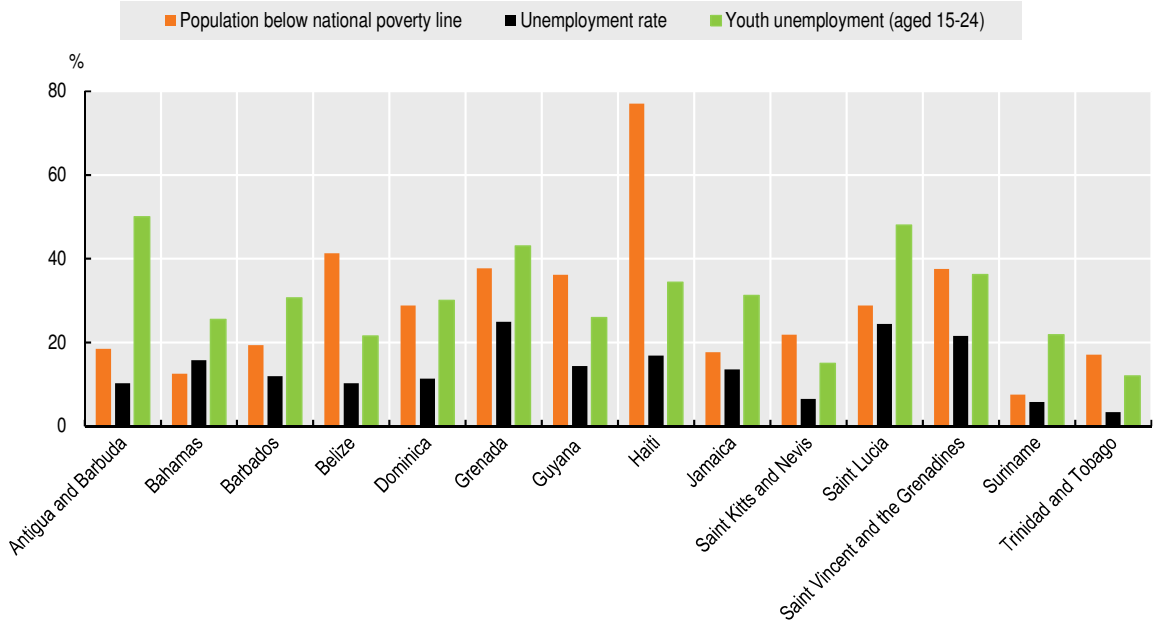
Students entering the education system have relatively high failure rates and lack of proficiency. These outcomes highlight the inefficiency of investment in the education system. Another concern is the shortage of teachers and lack of teacher readiness. These problems have been exacerbated by increased migration of qualified teachers at primary and secondary levels to North America, the United Kingdom and Europe (ECLAC, 2018).

Workforce mobility and employment issues

The contracting workforce, characterised by increasing job loss and limited job creation, has mostly affected women and youth in the Caribbean, making them more vulnerable (Kandil et al., 2014).

Youth unemployment rates, rising for over a decade, have reached alarming levels. On average, the rate was nearly 25% for the Caribbean – more than three times the adult unemployment rate of 8% (CDB, 2015). Also, gender gaps between young women and men experiencing unemployment are around 10%. According to some estimates, youth unemployment cost the Caribbean, on average, 1.5% of its annual GDP (CDB, 2015). Youth unemployment rates reach above 40% in Antigua and Barbuda, Grenada and Santa Lucia (Figure 6.1) (ECLAC, 2018).

Figure 6.1. **Population below national poverty line, unemployment rate and youth unemployment in the Caribbean**



Source: UNDP (2016).
StatLink https://doi.org/10.1787/888933937128

Critical sectors in the Caribbean have lost talent. Professional workers, especially in critical sectors such as nursing, allied health, teaching and engineering professions, have more mobility. The departure of such professionals to more developed nations has resulted in a shortage of qualified labour. They leave the Caribbean for many reasons, including poor working conditions; remuneration and benefits that are not commensurate with qualifications; underuse of skills; and insufficient training and opportunities for career progression (ECLAC, 2018).

Social protection

There are inadequacies in the provision of social protection in the Caribbean owing to cyclical spending, insufficient targeting of poor and vulnerable groups, and gaps in social insurance. Although more resources are urgently needed, CSS should also aim to reduce imbalances in family allowance programmes and unemployment insurance, since only 40% to 50% of the regional workforce is in formal employment (Barrientos, 2004; Williams et al., 2013). Rapid demographic changes will also need to be considered in social protection programmes. These changes include the increasing number of older persons and high rates of migration among the young.

CSS has made progress on social security coverage, as all the English-speaking Caribbean countries have social security systems. All countries except Dominica, Grenada

and Saint Lucia have non-contributory schemes. Some countries have also recently expanded the coverage and quality of pension schemes offered to people above 65 years of age. Others have provided security coverage to those who have no other pensions or are in particularly vulnerable situations. Despite this progress, non-contributory pension schemes are not well funded except in Trinidad and Tobago (ECLAC, 2018).

The Caribbean sub-region should give highest priority to both education and targeted social protection, including health. Other priorities consist of health challenges faced by the sub-region, especially on prevalence of non-communicable diseases related to unhealthy eating habits; physical inactivity; obesity; tobacco and alcohol use; and inadequate use of preventive health services.

Environmental vulnerability: Constraints and opportunities

The Caribbean is the second most environmental hazard-prone region in the world. Natural disasters are the main environmental challenges, along with concerns about climate change, loss of biodiversity, anthropogenic stressors on freshwater and land-based sources of pollution. The tourism industry, the main export sector of the economy, has also put pressure on natural ecosystems. Undoubtedly, a prosperous economy in the Caribbean and high quality of life depend on a healthy environment, which also provides the basis for all human activity.

The complex environmental challenges will require co-ordination of economic, social and environmental policies and coherent governance frameworks. Some of these challenges are related to climate change adaptation, water resources and solid waste management, energy transition and sustainable transportation.

Climate change adaptation

The geo-ecological characteristics of Caribbean small islands – generally small landmass and large marine area – combined with their population distribution and economic activity make them particularly vulnerable to external environmental and economic shocks. The concentration of people on the coast, for example, increases exposure of the population to the impact of natural phenomena, especially hurricanes.

Climate change is expected to have major impacts in the Caribbean. As one implication of climate change in CSS, mean annual temperatures are expected to rise between 1°C and 5°C by 2080. Other changes will manifest in more varied precipitation levels; while some areas will have more rain, others will have less. Sea levels are also expected to rise, leading to loss of coastline. Other environmental events may be related to the influence of El Niño Southern Oscillation, volcanic and tectonic crustal motions, and variations in the frequency or intensity of extreme weather events (ECLAC, 2011; IDB 2014; Mimura et al., 2007).

The Caribbean must overcome several issues before it can adapt effectively to climate change. These include weak institutional capacity, limited availability of data and information, lack of long-term environmental planning, inadequate policies and incoherent governance. Policy makers also need to leverage synergies between climate change adaptation and mitigation, and disaster risk management.

Water resources and solid waste management

Factors such as population growth and scarcity of water resources challenge the traditional approach to water management. Projections show that, because of climate change, the Caribbean region will become markedly drier. The proper management of water resources is of great importance in the conservation of marine ecosystems and groundwater. Even though most countries report over 95% access to water, potable

water sustainability could be at risk owing to inefficient water use by core sectors of the economy; lack of wastewater management and long-term planning; and inefficient oversight of regulatory frameworks.

Key alternatives that might address water-resource challenges include: i) rainwater harvesting at the individual residence level; ii) use of desalination to provide potable water; iii) design and development of irrigation systems that optimise harvesting and use of ground, surface and rainfall resources; iv) recycling and reuse; and v) wastewater management (GWP, 2014).

Although solid waste management has not been a top environmental priority in the Caribbean, recent data have shown the significant impact of solid waste on the ocean. Evidence shows 85% of wastewater entering the Caribbean Sea remains untreated and 51.5% of households lack sewer connections (Cashman, 2014). Wastewater discharge has been a large contributor to the loss of over 80% of living coral in the Caribbean over the past 20 years (Villasol and Beltrán, 2004).

There are critical strategies for enhancing waste management operations in the Caribbean. These strategies include: i) implementation of fully integrated solid waste management systems; ii) promotion of national composting; iii) promotion of recycling; iv) review of fee structures for municipal solid waste management; v) strengthened institutional and regulatory frameworks for municipal solid waste management; and vi) promotion of public-private partnerships for solid waste management (Phillips and Thorne, 2013).

Energy transition

The demand for energy services in the Caribbean has increased considerably over the last decade, and the sub-region still relies heavily on fossil fuels. CSS has only four fuel-producing nations: Barbados, Belize, Suriname, and Trinidad and Tobago. However, large deposits of high-grade oil have recently been found off the coast of Guyana, while Grenada has found oil and gas in huge commercial quantities (ECLAC, 2018).

As there is still space for improvement, most countries aim to improve the role of renewables but enforcement of regulations has been called sluggish. Trinidad and Tobago has committed to increase the percentage of renewable energy sources in its overall energy supply to 10% by 2021; Grenada seeks to achieve a 20% contribution of renewables in all domestic energy usage by 2020. Nevertheless, the Caribbean is still yet to achieve energy diversification (McIntyre et al., 2016) (Figure 6.2).

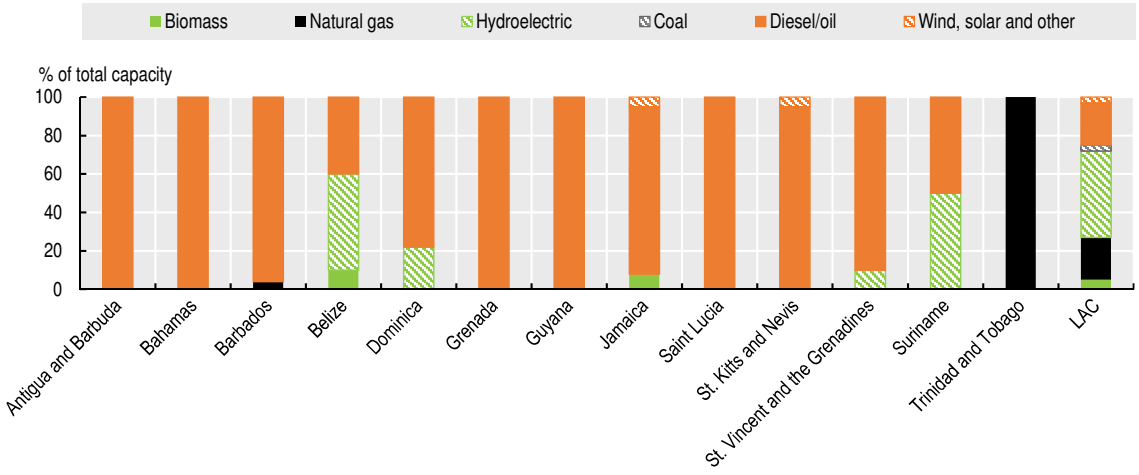
The Caribbean sub-region shows great potential for transitioning to a more sustainable energy matrix. Some issues that hinder the modernisation of energy systems include fiscal constraints, data gaps, lack of local capabilities, weak local markets, and incomplete or inadequate governance frameworks.

Sustainable transportation

Transportation is the main energy consumer in the Caribbean. Transportation accounts for 36% of the total primary energy consumed in the sub-region (IMF, 2016). This highlights the importance of increasing energy efficiency in the transportation sector as one of several strategies to improve sustainable energy consumption. However, efforts to transition to renewable energy in domestic transportation systems remain modest. A mixed policy option in this regard includes investments and systemic changes in areas such as urban planning, development of public transportation alternatives, establishment of goals for sectoral emissions, introduction of incentives to promote use of energy-efficient vehicles and adjustments to users' behaviour.

Figure 6.2. **Installed generation capacity, Caribbean and LAC, 2015 or latest**

(Percentages of total capacity)



Source: McIntyre et al. (2016).

