

WHEN JUNCTURE MEETS STRUCTURE

VIGNETTES ON DEVELOPMENT
AND THE COVID-19 CRISIS IN
LATIN AMERICA AND THE CARIBBEAN

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Based on UNDP RBLAC's
Graph for Thought Series

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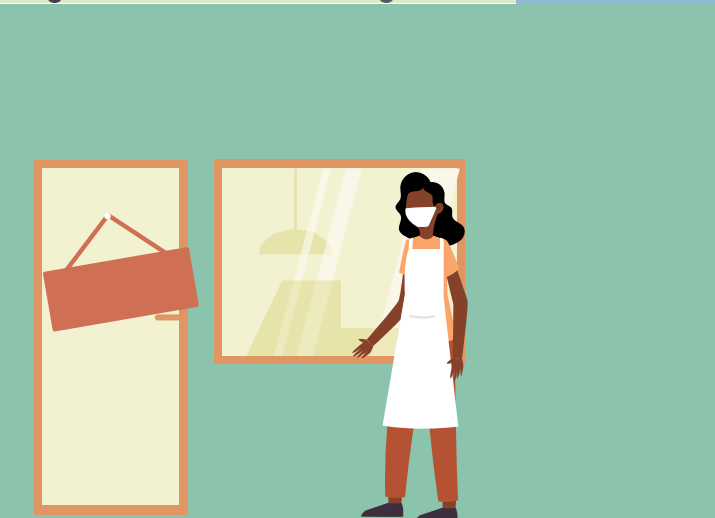
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FOREWORD

Latin America and the Caribbean, as a region, has a fascinating development trajectory, with similarities across countries but also with specificities from which we can learn a good deal as development professionals. Structural features that remain from its colonial origins coexist with impressive achievements in terms of economic, social and cultural progress. Studying the development of the region is a complex –though rewarding–endeavor; specialized books are many, in which the depth of the analysis leads typically to more than 500 pages in length. This publication is a quick snapshot of some of the main issues that characterize our region. It is the trailer of a movie and, as such, it aims at leaving the reader eager to learn more about the challenges of social advancement in the region’s bumpy road to development.

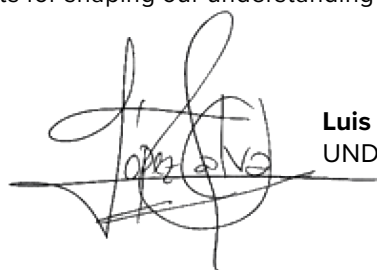
In 2020, the Latin America and the Caribbean’s development trajectory collided with the COVID-19 pandemic. After decades of significant progress in reducing poverty, addressing inequality, and building human capital in the region, the crises that resulted from the unexpected pandemic marked a turning point. Poverty increased for the first time in two decades, the likelihood of completing secondary school dropped by fifteen percentage points, and women’s labour force participation dropped to levels observed over a decade ago. While the effects are still unraveling, and the magnitude of the impact is uncertain, we know that, as a result, societies are more unequal, and economies are more vulnerable.

It would be impossible not to ask questions about the nature of the pandemic in our region. While the nature of the crisis was unexpected, the reversals in development that followed were somehow predictable. Despite its progress, the region has failed to create stable, solid and cohesive middle-class societies, and to put in place the coping mechanisms necessary to mitigate the impacts of shocks. The structural issues that magnified the impact of the pandemic in the region, namely stagnated productivity, persistent inequality, growing vulnerability, and weak governance, underscore the need for systemic reforms and the establishment of a new social contract.