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Bearing in mind data gaps and a comprehensive understanding of the transportation sector, decision makers and planners should consider measures aligned with land use and transportation planning strategies. The adaptation or transformation of public transportation systems in the Caribbean could provide a great opportunity to address other problems such as employment challenges in some rural and urban areas (ECLAC, 2018).

Institutional challenges: Aligning development frameworks with global sustainable development agendas

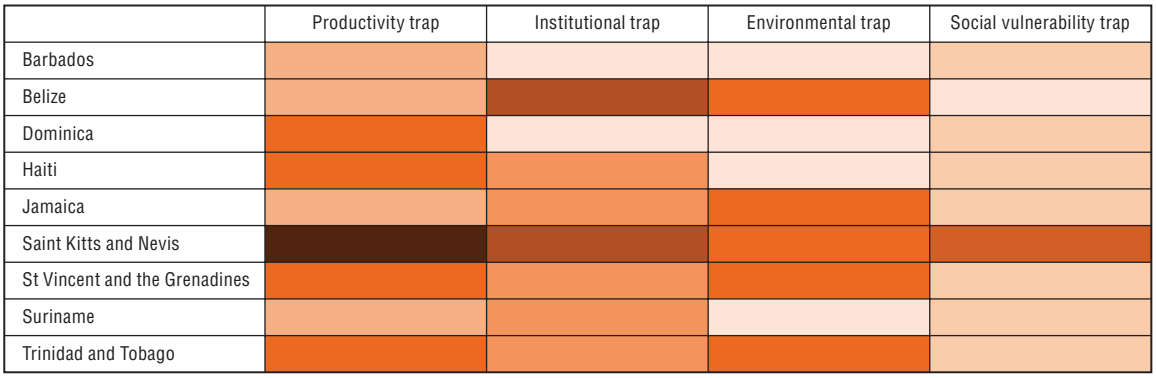
In the Caribbean, on average, countries identify institutional strengthening and productivity growth as their most pressing policy issues. Based on a review of development plans in the sub-region, strategic objectives were classified according to four major development traps described in Chapter 3: productivity, institutional, environmental and social vulnerability. In development planning tools, institutional strengthening and productivity growth are the most mentioned topics (Figure 6.3). Nine countries mentioned macro stability, growth and employment as key topics for productivity. Five countries mentioned reform and modernisation of the state as a strategic priority for institutional strengthening. Sub-regions have some differences on environmental issues. These have a higher presence in the Caribbean, due in part to the sub-region's exposure to natural phenomena. On social vulnerability, six Caribbean countries stated that social and human development is a key priority.

The main challenges of Caribbean countries in formulating and implementing development plans include financing, particularly inadequate access to concessional resources and grants; weak technical capacities, especially for production of disaggregated data; insufficient public awareness and political buy-in; and shortcomings in establishing effective institutional mechanisms to implement the plans.

Caribbean countries should also ensure institutional mechanisms to implement the SDGs, while plans should have multisectoral and cross-cutting structures. These mechanisms can benefit from involvement of all stakeholders, including civil society

organisations, academia and the private sector. Countries that have not yet done so should initiate public awareness-raising and information campaigns in respect of the 2030 Agenda for Sustainable Development.

Figure 6.3. **Intensity of specific topics in development plans, Caribbean (nine countries)**



Note: Each strategic objective of the national development plans for every country was classified according to a broad thematic area. Subsequently, strategic objectives were grouped according to their thematic link with the four development-in-transition traps. Next, a relative indicator was calculated by country, giving the maximum value to the country that covers all topics in every category in its strategic objectives. The colours indicate the intensity of the topics included in the strategic objectives. The darker the colour, the more frequently the related topic is mentioned as a priority in the development plan.

Source: ECLAC (2018), based on official information provided in development plans.

More evidence is needed to understand the impacts of different forms of international co-operation on development opportunities to ensure that co-operation instruments and approaches meet countries' needs. Over 2012-15, SIDS in the Caribbean received the largest share of concessional flows (44% of the total received by SIDS, or USD 8.4 billion). However, these flows were largely concentrated in Haiti and the Dominican Republic (64% of total funds received by Caribbean SIDS). SIDS should also attempt to find new ways to obtain resources for development such as green or blue bonds (OECD, 2018).

CSS should urge their multilateral and bilateral partners to continue and intensify co-operation with Caribbean regional institutions and member states to strengthen their capacity to produce and disseminate disaggregated data. Well-developed statistics are crucial to measure the effectiveness of programmes and policies (OECD, 2018).

Triangular co-operation is essential to achieve sustainable development in the Caribbean. Already, 66% of all triangular co-operation projects towards the SIDS were destined for the Caribbean. This type of co-operation can combine resources and expertise with mutual learning and policy dialogue (Chapter 5). There is scope to foster programmes that allow the exchange of experiences between regions through triangular co-operation (OECD, 2018).

Conclusions

Weak economic growth has been persistent in Caribbean small states with high levels of growth volatility. This results in uncertainty and a negative effect on public finances. Low economic growth can mainly be explained by structural imbalances and lack of competitiveness. Structural imbalances include trade, debt and fiscal stance.

The Caribbean region has been underperforming on trade – compared to other developing countries – with low participation in value-added chains, and low levels of market diversification. Despite modest improvements in recent years, debt in most Caribbean countries is above 60% of GDP. Low tax revenues, high debt servicing and low fiscal space have affected public investment in key areas, further limiting a higher level of inclusive and sustainable growth. Structural imbalances also point to a competitiveness trap. Lack of competitiveness due to lags in education and skills, sustainable energy, infrastructure and entrepreneurship also hinders economic growth.

Social inclusion remains a challenge for Caribbean small states. Despite recent improvements, more than half of the region's population remains vulnerable to poverty. In the Caribbean, a large percentage of the population still lives under the poverty line. Poverty and vulnerability are mainly influenced by gender and regional disparities, levels of education, occupation and quality of employment, size and composition of the household, number of household members employed and quality of housing.

Natural disasters are the main environmental challenges in the Caribbean, along with concerns about climate change, loss of biodiversity, anthropogenic stressors on freshwater and land-based sources of pollution. The geo-ecological characteristics of Caribbean small islands and the concentration of the population increase exposure to natural phenomena, especially hurricanes. As a result, Caribbean small islands will likely experience some of the biggest impacts of climate change.

To increase sustainable and inclusive growth, as well as confront environmental challenges, Caribbean small states must improve domestic capacities; the global community plays an important role in that regard. CSS should formulate and implement development plans that include increasing finances, strengthening technical capacities, increasing public awareness and political buy-in; and establishing effective institutional mechanisms to implement the plans. More evidence is needed to understand the impact of different forms of international co-operation on development opportunities in Caribbean countries.

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ARGENTINA

Recent trends

In the past decades, Argentina has made improvements in education and extreme poverty reduction. The country is the best performer in terms of net secondary enrolment rate (89.5%). Argentina has also one of the lowest shares of population living on less than USD 5.5 a day (2011 PPP) of the region (7.8%) and of population living on USD 5.5-13 a day (2011 PPP) (28.6%).

Argentina's gross domestic product (GDP) per capita is well above the regional average and almost doubled between 1990 and 2017. However, both total factor productivity growth and labour productivity are lower than their 2011 level. Argentina has mixed performance in terms of institutional, environmental and personal security outcomes. Citizens' satisfaction with institutions is low and 78% of the population thinks corruption is widespread throughout government. The mean annual exposure to $PM_{2.5}$ air pollution stands below the Latin America and Caribbean (LAC) and OECD averages. However, the decrease in forest area between 2000 and 2015 was more than twelve times higher than the LAC average. Finally, while the homicide rate is below the LAC average, it remains higher than the OECD average. Only 40% of the population reports feeling safe when walking alone at night, relative to 46.2% in LAC and 72% in the OECD.

National strategies and international co-operation for development

The Argentinian government builds the concept of development through the plan "Comenzar a transformar la Argentina" 2015-19 [Starting to Transform Argentina]. The plan relies on three pillars: tax reform, employment generation and institutional quality. Moreover, the plan demonstrates strong links with Sustainable Development Goal (SDG) 16 (peace, justice and strong institutions) and SDG 8 (decent work and economic growth) (ECLAC, 2018). The second objective on a national productive agreement provides the ground to enhance productivity and competitiveness. The Regional Development Plan, tax reform, National Tourism Plan and development of the single window of foreign trade address the national concerns of its productive sectors. The implementation of the Belgrano plan and of the Patagonia project (both regional development strategies) should influence the country's trajectory for employment and industrial growth policies.

Poverty and vulnerability are key elements of the National Development Plan. The latter includes a national strategy for vulnerable adolescents and young people, a national social protection plan and gender policies, as well as investments in infrastructure in remote areas. It also aims to improve the transparency and performance of public institutions, as well as anti-corruption and management reform plans to overcome the institutional trap.

In terms of public financing capacities, Argentina's total tax revenues were 31.3% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country has made e-invoicing mandatory for all corporate taxpayers by April 2019. E-invoicing in Argentina has also facilitated the introduction of an electronic payroll system that allows more immediate access to information on social security contributions and personal income tax, which should detect tax evasion. Argentina is a signatory of the Multilateral Competent Authority Agreement on Exchange of Country-by-Country Reports and of the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information to fight tax evasion.

Argentina's international co-operation priorities include inter-institutional co-ordination, impact assessment of South-South and Triangular Co-operation and alignment of the project portfolio with the 2030 Agenda. At the regional level, priority is given to fostering multilateral frameworks for South-South co-operation; building robust information-gathering systems to strengthen management, planning and resource orientation processes; and developing a gender mainstreaming strategy across the international co-operation agenda. At the global level, it includes promoting the transfer of new technologies, multi-actor partnerships, and country-led and country-driven inclusive reports of the contribution of South-South and Triangular Co-operation to implementation of the 2030 Agenda.

International co-operation projects are prevalent in agribusiness, public innovation management and health sectors. Over one-third of projects involve the LAC region. Among them, the Regional Programme for Management of the South American locust between Argentina, the Plurinational State of Bolivia (hereafter "Bolivia") and Paraguay. In addition, the organisation that drives, regulates, co-ordinates and supervises the donation and transplant activities of organs, tissues and cells (INCUCAI in Spanish) assembled a regional training course. The donation and transplant agencies of Bolivia, Costa Rica, Paraguay and Peru addressed legislation, professional training, and ethical and social aspects related to their work. These collaborative projects were supported by the Argentine Fund for South-South and Triangular Co-operation (Argentine Fund for International Cooperation - FO.AR). FO.AR was created in 2017 to promote the participation of Argentine subnational governments in the development of international cooperation projects. Since then, 15 provinces and 7 Argentine cities have participated in 20 projects with Bolivia, Brazil, Colombia, Chile and Paraguay. At the same time, Argentina and France have started a cooperation project of 15 subnational governments of both countries.

Key Indicators						
Income and productivity	**Argentina**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	17 901	18 934	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	53.6	53.4	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	6 035	7 157	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	0.0	-0.5	-0.3	-0.3	1.1	1.1

	Argentina	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	0.1	-0.7	0.1

Social vulnerabilities	**Argentina**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	16.6	7.8	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	29.0	28.6	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	75.1	76.6	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	10.5	11.4	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	79.2	89.5	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	26.0	40.0	34.8	44.3	12.0	13.0
Gini index [3]	46.3	42.4	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	19.3	20.9	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	14.0	9.2	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	58.0	52.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	401	432	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		NA		24.6		17.3

Environment	**Argentina**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-14.9		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	14.8	14.1	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.26	0.24	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	69.0	75.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	66.0	69.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Argentina**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	26.4	31.3	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	50.0	55.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	33.0	31.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	83.0	78.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	41.0	31.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	44.0	43.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	58.0	51.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	68.0	63.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	41.0	40.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	NA	6.5	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

BRAZIL

Recent trends

Brazil has made improvements in development outcomes during the past decades. In particular, the share of the population living on less than USD 5.5 a day (2011 PPP) decreased from 38.1% to 19.4% between 2005-15. Over the same period, the share of those living on USD 5.5-13 per day (2011 PPP) increased from 33.3% to 33.7%. At the same time, access to education improved as evidenced by a higher net secondary enrolment rate (82.3%). Life expectancy expanded from 65.3 years to 75.5 years between 1990-2016, while infant mortality fell from 52.6 to 13.2 per 1 000 live births between 1990-2017.

Brazil's gross domestic product (GDP) per capita increased by almost one-and-a-half times between 1990-2017, although it has been steadily decreasing since 2014. The country still lags behind in labour productivity in terms of GDP per person employed, which stands at 38% of the OECD average. Total factor productivity growth has registered a -1% on average between 2000-17. Moreover, Brazil does not perform well in terms of income equality, confidence in institutions and citizens' security.

National strategies and international co-operation for development

Brazil's current "Plano Plurianual (PPA) 2016-19: Desenvolvimento, produtividade e inclusão social" [Plurennial Plan 2016-2019: Development, Productivity and Social Inclusion] builds on a vision guided by social inclusion and the promotion of a dynamic economy. The PPA includes annotations on resource expenditure from the budgets of ministries and state-owned enterprises and allocated on programmes related to its goals. The four strategic axes of the plan give special attention to Sustainable Development Goal (SDG) 10 (reduced inequalities) and SDG 9 (industry, innovation and infrastructure) (ECLAC, 2018). The plan includes productivity and competitiveness-enhancing policies. These include co-operation between the state and the private sector, research as a means of economic development and a fiscal balance policy to readjust public finances in view of the tax reform.

The plan has a focus on improving people's lives and productivity through human capital accumulation. The axes of "quality education" and "social inclusion and reduction of inequalities" address the vulnerable population. Brazil's plan also aims to increase the state's operational capacity and its performance. It includes policies that increase the quality of public services and spending, transparency, communication and social participation, such as preventing and fighting corruption. These tasks are carried out by means of qualified monitoring instruments and structures in each of the institutional actors' actions.

In terms of public financing capacities, Brazil's total tax revenues were 32.2% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country introduced e-invoicing in 2008, which is now mandatory for all business-to-business transactions. With the implementation of its digital bookkeeping system (SPED in Portuguese), authorities have increased total federal taxes collected without increasing the tax rate. Brazil is a signatory of the Multilateral Competent Authority Agreement on Exchange of Country-by-Country Reports and of the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information to fight tax evasion.

At the same time, international co-operation has played an important role in the Brazilian development strategy for decades. Brazil's multilateral strategy focuses on maintaining an active role in international institutions dealing with development and co-operation issues. Brazil's South-South strategy is aligned with the Brazilian foreign policy and it seeks to contribute to the promotion of the three internationally agreed dimensions of the sustainable development (economic, social and environmental) in other developing countries, in accordance with their national plans, priorities and strategies. The Brazilian Co-operation Agency (ABC in Portuguese) of the Ministry of Foreign Affairs has the legal mandate to co-ordinate technical and humanitarian co-operation with partner-countries, especially in LAC and Africa, but also in Asia, Europe and Middle East.

In what concerns trilateral co-operation with multilateral agencies, the major partners of Brazil are FAO and WFP (food and nutritional security), ILO (decent work) and UNFPA (demography), with focus on countries in LAC and Africa. Brazil also co-operates with countries in Africa, especially Portuguese-speaking ones, such as Mozambique with whom it has implemented over 50 co-operation projects, in themes such as agriculture productivity and food security, urban development, healthcare for women and children, capacity building for justice operators and modernisation of the social welfare and pension system.

Key Indicators						
Income and productivity	**Brazil**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	13 268	14 103	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	36.4	38.0	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	5 895	6 819	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	0.4	0.1	-0.3	-0.3	1.1	1.1

	Brazil	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	-1.0	-0.7	0.1

Social vulnerabilities	**Brazil**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	32.1	19.4	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	34.6	33.7	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	72.8	75.5	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	6.6	7.6	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	73.2	82.3	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	21.0	27.0	34.8	44.3	12.0	13.0
Gini index [3]	54.9	51.3	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	28.3	27.5	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	19.5	13.2	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	67.0	44.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	405	401	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		21.2		24.6		17.3

Environment	**Brazil**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-5.3		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	13.8	12.7	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.15	0.16	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	68.0	71.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	79.0	74.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Brazil**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	35.1	32.2	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	57.0	51.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	25.0	14.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	68.0	80.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	38.0	17.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	57.0	42.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	42.0	36.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	71.0	66.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	36.0	31.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	23.4	28.4	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

CHILE

Recent trends

Chile's record in improving development outcomes has been strong in the past decades. In particular, the share of the population living on less than USD 5.5 a day (2011 PPP) sharply decreased between 2003-15 from 29.8% to 10.1%. At the same time, the share of the population living on USD 5.5-13 a day (2011 PPP) decreased from 39.5% to 35.8%. Chile's health indicators are now in line with the OECD average, with life expectancy at 79.5 years, infant mortality rate at 6.3 per 1 000 live births and maternal mortality ratio at 22 per 100 000 live births.

Chile's gross domestic product (GDP) per capita increased by two-and-a-half times between 1990 and 2017. Only the Dominican Republic and Panama come close to matching this performance. Additionally, Chile's GDP performance has been among the most stable in the region. However, labour productivity, measured in terms of GDP per person employed, stands at only 57.8% of the OECD average. Furthermore, total factor productivity growth has remained negative over 2000-17, with an average of -1%. Chile still faces some challenges in terms of education, income inequality and confidence in institutions.

National strategies and international co-operation for development

Chile has developed the National Development Plan "Construyamos tiempos mejores para Chile" [Let's Build Better Times for Chile] 2018-22 to build national capacities and address remaining development challenges. The plan centres on four principles: freedom, justice, progress and solidarity. It prioritises Sustainable Development Goal (SDG) 9 (industry, innovation and infrastructure) and SDG 16 (peace, justice and strong institutions) (ECLAC, 2018). The first objective focuses mainly on creating quality jobs, improving education as a pillar of economic growth and advancing the technological revolution. In this way, it will allow further progress in science, innovation and entrepreneurship to increase productivity. The plan also focuses on improving governance through promoting republican institutions, citizen security, justice and human rights, modernisation of the state, decentralisation and regionalisation of power, defence and external relations.

The Development Plan proposes protecting the vulnerable and the middle class, overcoming poverty, and promoting positive ageing and decent pensions, a healthy work-life balance, improved gender equality, and policies for migratory and indigenous people as its main line of work. Chile adopted a Multidimensional Poverty Index (MPI) in December 2014 to assess and address poverty, vulnerability and inequality. The MPI, based on the National Socio-economic Characterisation Survey (CASEN in Spanish), is updated periodically.

In terms of public financing capacities, Chile's total tax revenues were 20.4% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country is a pioneer in the practice of e-invoicing to improve tax revenues and fight evasion, which enables the country to collect resources for development. The country is also a signatory of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information to fight tax evasion and of the Multilateral Competent Authority Agreement on Exchange of Country-by-Country Reports.

At the same time, international co-operation is also playing a role in Chile's development process through both Triangular and South-South development co-operation. This work is led by the Chilean Agency for International Co-operation and Development (AGCID in Spanish). The agency, known formerly as the Chilean International Co-operation Agency, was renamed in March 2018 to underpin its developmental focus. The three main objectives in AGCID's 2015-18 strategy include progress towards inclusive and sustainable development; strengthened partnerships for shared development to incorporate new actors; and the consolidation of the National System for International Co-operation and Development, as well as of the agency.

Chile is playing a double role as both recipient and donor of international co-operation. At the national level, following democratic consolidation in the 1990s, the country has been targeting structural gaps, such as climate change mitigation, environment and social development, mainly with support of the World Bank. Most recently, Chile has developed South-South Triangular Co-operation projects in partnership with Germany, El Salvador, Brazil, Spain, Japan, Sweden, Switzerland and the European Union. These projects, directed to other Latin American countries, mainly focus on agriculture, governance and social development. Additionally, South-South co-operation mostly takes place with Argentina and Mexico. Projects include energy efficiency co-operation between Salta (ARG) and Antofagosta (CHL), exchanges of technical advice on health services between Jujuy (ARG) and Antofagosta (CHL) and collaboration on waste management between Aysen (CHL) and Mexico, D.F. (MEX).

Key Indicators						
Income and productivity	**Chile**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	18 573	22 767	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	56.6	57.8	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	6 762	9 302	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	-0.2	-0.2	-0.3	-0.3	1.1	1.1

	Chile	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	-1.0	-0.7	0.1

Social vulnerabilities	**Chile**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	22.8	10.1	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	42.3	35.8	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	78.1	79.5	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	9.9	10.3	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	89.9	87.1	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	28.0	24.0	34.8	44.3	12.0	13.0
Gini index [3]	48.2	47.7	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	24.8	23.7	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	7.7	6.3	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	29.0	22.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	447	447	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		36.1		24.6		17.3

Environment	**Chile**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	12.0		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	22.9	22.0	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.26	0.20	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	65.0	51.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	82.0	73.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Chile**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	22.7	20.4	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	64.0	49.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	46.0	30.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	60.0	78.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	43.0	27.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	72.0	62.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	43.0	33.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	60.0	77.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	40.0	45.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	3.7	3.0	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

COLOMBIA

Recent trends

Colombia has made progress in several development indicators in recent decades. In particular, the net secondary enrolment rate has increased in the last decade up to 78.7%. The share of the population living on less than USD 5.5 a day (2011 PPP) also dropped from 42.6% to 28.5% over 2008-16. Meanwhile, the share of the population living on USD 5.5-13 a day (2011 PPP) increased from 32.8% to 37.7%, in line with the Latin America and Caribbean (LAC) average of 36.5%.

Colombia's gross domestic product (GDP) per capita almost doubled between 1990-2017. However, labour productivity remains only 31.5% of the OECD average. Colombia performs particularly badly in terms of vulnerable employment, inequality and confidence in institutions. The country is the second worst performer in the region after Peru (49.7%) in terms of the share of people in vulnerable employment (46.8% of the employed). Despite improvements in recent years, the Gini index remains high, at 50.8, closely following Brazil (51.3). Finally, 86% of the population deems corruption to be widespread, higher than both LAC (74.5%) and OECD (54%) averages.

National strategies and international co-operation for development

The National Development Plan (NDP) 2018-22 "Pacto por Colombia, Pacto por la equidad" [Pact for Colombia, Pact for Equity] aims to boost equality, entrepreneurship and legality. Cross-cutting areas include environmental sustainability; science, technology and innovation; transport and logistics; digital transformation; public services in water and energy; mining resources; identity and creativity; peace building; ethnic groups; people with disabilities; and equality for women. This plan is consistent with the macroeconomic and fiscal frameworks to guarantee macroeconomic stability and will be financed through a multi-annual investment plan between 2019-22.

The NDP develops regional pacts that identify and prioritise differentiated goals. These pacts focus on interconnecting the nine sub-national territories in the country. The national pact applies in all territories and seeks to strengthen governance, by promoting associations in sub-regions and developing strategic projects to dynamise the regions.

The NDP 2018-22 has been designed to help fulfil commitments towards the 2030 Agenda and its Sustainable Development Goals (SDGs). The SDGs have served as a tool for promoting coherence within and among the different sections of the plan, as well as a key reference for setting targets aligned with a long-term vision of the country.

In terms of public financing capacities, Colombia approved a financing reform at the end of 2018 with the aim of increasing fiscal revenues. In 2016, these revenues represented 19.8% of GDP vs. 22.7% in LAC and 34.3% in the OECD. Colombia is on its way to improving use of technology for tax compliance. It is also a signatory of the Multilateral Competent Authority Agreement on Exchange of Country-by-Country Reports and of the Multilateral Competent Authority Agreement on the Automatic Exchange of Information to fight tax evasion.

The Ministry of Foreign Affairs is the institution responsible for formulating and guiding the international co-operation policy in its different modalities: bilateral, multilateral, South-South and humanitarian assistance, with the NDP as a general guideline. The Presidential Agency for International Co-operation of Colombia (APC-Colombia in Spanish) catalyses the international co-operation received by the country on three thematic areas: peace building; sustainable rural development; and conservation and environmental sustainability.