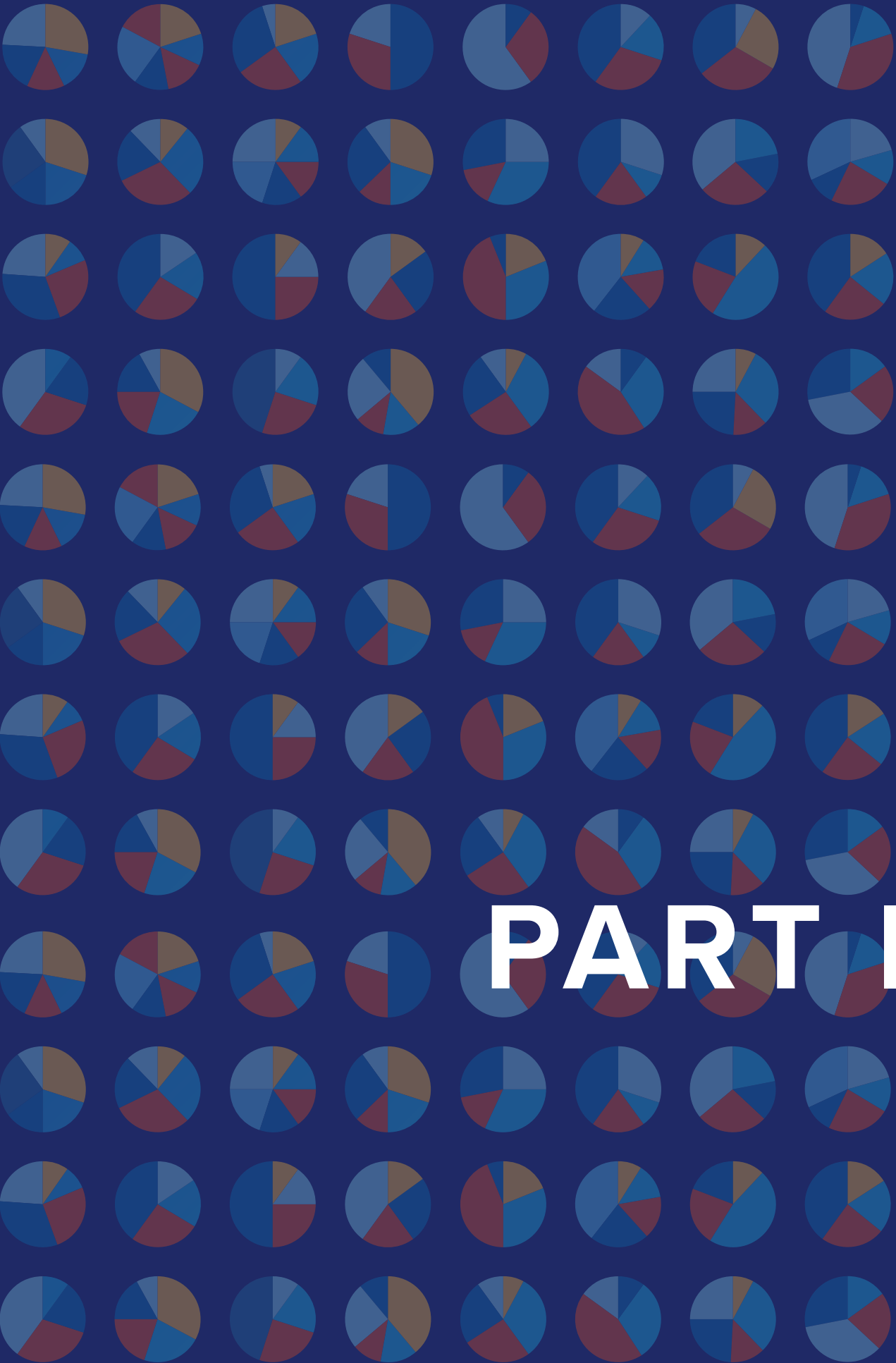
“When Structure meets Juncture” is a book that explores these structural issues, and how they interacted with the pandemic, in a series of short vignettes. It is intended to open questions, more than provide answers. It is based on the series #GraphForThought, which I launched at the beginning of my tenure at UNDP as Regional Director for Latin America and the Caribbean. The aim of the #GraphForThought series was (and continues to be) focusing on one data trend, spark conversations about relevant development issues and reach audiences beyond the development community.

After a few of years of #GraphForThought we observed that the vignettes, pieced together, told a story, although not a comprehensive one by any means, of development in the region. In particular, they told a story about progress, persistent structural issues, and a severe shock that rattled the region and threatened its hard-earned advances. However, while some of the posts paint a deteriorating picture, others provide reasons to be optimistic about the future. We see for example, voters turning up for elections in the context of the pandemic, revealing that they want to process tensions through democratic means; governments being able to effectively deploy vaccination campaigns; social protection programs being rapidly expanded; digitalization spreading as an instrument for development; and the idea of rethinking the social contract gaining momentum.

I hope that in these vignettes you find insights about issues that you care about, and in the book, a snapshot of some of the most pressing development challenges in Latin America and the Caribbean. Many of the answers to the questions raised here are in the research papers and volumes published by eminent social scientists from our region. Here is an appetizer. I also hope that it inspires you to think about data, and data visualization, as critical instruments for shaping our understanding of development, particularly in a rapidly changing context.



Luis Felipe López Calva
UNDP Regional Director for Latin America and the Caribbean



PART I.