Of the international co-operation received in 2017, 48% came from the United States, 10% from the European Union and 8% from the United Arab Emirates (UAE). Of the total support, 48% was dedicated to peace building, 30% to rural development and 15% to conservation and environmental sustainability.

The Ministry of Foreign Affairs, APC-Colombia and the National Planning Department are elaborating a National Strategy for International Cooperation, building upon the priorities included in the NDP 2018-22. This strategy will be released after the NDP is approved. It will be aligned with the Agenda 2030 and will prioritise traditional and non-traditional donors in areas including peace building, migration, equity, the "orange economy" and environment.

In the field of South-South co-operation, Colombia collaborates especially with countries in Central America and the Caribbean. Main projects include good governance, agriculture, rural development and health. In terms of Triangular Co-operation, the most dynamic facilitating partners are Germany, Italy, Japan, Korea, Spain and the United States, and the most important multilateral partners include the European Union and SEGIB.

Key Indicators						
Income and productivity	**Colombia**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	10 307	13 255	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	29.9	31.5	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	3 716	4 668	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	0.0	0.0	-0.3	-0.3	1.1	1.1

	Colombia	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	-1.4	-0.7	0.1

Social vulnerabilities	**Colombia**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	42.6	28.5	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	32.8	37.7	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	72.7	74.4	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	7.2	8.3	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	72.3	78.7	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	36.0	39.0	34.8	44.3	12.0	13.0
Gini index [3]	55.4	50.8	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	40.7	46.8	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	17.4	12.7	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	75.0	64.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	402	416	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		15.0		24.6		17.3

Environment	**Colombia**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-5.3		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	21.5	17.1	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.14	0.13	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	68.0	65.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	77.0	80.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Colombia**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	19.1	19.8	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	73.0	51.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	19.0	16.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	80.0	86.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	51.0	22.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	50.0	49.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	54.0	40.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	70.0	75.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	52.0	42.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	38.8	26.5	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

COSTA RICA

Recent trends

Costa Rica has made development progress in the past decades. Today, only 10.7% of the population lives on less than USD 5.5 a day (2011 PPP), relative to 24% in Latin America and the Caribbean (LAC). The share of the population living on USD 5.5-13 a day (2011 PPP) is also lower than the LAC average of 36.5%, but nonetheless remains at 32.5%. Moreover, life expectancy is in line with the OECD average and above many higher-income economies in the region.

In addition, the country doubled its gross domestic product (GDP) per capita between 1990-2017. Costa Rica's labour productivity, measured as GDP per person employed, grew steadily in the past decades. Nonetheless, Costa Rica shows one of the highest levels of inequality among the countries surveyed in the region with a Gini index of 48.7.

National strategies and international co-operation for development

The "Plan Nacional de Desarrollo y de Inversion Publica 2019-22" [National Plan of Development and Public Investments 2019-22] presents a single national objective, with a focus on sustainable development from the economic, social and environmental point of view. This objective is translated into five national goals linked to the dimensions of economic growth, unemployment, multidimensional poverty, inequality and decarbonisation of the economy. Among the strategic areas of intervention, the plan includes policies for "Innovation, competitiveness and productivity" and "Infrastructure, mobility and territorial planning". Together with an "Economy for stability and growth", it includes policies for reducing the public deficit, as well as for revitalising national productivity and quality employment through innovation. For example, it foresees the reduction of the digital gap and the strengthening of small and medium-sized enterprises through regional workshops of innovation and entrepreneurship.

The strategic areas of "Health and social security" and "Education for sustainable development and coexistence" look mainly at social programmes. These include the National Plan of Environmental Health for the increase of the quantity of solid waste managed integrally, the adoption of infrastructure for the supply of integral and integrated healthcare services, as well as strategies for the development of new skills in society. This involves not only the renovation of the educational infrastructure, but also the strengthening of the formative offer and of training for digital alphabetisation and employability.

The areas of "Human security" and "Territorial development" include strategies for guaranteeing the rights of the population to a dignified life, in safe environments and in respect of the specificities of each territory. Among others, these include policies for the reduction in the number of poor households. Costa Rica also developed its national Multidimensional Poverty Index through a partnership between the public and the private sectors in 2015. Other policies foresee the Integral Prevention Strategy for Public Security and efficient management of public institutions.

In terms of public financing capacities, Costa Rica's total tax revenues were 22.2% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country made e-invoicing mandatory for all companies by the second semester of 2018. Costa Rica is also a signatory of the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports and of the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information to fight tax evasion.

Costa Rica's international co-operation projects give priority to strengthening public sector management systems, sustainable cities, integrated territorial development and issues related to biodiversity, risk management and climate change at the national level. The environment sector absorbed 45.6% of the total non-reimbursable resources received between 2014 and 2017. Costa Rica's top South-South co-operation donors include Mexico, Turkey, Colombia and Uruguay. El Salvador, Colombia, Paraguay, Mexico and Uruguay are the top recipients, while Japan, the United States, Germany and the People's Republic of China (hereafter "China") are its main bilateral co-operation providers. At the same time, the European Union, Inter-American Development Bank, UNIDO and the Global Environment Facility provided most of Costa Rica's other multilateral funds. Between 2013-16, Morocco and Costa Rica exchanged experience on the prevention of forest fires, the protection of biodiversity, ecotourism and the development of value chains as part of a project funded by Germany. Together with Spain, Germany is also Costa Rica's most frequent Triangular Co-operation partner.

At the regional and global levels, priority is given to environment and climate change, education, innovation, knowledge and digitalisation of the economy, human rights, peace, democracy and disarmament, security and the global drug problem, crime and violence prevention, human mobility, migration and refugees, and economic and commercial diplomacy. Costa Rica took part in various South-South co-operation projects with partners in the region and across the world on the aforementioned topics.

Income and productivity	Key Indicators					
	Costa Rica		LAC [1]		OECD [2]	
	2007	2017	2007	2017	2007	2017
GDP per capita, PPP (constant 2011 international USD) [3]	12 433	15 525	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	34.8	42.8	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	4 978	6 673	4 305	5 491	22 098	20 441
	2006	2016	2006	2016	2006	2016
Economic Complexity Index [5]	0.0	0.3	-0.3	-0.3	1.1	1.1

	Costa Rica	LAC	OECD
Average annual change in total factor productivity, 2000-17 (%) [6]	-0.2	-0.7	0.1

Social vulnerabilities	Costa Rica		LAC		OECD	
	2007	2016	2007	2016	2007	2016
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	NA	10.7	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	NA	32.5	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	78.4	79.8	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	8.1	8.6	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	NA	82.7	66.6	74.4	78.7	90.3
	2007	2017	2007	2017	2007	2017
Share of population that did not have enough money for food in past 12 months (%) [10]	27.0	33.0	34.8	44.3	12.0	13.0
Gini index [3]	49.3	48.7	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	19.7	14.0	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	9.0	7.8	19.4	14.7	7.9	5.7
	2007	2015	2007	2015	2007	2015
Maternal mortality ratio (deaths per 100 000 live births) [3]	29.0	25.0	87.1	74.4	19.0	14.0
	2009	2015	2009	2015	2009	2015
Mean PISA score in science performance [12]	NA	420	406	412	501	493
		2018		2018		2018
Social Institutions and Gender Index (SIGI) (%) [12]		27.9		24.6		17.3

Environment	Costa Rica		LAC		OECD	
Change in forest area, 2000-15 (%) [3]	16.0		-1.2		0.8	
	2005	2016	2005	2016	2005	2016
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	20.6	18.5	24.7	20.3	15.1	14.9
	2007	2014	2007	2014	2007	2014
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.16	0.11	0.25	0.23	0.32	0.24
	2007	2017	2007	2017	2007	2017
Share of population satisfied with air quality (%) [10]	84.0	80.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	87.0	88.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	Costa Rica		LAC		OECD	
	2007	2016	2007	2016	2007	2016
Total tax revenue as a share of GDP (%) [12]	21.9	22.2	20.8	22.7	33.7	34.3
	2006	2017	2006	2017	2006	2017
Share of population satisfied with the educational system (%) [10]	76.0	81.0	68.1	65.0	64.0	68.0
	2007	2017	2007	2017	2007	2017
Share of population that believes in honesty in elections (%) [10]	52.0	44.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	75.0	73.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	45.0	41.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	51.0	53.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	74.0	63.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	84.0	79.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	48.0	48.0	46.8	46.2	61.0	72.0
	2007	2015	2007	2015	2007	2015
Homicide rate (per 100 000 inhabitants) [3]	8.4	11.6	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

DOMINICAN REPUBLIC

Recent trends

The Dominican Republic has improved in several development indicators in the past decades. The country is one of the fastest growing economies. The share of the population living on less than USD 5.5 a day (2011 PPP) fell significantly between 2007-16, from 34.1% to 21.%. The country increased its GDP per capita by more than two-and-a-half times between 1990-2017, but it still lags behind in poverty, unemployment and satisfaction with public institutions. The consolidated middle class remains low and 40.8% of the population lives on USD 5.5-13 a day (2011 PPP). Similarly, while unemployment levels remain in line with the regional average, vulnerable employment represents 40.9% of total employment. The net secondary enrolment rate also remains below average at 66.5%.

Results in terms of confidence in institutions and health are mixed. Dominicans' satisfaction with education is high (78% relative to 65% in LAC and 69% in the OECD area). Conversely, only 32% of the population believe in honesty in elections and 70% think corruption is widespread. While life expectancy at birth improved from 67.9 to 73.9 years between 1990-2016, the maternal mortality ratio (92 per 100 000 live births) remains well above the Latin America and Caribbean (LAC) average of 74.4. The infant mortality rate is the worst among the countries surveyed in the LAC region (25 per 1 000 live births).

National strategies and international co-operation for development

The "Estrategia Nacional de Desarrollo 2010-2030: un viaje de transformación hacia un país mejor" [National Development Strategy 2010-30: A Journey of Transformation Towards a Better Country] is the Dominican Republic's roadmap towards socially inclusive growth. The National Development Plan is built on the four strategic axes of a state with efficient and transparent institutions; a cohesive society; a complex, innovative and sustainable economy; and sustainable management of the environment. Special attention is given to Sustainable Development Goal (SDG) 16 (peace, justice and strong institutions) and SDG 11 (sustainable cities and communities) (ECLAC, 2018). Policies to enhance productivity include the consolidation of the sustainable management of public finances, the reliable provision of energy at competitive prices and the development of a quality education system that responds to national development. At the same time, the plan includes policies to consolidate participative democracy and the electoral system, improve the National Security System and professionalise the police.

The second strategic axis aims at guaranteeing education, health and social security for all by appealing to territorial cohesion, equality of opportunities and low levels of poverty and inequality. The recommended policies include the universalisation of public education from preschool to secondary education, the promotion of a culture of equity between men and women, the strengthening of the administrative capacities of municipalities to boost local development, and the reduction of disparities between rural and urban areas in access to services and economic opportunities. Additionally, the Dominican Republic adopted a Multidimensional Poverty Index that counts five dimensions: health; education and childcare; livelihood and labour; housing and environment; digital gap and social relationships, as well as 24 indicators in 2017.

In terms of public financing capacities, the Dominican Republic's total tax revenues were 13.7% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country has joined the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, but it is neither a signatory of the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports nor of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information to fight tax evasion.

The international co-operation policy is in line with the National Strategy of Development. The National System of International Cooperation for Development (SINACID) is aligned to the National Planning and Public Investment System, as well as to the State Financial Management System. As of 2016, under the Viceministry of International Co-operation (VIMICI in Spanish), the sectors in which most of the initiatives were concentrated were health, agriculture and fishing, and education, followed by justice, environment, industry and trade. The main source of co-operation was through multilateral and bilateral funds. Key partners include the Colombian Presidential Agency for Co-operation, the European Union, the Inter-American Development Bank, the Japan International Co-operation Agency, the Pan American Health Organization, the Spanish Agency for International Co-operation and Development, the United Nations Development Programme, the United States Agency for International Development and the United States Department of Agriculture.

Key Indicators						
Income and productivity	**Dominican Republic**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	10 271	14 601	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	30.5	38.8	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	3 548	4 813	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	-0.3	-0.2	-0.3	-0.3	1.1	1.1

	Dominican Republic	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	0.2	-0.7	0.1

Social vulnerabilities	**Dominican Republic**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	34.1	21.0	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	40.4	40.8	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	72.1	73.9	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	7.3	7.8	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	60.7	66.5	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	59.0	52.0	34.8	44.3	12.0	13.0
Gini index [3]	48.6	45.3	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	41.3	40.9	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	29.3	25.0	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	81.0	92.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	NA	332	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		18.2		24.6		17.3

Environment	**Dominican Republic**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	33.4		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	21.3	23.7	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.23	0.16	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	74.0	68.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	57.0	65.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Dominican Republic**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	15.0	13.7	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	72.0	78.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	35.0	32.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	68.0	70.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	48.0	46.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	49.0	64.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	55.0	52.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	64.0	67.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	48.0	35.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	22.2	0.0	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

ECUADOR

Recent trends

Ecuador has made progress in some development indicators in the past decades. In particular, the country has made improvements in the net secondary enrolment rate (87.2%), which is now on the same level as Chile (87.1%), and above the Latin America and Caribbean (LAC) average of 74.4%. Life expectancy at birth improved from 69 to 76.3 years between 1990-2016. The infant mortality rate is 12.5 per 1 000 live births, slightly below the LAC average of 14.7. The homicide rate, at 6.5 per 100 000 inhabitants, is more than three times lower than the LAC average of 21.9.

Ecuador's gross domestic product (GDP) per capita increased by almost one-and-a-half times between 1990 and 2017, but the country still lags behind in terms of vulnerable employment, corruption and environmental issues. The share of vulnerable employment (45.5%) is among the highest in the region. More than half of the population (65%) thinks corruption is widespread throughout government. Forest area shrank by 8.6% between 2000-15.

National strategies and international co-operation for development

The "Plan Nacional de Desarrollo 2017-21 Toda una Vida" [National Development Plan 2017-21 A Lifetime] aims to develop a society oriented towards inclusive, equitable and supportive development. The plan is built around three main axes for ensuring rights for all: an economy at the service of society, a participatory society and a better state. The plan has two fundamental pillars: territorial development and environmental sustainability. It shows strong links with Sustainable Development Goal (SDG) 16 (peace, justice and institutions) and SDG 8 (decent jobs and economic growth) (ECLAC, 2018).

The economic axis presents a vision of a social and inclusive economy. This includes policies for channelling economic resources to the productive sector, incentivising long-term investments and promoting food sovereignty.

The human rights axis focuses on policies for promoting social and economic inclusion of the entire population. Among these, a reduction in the multidimensional poverty rate from 35.1% to 27.4% in 2021, the promotion of quality employment and a reduction of the infant mortality rate to 6.8 per 1 000 live births in 2021 stand out. In addition to this, the axis encourages improvement of public educational services with an intercultural focus and environmentally sustainable practices. Ecuador launched a national Multidimensional Poverty Index in 2016. It counts 12 indicators and 4 dimensions: education; work and social security; health, water and food; and habitat, housing and healthy environment.

The state-society axis focuses on the improvement of interactions between different societal actors. It includes policies for strengthening the democratic system and the capabilities of the Decentralised Autonomous Governments; the promotion of judicial security and technical defence of the state; and increasing the transparency of public and private administrations.

In terms of public financing capacities, Ecuador's total tax revenues were 20.5% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country has been progressively incorporating new taxpayers into its e-invoicing framework since 2014. Ecuador is a recent signatory of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters to fight tax evasion.

Ecuador's international co-operation priorities are aligned with the National Development Plan. The country channels the resources provided by non-reimbursable international co-operation through the Ecuadorian System of International Co-operation (*Sistema Ecuatoriano de Cooperación Internacional* in Spanish). Priority areas include obtaining resources for the 2017-21 National Development Plan; presenting Ecuador as a donor of South-South co-operation; channelling resources for indigenous populations, for Afroecuadorians, for the *Montubio* people and for women; and managing resources for the preservation of biodiversity.

Ecuador's main traditional international co-operation partners are China, Germany, Italy, Japan, Korea and Spain. The main multilateral partners are the European Union and the UN system. The main South-South co-operation partners are Argentina, Chile and Brazil. Ecuador also receives support from South-South Triangular Co-operation projects involving Germany, as well as Spain through the Ibero-American Program for the Strengthening of South-South Co-operation (PIFCSS in Spanish). The National Agreement for Employment, Productive Investment, Innovation and Inclusion, for example, was financed by international co-operation resources.

Key Indicators						
Income and productivity	**Ecuador**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	8 880	10 582	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	24.8	26.4	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	2 756	3 088	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	-1.0	-1.1	-0.3	-0.3	1.1	1.1

	Ecuador	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	-0.2	-0.7	0.1

Social vulnerabilities	**Ecuador**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	40.4	23.9	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	35.0	42.2	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	74.5	76.3	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	7.9	9.0	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	56.1	87.2	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	36.0	54.0	34.8	44.3	12.0	13.0
Gini index [3]	53.3	45.0	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	41.5	45.2	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	17.9	12.5	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	68.0	64.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	NA	NA	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		28.9		24.6		17.3

Environment	**Ecuador**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-8.6		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	19.4	13.2	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.27	0.24	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	68.0	76.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	71.0	77.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Ecuador**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	13.2	20.5	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	65.0	78.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	30.0	53.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	74.0	65.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	47.0	64.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	61.0	69.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	51.0	59.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	72.0	75.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	43.0	54.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	16.0	6.5	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

EL SALVADOR

Recent trends

El Salvador has made improvements in the last decades in health and education. The country's infant mortality rate (12.5 per 1 000 live births) is below the Latin America and Caribbean (LAC) average (14.7), although far from the OECD average (5.7). Concurrently, life expectancy at birth has increased to 73.5 from 64 in 1990, in line with the LAC average of 75.6, and the maternal mortality ratio has improved to 54 per 100 000 live births, below the LAC average (74.4). The country's net secondary enrolment rate also improved between 2000-16 from 48.2% to 64.3%.

El Salvador's gross domestic product (GDP) per capita increased by more than one-and-a-half times between 1990 and 2017. However, the country remains among the worst performers in LAC in terms of poverty reduction, environmental conditions and citizens' security. The share of the population living on less than USD 5.5 a day (2011 PPP) decreased from 45% to 30.7% in 2004-16. During the same period, however, the share of the vulnerable population living on USD 5.5-13 a day (2011 PPP) increased from 36% to 47%. Additionally, El Salvador's homicide rate was the highest in the region in 2015, with 105.4 homicides per 100 000 inhabitants. Between 2000-15, forest area shrank by 20.2% and mean annual exposure to $PM_{2.5}$ air pollution is 33.4 micrograms per cubic metre.

National strategies and international co-operation for development

The Plan "El Salvador: productivo, educado y seguro" 2014-19 [El Salvador: Productive, Educated and Safe, 2014-19] has a focal point in the philosophy of "Buen Vivir" [Good Living], with an emphasis on the consolidation of democracy and the construction of a state of law. The plan's three priorities of productive employment, education and effective citizen security are translated into 11 objectives, with special attention to Sustainable Development Goal (SDG) 16 (peace, justice and strong institutions) and SDG 11 (sustainable cities and communities). The first and seventh objectives focus on the economy and respect for the environment. Policies under these objectives foresee production diversification and improving competitiveness of micro, small and medium enterprises. They also envision energy sources diversification, with priority given to renewables and the integrated management of the hydric system.

The Development Plan also tackles social inclusion and equitable access to quality public services. These include projects for the modernisation of educational institutions and improvement in school attendance, the creation of the National Integrated Health System and the consolidation of the Universal Social Security System. Moreover, El Salvador adopted a national Multidimensional Poverty Index in 2015. It consists of five dimensions (childhood and adolescence; housing; access to work; health and food security; and habitat) and four indicators for each dimension collected with the *Encuesta de Hogares de Propósitos Múltiples* [Multipurpose Household Survey].

At the heart of the plan remain the increase in citizen security, the use of national culture to achieve social cohesion and a state focused on its citizens and driven by results. These objectives may lead to policies to strengthen local police, the programme "Yo Cambio" [I Change] for safe prisons and the National Defence System.

In terms of public financing capacities, El Salvador's total tax revenues were 17.9% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). El Salvador signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters in 2015, but the latter has not entered into force.

El Salvador's international co-operation priorities at the national, regional and global levels are aligned with the Five-Year Development Plan 2014-19. Priority areas for international co-operation projects include social protection, such as labor market interventions on young population, social insurance, social assistance, public health and education; economic growth, regional integration and trade; and security and crime prevention. As a recipient of international co-operation, the country's most frequent partners are Spain, Luxembourg, the United States, Japan, Korea, Germany, Italy, the European Union and the United Nations System. As a provider of South-South Co-operation, El Salvador collaborates with the majority of the countries in LAC.

The government launched the strategies set out in the Plan "El Salvador Seguro" [A Safe El Salvador] in partnership with the United States in 2016. Among them, it includes the integration of the National Council for Citizen Security and Coexistence (CNSCC in Spanish). These actions are being implemented together with the other countries of the Northern Triangle (Honduras and Guatemala). In co-operation with Japan, El Salvador aims to develop an institutional framework between 2016-21 to ensure integrated management of the Olomega and El Jocotal Lagoons, as a model approach, to promote conservation and wise use of wetlands in El Salvador.

Key Indicators						
Income and productivity	**El Salvador**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	6 253	7 292	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	24.0	22.3	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	2 816	2 874	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	-0.1	0.1	-0.3	-0.3	1.1	1.1

	El Salvador	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	NA	-0.7	0.1

Social vulnerabilities	**El Salvador**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	39.2	30.7	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	41.4	47.0	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	71.0	73.5	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	5.8	6.9	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	56.6	64.3	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	47.0	43.0	34.8	44.3	12.0	13.0
Gini index [3]	45.2	40.0	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	39.0	36.0	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	19.1	12.5	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	62.0	54.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	NA	NA	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		22.9		24.6		17.3

Environment	**El Salvador**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-20.2		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	38.7	33.4	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.19	0.14	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	76.0	65.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	70.0	63.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**El Salvador**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	15.4	17.9	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	83.0	66.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	27.0	22.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	69.0	72.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	37.0	27.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	64.0	66.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	60.0	47.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	63.0	75.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	46.0	46.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	57.5	105.4	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

GUATEMALA

Recent trends

Guatemala has made progress in some development indicators in the past decades. In particular, the maternal mortality ratio has decreased substantially, from 205 to 88 per 100 000 live births between 1990 and 2015. However, the rate remains higher than the Latin America and Caribbean (LAC) average of 74.4. The infant mortality rate decreased from 60.1 to 23.1 per 1 000 live births between 1990-2015.

Guatemala's gross domestic product (GDP) per capita increased by almost one-and-a-half times between 1990 and 2017, but the country still lags behind in poverty reduction, secondary school enrolment and productivity. Labour productivity in terms of GDP per person employed remains low, representing only 22.1% of the OECD average. Total factor productivity growth was -0.6% between 2000-17. At the same time, the country's share of the population living on less than USD 5.5 a day (2011 PPP) increased from 44.8% to 48.8% over 2000-14. Guatemala's net secondary enrolment rate remains low at 47.1% compared to the LAC average of 74.4%. This rate is also low compared to countries with similar income level, such as Bolivia (78%) and El Salvador (64.3%).

National strategies and international co-operation for development

The "Plan Nacional de Desarrollo: K'atun Nuestra Guatemala 2032" [National Development Plan: *K'atun* Our Guatemala 2032] is a long-term plan with the notion of equity as the main pillar for the future development of the country. The plan, which has five main axes, has strong links with Sustainable Development Goal (SDG) 2 (zero hunger), SDG 10 (reduction of inequalities) and SDG 11 (sustainable cities and communities) (ECLAC, 2018).

The first axis of "wealth for all" focuses on measures to kick-start the economic development of the country in order to promote economic and social well-being of the population. This includes promoting the productive diversification and transformation of the economy; maintaining economic stability; increasing creation of decent and quality employment; and increasing equal access to credit, with emphasis on rural areas, youth, women, and micro-, small- and medium enterprises.

The second axis focuses on well-being and sustainability by promoting public policies tailored to the specific socio-economic and ethnic groups to tackle inequality. Among others, this includes policies for guaranteeing access to universal social security to achieve a Human Development Index of 0.7 by 2032; ensuring food security; reducing maternal, child and infant mortality by strengthening the management of the National Policy of Comprehensive Development of Women and the Plan for Equity of Opportunities, with special attention to indigenous groups; and ensuring access to all levels of education to the population between 0 and 18 years of age.

The axis of a "state guarantor of human rights and leader of development" posits four fundamental criteria: the rule of law; the principle of legality in the public administration of law; co-ordination and separation of the state's powers; and the guarantee and respect for human rights. It envisions policies for a constitutional reform process and redesign of the institutional set up, modernisation of the Municipal Tax Code, implementation of public policies for digital inclusion and realisation of the Strategy for Security in Central America (ESCA in Spanish).

In terms of public financing capacities, Guatemala's total tax revenues were 12.6% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country introduced e-invoicing in 2007 and is now moving from the old *FACE* framework to a new system called *FEL*. E-invoicing has been mandatory in Guatemala since 2013 for all special taxpayers. In 2017, Guatemala also ratified the Convention on Mutual Administrative Assistance in Tax Matters. However, it is not yet a signatory of the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports and of the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information to fight tax evasion.

The non-reimbursable international co-operation policy of Guatemala is aligned with the National Development Plan. It counts on ten priorities in the realms of poverty, social security, health, education, food security, employment, social resources, fiscal policy, institutions and territorial management. The key international co-operation sectors of the country are economic affairs, general public services, and public order and citizen security. Of the non-reimbursable international co-operation disbursed between 2008-14, 82.59% was provided by 34 co-operation partners, among them Canada (4.72%), the European Union (13.19%), Germany (6.20%), the Inter-American Development Bank (3.79%), Japan (6.77%), Spain (5.64%), Sweden (5.51%), Chinese Taipei (4.42%), the United Nations Development Programme (9.60%) and the United States (34.64%).

Key Indicators						
Income and productivity	**Guatemala**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	6 713	7 424	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	22.1	22.1	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	2 417	2 771	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	-0.3	-0.3	-0.3	-0.3	1.1	1.1

	Guatemala	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	-0.6	-0.7	0.1

Social vulnerabilities	**Guatemala**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	43.4	48.8	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	34.6	35.9	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	70.4	73.4	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	3.7	6.4	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	38.1	47.1	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	21.0	50.0	34.8	44.3	12.0	13.0
Gini index [3]	54.6	48.3	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	43.9	34.7	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	32.1	23.1	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	118.0	88.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	NA	NA	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		28.6		24.6		17.3

Environment	**Guatemala**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-15.9		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	37.3	28.5	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.15	0.15	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	73.0	80.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	68.0	68.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Guatemala**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	13.9	12.6	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	69.0	73.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	33.0	42.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	75.0	75.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	30.0	46.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	57.0	55.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	51.0	47.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	83.0	84.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	50.0	52.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	42.2	29.4	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

MEXICO

Recent trends

Mexico has made progress in several development indicators over the last decade, including education, health and employment; yet challenges remain to sustain them, while improving other indicators such as confidence in institutions and security policies. Mexico ranks above the Latin America and the Caribbean (LAC) average in net secondary enrolment rate (77.2% vs. 74.4% in LAC), life expectancy at birth (77.1 years vs. 75.6 years in LAC), maternal mortality ratio (38 per 100 000 live births vs. 74.4 in LAC) and infant mortality rate (11.5 per 1 000 live births vs. 14.7 in LAC).

Mexico's gross domestic product (GDP) per capita increased by almost one-and-a-half times between 1990 and 2017. Meanwhile, the share of the population living on less than USD 5.5 a day (2011 PPP) decreased from 44.0% to 33.6% between 2000-14. Over the same period, the population living on USD 5.5-13 a day (2011 PPP) increased from 35.5% to 42.8%. Furthermore, 80% of the Mexican population thought corruption was widespread; 26% had confidence in the national government, and 18% believed in honesty in elections in 2017. Yet, the turnout of the 2018 presidential election has been one of the highest in the country's history. In addition, despite being below the LAC average, the homicide rate of 16.5 per 100 000 inhabitants hides large regional disparities.

National strategies and international co-operation for development

The upcoming National Development Plan 2019-24 will be the basis of the development agenda of the current administration. Before submitting it to the Congress, a consultation process with civil society, including the indigenous community, was set. Recent announcements pointed out that this NDP will prioritise economic and social development with an emphasis on infrastructures, policies to fight against corruption and poverty, consolidate the middle-class, promote local development and improve social services, including health. Thus, the NDP will give particular attention to Sustainable Development Goal (SDG) 3 (good health and well-being), SDG 8 (decent work and economic growth) and SDG 9 (industry, innovation and infrastructure) (ECLAC, 2018). Additionally, the NDP foresees three new programmes for 2019: "Young People Building the Future", "National Programme of Reconstruction", and "Programme for the Promotion of Urban, Metropolitan and Territorial Planning".

In terms of public financing capacities, Mexico's total tax revenues increased 5.7 percentage points since 2000 to 17.2% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country introduced e-invoicing in 2014; the process has gone further as not only tax returns, but also accounting records and other reporting obligations, are being filed in XML format. Mexico is a signatory of both the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information to fight tax evasion and the Multilateral Competent Authority Agreement on Exchange of Country-by-Country Reports.

Mexico offers and receives development co-operation under the co-ordination of the Mexican Agency for International Development Cooperation (AMEXCID in Spanish). It shares lessons learned, and shares human, technical and financial resources with developing countries through bilateral programmes, regional mechanisms, and trilateral initiatives in partnership with other providers. Mexico works with DAC partners to strengthen its own capacities and institutions. AMEXCID aims to ensure that co-operation initiatives, both as a provider and recipient, are effective, coherent and sustainable.

Regarding South-South co-operation, the priority region is Central America, with which Mexico has a number of initiatives. One example is the Project of Integration and Development of Central America (*Proyecto de Integración y Desarrollo de Mesoamérica* in Spanish), a forum for dialogue and co-operation for economic and social development; as well as the Fund for Infrastructure for Countries of Central America and the Caribbean (commonly referred to as *Fondo Yucatán* in Spanish). Mexico has established various partnerships to foster both South-South Co-operation (Chile, Colombia and Uruguay), and trilateral projects (Germany, Japan, the Netherlands, Singapore, Spain, Switzerland, Turkey, the United Kingdom, the United States, and the Food and Agriculture Organisation - FAO). As a recipient of official development assistance (ODA), Mexico's main partners in 2016-17 in terms of financial volume were Germany, France, the United States, the European Union, the United Kingdom, the Global Environmental Facility and the Inter-American Development Bank.

Key Indicators						
Income and productivity	**Mexico**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	16 372	17 336	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	48.6	45.7	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	6 320	6 491	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	1.1	1.1	-0.3	-0.3	1.1	1.1

	Mexico	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	-0.2	-0.7	0.1

Social vulnerabilities	**Mexico**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	33.6	33.6	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	39.4	42.8	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	75.7	77.1	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	8.0	8.6	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	67.1	77.2	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	28.0	41.0	34.8	44.3	12.0	13.0
Gini index [3]	44.6	43.4	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	29.3	27.1	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	16.3	11.5	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	50.0	38.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	416	416	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		29.0		24.6		17.3

Environment	**Mexico**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-2.7		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	26.0	18.8	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.31	0.22	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	71.0	68.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	70.0	69.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Mexico**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	12.6	17.2	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	67.0	61.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	31.0	18.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	75.0	80.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	42.0	26.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	57.0	62.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	55.0	55.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	73.0	76.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	57.0	40.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	7.9	16.5	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

PANAMA

Recent trends

Panama has made progress in several development indicators in the last decade. The share of the population living on less than USD 5.5 a day (2011 PPP) decreased from 26.7% to 14.6% between 2008-16. Over the same period, the population living on USD 5.5-13 a day (2011 PPP) shrank from 33.3% to 27%. Life expectancy improved to 78 years and is now slightly below the OECD average of 80.1 years. The infant mortality rate is 13.9 per 1 000 live births, just below the Latin America and the Caribbean (LAC) average of 14.7. However, the maternal mortality ratio remains high, at 94 per 100 000 live births.

Although its gross domestic product (GDP) per capita almost tripled between 1990 and 2017 and is now more than one-and-a-half times the LAC average, Panama is marked by uneven development. Labour productivity, education and income equality still lag behind other countries in the region. The average labour productivity in terms of GDP per person employed is 55.7% of the OECD average. Poverty and vulnerability levels are low, compared to the region. However, Panama's net secondary enrolment rate, 69.7%, is below the LAC average of 74.4%. It is outperformed by poorer countries such as Bolivia (78%), Colombia (78.7%) and Ecuador (87.2%)

National strategies and international co-operation for development

"Panamá 2030" National Strategic Plan (PEN in Spanish) is a guide towards a state with high human, economic, social and technological development articulated across the four transversal principles of equality of opportunities, interculturality, environmental sustainability and decentralisation. The five main objectives also show strong links with all the Sustainable Development Goals (SDGs), especially with SDG 16 (peace, justice and strong institutions) and SDG 9 (industry, innovation and infrastructure) (ECLAC, 2018). At the same time, the PEN 2030 aligns with the Government Strategic Plan (PEG) 2015-2019.

The objective "Grow more and better" groups public policies that promote economic growth through the development of skills; the creation of decent jobs; and the increase in the competitiveness and dynamism of strategic sectors at the national level. The promotion of inclusive and sustainable industrialisation, the increase in the hourly wage of workers and the expansion of the coverage of social protection programmes are some of the policies proposed to decrease inequality and spur productivity.

The objectives of "Democracy, institutionality and governance" and "Strategic alliances for development" are oriented towards the modernisation of justice, implementation of transparent processes, accountability throughout the state apparatus and establishment of precise criteria for allocation of resources and management evaluation. The modernisation process of public institutions guides each of the actors to combat corruption, violence, crime and discrimination.

The objective of "Good life for all" focuses on public policies to eradicate poverty in all its forms. It aims to ensure the reduction of hunger and the promotion of food security, with the support of small and medium-sized producers. Likewise, it includes policies oriented towards well-being and healthy living, establishing health systems that guarantee quality interventions and essential services. It also promotes transformation of the curricular model to achieve an inclusive, relevant, equitable and quality education. Panama also adopted a national Multidimensional Poverty Index (MPI) in 2017 based on data from the Multi-purpose Survey (EPM in Spanish). The MPI consists of 17 indicators grouped in five dimensions: education; housing, basic services and internet access; environment, neighbourhood and sanitation; employment; and health.

In terms of public financing capacities, Panama's total tax revenues were 16.6% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country initiated an e-invoicing pilot programme in 2018. Panama is also a signatory of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information to fight tax evasion.

In 2015, the Viceministry for Multilateral Affairs and Co-operation (*Viceministerio de Asuntos Multilaterales y Cooperación* in Spanish) was created within the Ministry for Foreign Relations (*MIRE* in Spanish) to manage international co-operation funds. Panama participates in the co-operation economy as both donor and beneficiary. The country benefits from the co-operation programme between the European Union and Central America, in place since 2007. The "Panamá Coopera 2030" [Panama Co-operates 2030] Plan lays out the co-operation priorities of Panama, focusing on the Sustainable Development Goals. Among key goals are sustainable economic development, social inclusion, gender parity, and improvement in government services and institutions. Panama and Mexico have a bilateral co-operation programme focused on deterring and preventing violence through the sharing of intelligence, juridical co-operation and joint action on border affairs.

Key Indicators						
Income and productivity	**Panama**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	14 006	22 267	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	41.2	55.7	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	4 206	5 694	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	0.5	0.7	-0.3	-0.3	1.1	1.1

	Panama	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	NA	-0.7	0.1

Social vulnerabilities	**Panama**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	26.7	14.6	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	33.3	27.0	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	76.3	78.0	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	NA	NA	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	63.3	69.7	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	36.0	44.0	34.8	44.3	12.0	13.0
Gini index [3]	52.8	50.4	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	27.8	32.1	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	18.7	13.9	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	89.0	94.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	376	NA	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		NA		24.6		17.3

Environment	**Panama**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-5.1		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	14.1	14.1	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.16	0.11	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	83.0	79.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	83.0	75.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Panama**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	15.7	16.6	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	78.0	69.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	37.0	36.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	91.0	80.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	25.0	39.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	46.0	59.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	60.0	55.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	73.0	76.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	53.0	52.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	8.1	11.3	23.7	21.9	2.0	1.8

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PARAGUAY

Recent trends

Paraguay has made progress in some development indicators in the last decades. The net secondary enrolment rate remains below the 74.4% average of Latin America and the Caribbean (LAC) at 64.9%. However, the country has improved its infant mortality rate (18 per 1 000 live births) and life expectancy at birth (73.1 years). Moreover, the share of the population living on less than USD 5.5 a day (2011 PPP) decreased from 35% to 20.1% between 2005-16. The share of the vulnerable population – those living on USD 5.5-13 a day (2011 PPP) – has remained stable, at around 39.3%, over the same period.

Paraguay's gross domestic product (GDP) per capita increased by almost one-and-a-half times between 1990 and 2017. However, labour productivity, calculated in terms of GDP per person employed (constant 2011 PPP), remains 22.4% of the OECD level. Moreover, the share of people in vulnerable employment remains high, at 39.2%. Similarly, the maternal mortality ratio of 132 per 100 000 live births is high relative to the LAC average of 74.4. Concurrently, confidence in institutions is low.

National strategies and international co-operation for development

The National Development Plan "Paraguay 2030" is built around three strategic axes: reduction of poverty and social development, inclusive economic growth and adequate insertion of Paraguay into the world. These axes are translated into 12 strategies with strong links to Sustainable Development Goal (SDG) 1 (end poverty in all its forms) and SDG 4 (quality education) (ECLAC, 2018). These strategies are interconnected with four cross-cutting issues: equality of opportunities, efficient and transparent public management, territorial organisation and environmental sustainability.

The "Inclusive economic growth" axis focuses on employment and social security, regionalisation and productive diversification, competitiveness, innovation and valorisation of environmental capital. It foresees incentives for the creation of value chains and clusters to improve competitiveness, as well as the increase in the productivity of family farming in departments such as San Pedro, Concepción, Canindeyú, Caazapá and Caaguazú. In addition to this, the Ministry of Industry and Trade has developed two key plans, the Industrial Development Plan and the National Plan of Micro, Small and Medium Enterprises (MSMEs).

The plan also includes "Poverty reduction and social development" in its first axis. This groups the themes of equitable social development, quality social services, participative local development, and adequate and sustainable households. This axis comprises projects such as the incorporation of productive technologies and techniques for strengthening agriculture; improvement in use of rural space with schemes of access to productive land and training; and strengthening municipal social capital around public-private councils that lead local strategic planning.

In terms of public financing capacities, Paraguay's total tax revenues were 17.5% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). In 2018, the country launched a pilot project to test its new integrated national e-invoicing system (*SIFEN* in Spanish), although full details are not yet available. Paraguay is a recent signatory of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

International co-operation in Paraguay is changing. Since the country reached higher middle-income status, it has played a dual role as both recipient and donor of co-operation. Thus, Paraguay aims to join new South-South and Triangular Co-operation forums, such as the Global Partnership for Effective Development Co-operation. In so doing, it wishes to support initiatives in areas where it has solid experience, such as agriculture and livestock farming, tourism and human rights. Paraguay's international co-operation projects must be in line with the goals set in the National Development Plan. Priority will be given to promotion of decent and inclusive employment; education for employability; and social security, with an emphasis on vulnerable groups.

For traditional non-reimbursable international co-operation, Paraguay's main partners in terms of financial volume are the Andalusian Agency for International Development Co-operation, the European Union, the Food and Agriculture Organization of the United Nations, the Inter-American Development Bank, the International Labour Organization, the Spanish Agency for International Development Co-operation, Chinese Taipei and the United Nations Development Programme. Among stand-out projects is the Rural Employment Office (*Oficina de Empleo Rural* in Spanish), created with the support of the Spanish Agency for International Development Co-operation. The project foresees an interconnected web of rural employment centres to co-ordinate areas with low demand for workers with areas that have high demand.

Key Indicators						
Income and productivity	**Paraguay**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	6 568	8 827	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	18.4	22.4	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	1 957	2 619	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	-0.6	-0.7	-0.3	-0.3	1.1	1.1

	Paraguay	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	NA	-0.7	0.1

Social vulnerabilities	**Paraguay**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	36.1	20.1	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	38.0	39.3	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	71.7	73.1	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	7.2	8.4	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	58.8	64.9	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	36.0	29.0	34.8	44.3	12.0	13.0
Gini index [3]	53.0	47.9	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	46.7	39.2	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	23.9	17.9	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	148.0	132.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	NA	NA	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		32.8		24.6		17.3

Environment	**Paraguay**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-20.9		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	23.6	23.7	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.11	0.10	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	86.0	81.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	87.0	86.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Paraguay**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	13.9	17.5	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	73.0	69.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	15.0	35.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	87.0	74.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	17.0	31.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	46.0	46.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	44.0	52.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	57.0	81.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	42.0	50.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	13.1	9.3	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

PERU

Recent trends

Peru has made progress in a range of development indicators in the past decades. Between 2005-16, the share of the population living on less than USD 5.5 a day (2011 PPP) was halved. It dropped from 52.2% to 24.3% in line with the 24% average in Latin America and the Caribbean (LAC). At the same time, the share of the vulnerable population living on USD 5.5-13 a day (2011 PPP) increased from 31.9% to 39.6%. The country's infant mortality rate sharply decreased from 57 to 12 per 1 000 live births between 1990 and 2016.

Peru's gross domestic product (GDP) per capita increased by almost two-and-a-half times between 1990 and 2017, although labour productivity in terms of GDP per person employed remains only 26.6% of the OECD average. Total factor productivity growth was negative, at -0.5% between 2000-17. Additionally, Peru does not perform well in secure employment and confidence in institutions. The country had the highest share of people in vulnerable employment (49.7% of the employed). Only 34% of the population believe in honesty in elections and 87% think corruption is widespread.

National strategies and international co-operation for development

The "Plan Bicentenario: El Perú hacia el 2021" [Bicentennial Plan: Peru towards 2021] has a strong focus on human rights and their universal validity. The plan is built upon six objectives: fundamental rights and people's dignity, opportunities and access to services, state and governability, economy, competitiveness and employment, regional development and infrastructure, and natural resources and environment. Special attention is given to Sustainable Development Goal (SDG) 16 (peace, justice and strong institutions) and SDG 8 (decent work and economic growth) (ECLAC, 2018).

The plan supports a macroeconomic policy in favour of public and private investments in activities able to generate quality employment, with decentralisation and respect for the environment as complementary objectives. It proposes incentives for investment in logistic infrastructure at local and regional levels, including hydraulic infrastructure, and irrigation and sewer systems; co-ordination mechanisms between the public and the private sector in order to define strategic areas of development and instruments to improve the competitiveness of the productive sector; reduction of urban informality; and sustainable exploitation of the country's natural resources.

At the centre of the plan are the upholding of fundamental rights and consolidation of democratic institutions. These include policies such as the reform of the judicial system to ensure transparency in all its processes, as well as the improvement and strengthening of social programmes to reduce poverty. Together with the objective of "State and governability", it promotes efficiency of the public administration with a focus on restoring the credibility of public institutions.

The second objective of the plan focuses on achievements in universal access to quality public services that Peru aims to guarantee by 2021. These include policies for achieving total coverage of primary education, decentralising health services, ensuring universal availability of drinking water and sanitation, strengthening citizen security, and reducing infant and maternal mortality.

In terms of public financing capacities, Peru's total tax revenues were 16.1% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country has implemented mandatory e-invoicing for selected taxpayers since 2014. In 2017, Peru also ratified the Convention on Mutual Administrative Assistance in Tax Matters.

In the last decades, Peru has taken on a dual role of recipient and donor of international co-operation, sharing its expertise in countries of equal or less development through modalities such as South-South Co-operation and Triangular Co-operation. The Peruvian Agency for International Co-operation (*APCI* in Spanish) is in charge of implementing, programming and organising International Technical Cooperation (ITC) coming from public or private external sources following national development policies. In 2016, Peru's main bilateral co-operation partners in terms of financial volumes were Germany, the United States, the European Union, Switzerland and Spain. In the same year, the country's main Triangular Co-operation partners in terms of number of projects were Germany, Spain and the Food and Agriculture Organisation of the United Nations (FAO). Peru's main South-South Co-operation partners in terms of number of projects were Mexico, Brazil and Argentina.

Among recent international co-operation projects, one stands out: the Programme for the Sustainable Economic Development and Strategic Management of Natural Resources (*PRODERN* in Spanish) in the regions of Ayacucho, Apurímac, Huancavelica, Junín and Pasco. A bilateral co-operation project supported by Belgium, the initiative aims to reduce poverty while sustainably using the regions' natural resources and biological diversity. In terms of South-South and Triangular Co-operation, the project between Guatemala, Peru and Germany for the improvement of local tax management in Guatemala between 2012 and 2013 can be singled out.

Key Indicators						
Income and productivity	**Peru**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	8 649	12 237	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	20.8	26.6	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	2 629	3 944	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	-0.7	-0.8	-0.3	-0.3	1.1	1.1

	Peru	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	-0.5	-0.7	0.1

Social vulnerabilities	**Peru**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	41.3	24.3	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	35.0	39.6	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	73.0	75.0	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	8.4	9.2	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	75.5	79.6	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	45.0	54.0	34.8	44.3	12.0	13.0
Gini index [3]	50.4	43.8	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	51.3	49.7	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	18.5	11.6	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	95.0	68.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	369	397	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		24.5		24.6		17.3

Environment	**Peru**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	-2.9		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	41.0	26.1	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.19	0.16	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	60.0	62.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	65.0	63.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Peru**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	18.4	16.1	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	44.0	54.0	68.1	64.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	33.0	34.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	87.0	87.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	22.0	25.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	49.0	41.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	41.0	38.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	53.0	70.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	52.0	46.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	NA	7.2	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

URUGUAY

Recent trends

Uruguay has made strong improvements in development outcomes during the last decades. The country performs well compared to other LAC countries on a range of indicators, including education, poverty reduction, health, environmental sustainability, corruption and citizen security. The share of the population living on less than USD 5.5 a day (2011 PPP) decreased by more than four times from 17.1% to 3.7% over 2006-16. The share of vulnerable population – those living on USD 5.5-13 a day (2011 PPP) – also decreased from 38.1% to 23.8% over the same period. This decrease made Uruguay the best performer in the region for its achievements in poverty reduction. Moreover, the maternal mortality ratio and the infant mortality rate are 15 per 100 000 live births and 7 per 1 000 live births, respectively. These rates are well below the Latin America and Caribbean (LAC) average and in line with the OECD average of 14 and 5.7 respectively.

Uruguay doubled its gross domestic product (GDP) per capita between 1990 and 2017, becoming one of the wealthiest economies in LAC. Yet some problems remain, especially regarding productivity. Labour productivity in terms of GDP per person employed is only 50.8% of the OECD average and total factor productivity growth between 2000-17 was -2.6%.

National strategies and international co-operation for development

"Hacia una Estrategia Nacional de Desarrollo – Uruguay 2050" [Towards a National Development Strategy – Uruguay 2050] presents the long-term objectives and necessary structural transformations for the future sustainable development of the country. It comprises two thematic axes: demographic change and transformation of the productive structure, as well as three transversal axes of gender, cultural development and territorial development.

The productive transformation axis is centred on the digital economy and the bioeconomy. These include the application of nanotechnology and biotechnology to production processes across the economy, such as in the fields of telecommunications, creative industries, manufacturing production and health.

Demography, labour market, education, social security and health are top priorities within Uruguay's National Development Strategy. Additionally, the gender perspective looks at ways to tackle gender inequality and low female representation in politics and other high decision-making positions. The territorial development strategy aims to close the gaps across the different regions of Uruguay and tackle inequalities and heterogeneities.

In terms of public financing capacities, Uruguay's total tax revenues were 27.9% of GDP in 2016 (vs. 22.7% in LAC and 34.3% in the OECD). The country has gradually made e-invoicing mandatory for business-to-business transactions since 2012. Uruguay is both a signatory of the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports and of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information to fight tax evasion.

Uruguay's international co-operation priority is to continue receiving international aid and co-operation to support its transition towards development, while expanding its ability to provide international co-operation in areas where it has proven experience. At the regional level, Uruguay aims to move towards the recognition of its role as both recipient and donor of South-South Co-operation. Moreover, it deems it important to continue strengthening national South-South and Triangular Co-operation strategies. It also seeks to strengthen countries' participation in regional co-ordination spaces to help build strategic alliances and joint positions in global international co-operation forums. At the global level, the country aims to reach an agreement on new measures and alternative criteria to GDP per capita for the allocation of international aid. This would help it better cater to the needs and abilities of countries in the different dimensions of sustainable development.

Uruguay's dual co-operation policy has a universal vocation, although its programme is focused on LAC for reasons of geographical and cultural proximity. In its dual role as both recipient and donor of South-South Co-operation, in 2016 the country's most frequent partners were Mexico and Argentina and the main sectors were health, agriculture and livestock, and governance. As a recipient of traditional co-operation, Uruguay's main non-reimbursable co-operation partners in terms of financial volume were the Inter-American Development Bank, China and Japan. The main sectors were agriculture and livestock, environment and education. For regional and multi-country co-operation, the UN System, MERCOSUR and UNASUR were the most frequent partners. Health, education, agriculture and livestock, environment, culture and sport are the main sectors of intervention.

Key Indicators						
Income and productivity	**Uruguay**		**LAC [1]**		**OECD [2]**	
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
GDP per capita, PPP (constant 2011 international USD) [3]	14 330	20 551	12 603	12 970	38 972	39 586
Labour productivity relative to OECD (%) [4]	39.7	50.8	38.3	36.8	100	100
Households and NPISHs final consumption expenditure per capita (constant 2010 USD) [3]	6 615	9 910	4 305	5 491	22 098	20 441
	2006	**2016**	**2006**	**2016**	**2006**	**2016**
Economic Complexity Index [5]	-0.1	0.0	-0.3	-0.3	1.1	1.1

	Uruguay	**LAC**	**OECD**
Average annual change in total factor productivity, 2000-17 (%) [6]	-2.6	-0.7	0.1

Social vulnerabilities	**Uruguay**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Share of people living in poverty, less than USD 5.50 a day (2011 PPP) (%) [7]	15.0	3.7	34.9	24.0	NA	NA
Share of people living in vulnerability, USD 5.50-13.00 a day (2011 PPP) (%) [7]	36.7	23.8	35.5	36.5	NA	NA
Life expectancy at birth (years) [3]	76.1	77.5	73.7	75.6	78.7	80.1
Mean years of schooling (population at 25 and older) [8]	8.0	8.7	7.4	8.6	11.0	11.8
Net enrolment rate, secondary level (%) [9]	67.6	82.8	66.6	74.4	78.7	90.3
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that did not have enough money for food in past 12 months (%) [10]	24.0	27.0	34.8	44.3	12.0	13.0
Gini index [3]	46.4	39.7	50.8	46.2	32.7	36.5
Share of workers in vulnerable employment (% of total employment) [11]	25.2	23.8	32.6	31.0	12.8	12.6
Infant mortality rate (per 1 000 live births) [3]	10.9	7.0	19.4	14.7	7.9	5.7
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Maternal mortality ratio (deaths per 100 000 live births) [3]	23.0	15.0	87.1	74.4	19.0	14.0
	2009	**2015**	**2009**	**2015**	**2009**	**2015**
Mean PISA score in science performance [12]	427	435	406	412	501	493
		2018		**2018**		**2018**
Social Institutions and Gender Index (SIGI) (%) [12]		22.2		24.6		17.3

Environment	**Uruguay**		**LAC**		**OECD**	
Change in forest area, 2000-15 (%) [3]	34.7		-1.2		0.8	
	2005	**2016**	**2005**	**2016**	**2005**	**2016**
$PM_{2.5}$ air pollution, mean annual exposure (micrograms per cubic metre) [3]	11.9	11.5	24.7	20.3	15.1	14.9
	2007	**2014**	**2007**	**2014**	**2007**	**2014**
CO_2 emissions (kilograms per PPP USD of GDP) [3]	0.13	0.09	0.25	0.23	0.32	0.24
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population satisfied with air quality (%) [10]	87.0	84.0	74.0	73.2	74.0	79.0
Share of population satisfied with water quality (%) [10]	91.0	73.0	75.0	70.8	78.0	84.0

Institutions and perceptions about public services	**Uruguay**		**LAC**		**OECD**	
	2007	**2016**	**2007**	**2016**	**2007**	**2016**
Total tax revenue as a share of GDP (%) [12]	25.1	27.9	20.8	22.7	33.7	34.3
	2006	**2017**	**2006**	**2017**	**2006**	**2017**
Share of population satisfied with the educational system (%) [10]	67.0	57.0	68.1	65.0	64.0	68.0
	2007	**2017**	**2007**	**2017**	**2007**	**2017**
Share of population that believes in honesty in elections (%) [10]	77.0	70.0	36.9	34.9	53.0	60.0
Share of population that thinks corruption is widespread throughout government (%) [10]	44.0	57.0	72.9	74.5	60.0	54.0
Share of population with confidence in national government (%) [10]	61.0	41.0	40.9	36.1	41.0	45.0
Share of population satisfied with roads (%) [10]	66.0	49.0	54.4	53.4	61.0	66.0
Share of urban population satisfied with the availability of quality healthcare (%) [10]	73.0	67.0	55.5	49.9	69.0	69.0
Share of population satisfied with standard of living (%) [10]	60.0	71.0	68.6	69.3	73.0	77.0
Share of population that feels safe walking alone at night (%) [10]	47.0	48.0	46.8	46.2	61.0	72.0
	2007	**2015**	**2007**	**2015**	**2007**	**2015**
Homicide rate (per 100 000 inhabitants) [3]	5.8	8.5	23.7	21.9	2.0	1.8

Sources, footnotes and technical details can be found at the end of the country notes.

Technical Note

1. LAC average is a simple average. It includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Trinidad and Tobago, Uruguay and Bolivarian Republic of Venezuela (hereafter "Venezuela").

   2017 (or latest) LAC average is exclusive of the following:

   - Cuba and Venezuela for gross domestic product (GDP) per capita,
   - Cuba, Honduras, Jamaica, Nicaragua, Puerto Rico, Trinidad and Tobago, and Venezuela for labour productivity,
   - Cuba and Trinidad and Tobago for final consumption expenditure per capita for households and NPISHs (non-profit institutions serving households),
   - Cuba, El Salvador, Honduras, Nicaragua, Panama, Paraguay, Puerto Rico, and Trinidad and Tobago for total factor productivity (TFP),
   - Cuba, Jamaica, Puerto Rico, Trinidad and Tobago, and Venezuela for poverty rates and Gini index,
   - Cuba and Puerto Rico for share of population that did not have enough money for food in past 12 months; change in forest area; CO_2 emissions; share of population satisfied with air quality; share of population satisfied with water quality; share of population that believes in honesty in elections; share of population that thinks corruption is widespread throughout government; share of population with confidence in national government; share of population satisfied with roads; share of urban population satisfied with availability of quality healthcare; and share of population that feels safe walking alone at night,
   - Puerto Rico for Economic Complexity Index, infant mortality rate and total tax revenue as a share of GDP,
   - El Salvador, Honduras, Nicaragua, Panama, Paraguay, Puerto Rico, and Trinidad and Tobago for average TFP,
   - Jamaica, Nicaragua, Panama, Puerto Rico, and Trinidad and Tobago for mean years of schooling,
   - Nicaragua, Puerto Rico, and Trinidad and Tobago for net enrolment rate,
   - Dominican Republic and Venezuela for homicide rate.

   LAC average for mean PISA (Programme for International Student Assessment) score in science only includes Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Peru and Uruguay for 2015 figures and Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Trinidad and Tobago, and Uruguay for 2009 figures.
2. OECD average is a simple average that includes all country members of the OECD as of December 2018.
3. World Development Indicators, 2017 and 2007 (or latest available). Final consumption expenditure per capita data from households and NPISHs are from 2017, apart from Panama, Puerto Rico and Jamaica (2016) and Venezuela (2014). Data on $PM_{2.5}$ air pollution and life expectancy at birth are from 2016. Maternal mortality ratio and homicide rate data are from 2015. Data on CO2 emissions are from 2014.
4. Own calculations based on data from World Bank, 2017. Labour productivity is calculated in terms of GDP per person employed (constant 2011 PPP USD).
5. Data from Centre for International Development, 2016 and 2006. The Economic Complexity Index is a measure of the knowledge in a society that gets translated into the products it makes.
6. Own calculations based on data from Conference Board, 2017. Average annual change in TFP, 2000-17 is a simple average of annual TFP growth between 2000 and 2017. TFP growth is calculated as the residual of GDP growth minus input contributions (labour quantity, labour quality and total capital).
7. Data from LAC Equity Lab, 2016 and 2007. Poverty and vulnerability data are based on 2016 figures for all countries except for Brazil, Chile and Honduras, for which only 2015 figures were available, and Guatemala, Nicaragua and Mexico, for which only 2014 figures were available. Argentina's poverty figures only include the population of large cities (100 000 inhabitants or more).
8. Data from UNESCO, 2016 and 2007 (or latest available). Latest data available for mean years of schooling: Brazil, Bolivia, Chile, Dominican Republic and Peru (2015) and Guatemala (2014).
9. Data from UNESCO, 2016 and 2007 (or latest available). Net enrolment rate data are from 2016 except for Panama (2015).
10. Data from Gallup, 2017 and 2007 (or latest available). Data comes from public opinion surveys using randomly selected, nationally representative samples.
11. Data from ILO, 2017 and 2007; extracted from World Development Indicators.

12. Data from OECD. Tax revenue data are from 2007 and 2016, PISA data are from 2009 and 2015, and SIGI data are from 2018. Data on mean PISA score for Argentina are not comparable as coverage is too small. The SIGI is built on 27 innovative variables measuring discriminatory social institutions, which are grouped into 4 dimensions: discrimination in the family, restricted physical integrity, restricted access to productive and financial resources, and restricted civil liberties. Lower values indicate lower levels of discrimination in social institutions: the SIGI ranges from 0% for no discrimination to 100% for very high discrimination.

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Latin American Economic Outlook 2019

DEVELOPMENT IN TRANSITION

Latin America and the Caribbean has seen a remarkable socio-economic progress since the beginning of the century. Countries strengthened their macroeconomic situations, living standards improved, and poverty and inequality declined. Yet, large structural vulnerabilities remain and new ones have emerged. Many of these are linked to countries' transition to higher income and development levels. The *Latin American Economic Outlook 2019: Development in Transition* (LEO 2019) presents a fresh analytical approach to the region's development trajectories. It assesses four development traps relating to productivity, social vulnerability, institutions and the environment. It outlines local opportunities for responding to these traps and seeks ways of improving the interactions and interlinkages between global public goods and national development agendas, all in the context of the United Nations 2030 Agenda. LEO 2019 calls for improving domestic capacities and adopting a new vision of international co-operation as a facilitator to support efforts to achieve sustainable development for all throughout the region.

Consult this publication on line at ***https://doi.org/10.1787/g2g9ff18-en***.

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