INTRODUCTION: AN ASPIRATIONAL LINE OF SIGHT

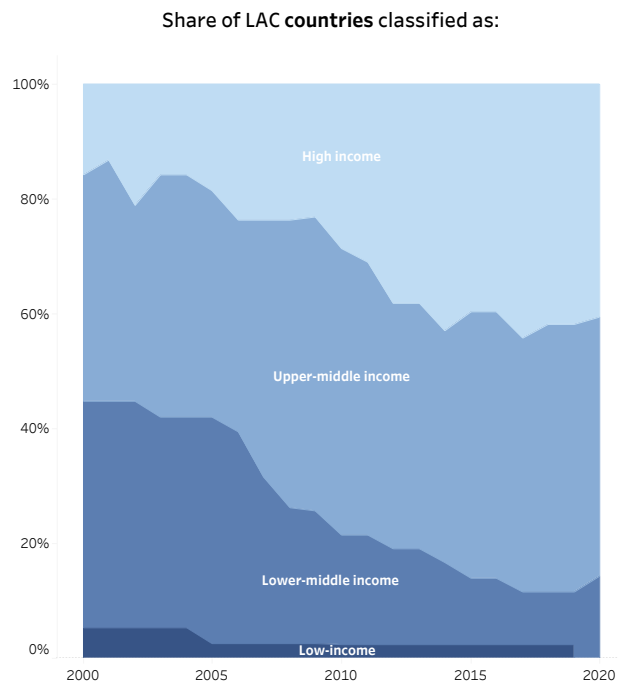
The 2030 Sustainable Development Agenda, adopted in 2015 by countries around the world, and its predecessor, the Millennium Declaration, have played a critical role in creating a common aspiration for the future—one that is more just, sustainable, and prosperous for all. While its 17 Sustainable Development Goals (SDGs) set a broader aspirational line of sight for development in Latin America and the Caribbean (LAC), this Agenda can only be successfully pursued by taking into account the region’s particular characteristics. Moreover, it is critical that we dig deeply into the context-specific challenges and opportunities facing countries in the region in a way that is concrete and based on facts—not on jargon or slogans. In this spirit, in January 2019 we launched an online series of data-driven blog posts on development in the region called “[Graph for Thought](#).” In each post of this series, we shared a data visualization illustrating how a different economic, social, or environmental issue is taking shape in the LAC region as an invitation to reflect, refine our questions, and think about development policy. These graphs have tended to be simple and descriptive in nature, carrying a message about the state of a given issue at either the regional or country-level. This booklet is based on that series, bringing together 30 data-driven vignettes telling the story of structural development challenges in LAC as well as the great critical juncture that the coronavirus (COVID-19) pandemic created—thus anchoring the analysis at the point where “juncture meets structure.”

In looking at where the region has come from, where it is currently, and where it is going—one key message (as shown in Vignette 1) is that LAC has become a middle-income region, but it has not yet reached its aspiration of becoming a middle-income society. In line with the approach taken by UNDP’s Regional Bureau for Latin America and the Caribbean, this booklet contends that the path toward achieving this aspirational line of sight is a road with three lanes: productivity, inclusion, and resilience. Importantly, these three lanes are interconnected and cannot advance without one another. Moreover, the process of paving these three lanes requires effective governance as a parallel condition. The first two sections of this booklet respectively explore a few aspects of what this three-lane road and the process of paving it look like in the region. The third section of this booklet focuses specifically on the ongoing COVID-19 related crises in the region—which have brought many of these issues to center stage, both deepening existing structural challenges as well opening new windows of opportunity for change. The booklet ends with some brief final thoughts, bringing together the main messages emerging from these diverse vignettes to discuss new pathways forward in a post-pandemic world.

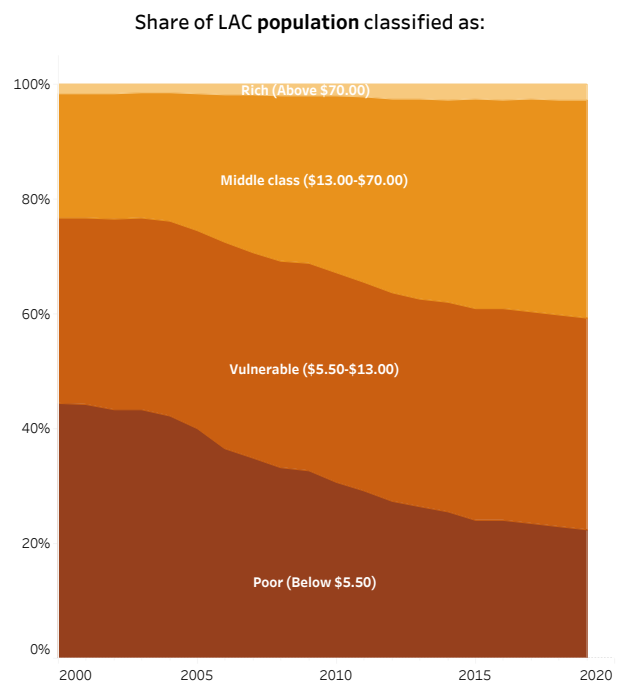
Vignette 1

RETHINKING DEVELOPMENT IN LATIN AMERICA AND THE CARIBBEAN

Over the past two decades, LAC has become a middle-income region but it has not yet become a middle-income society.



Source: World Bank's Country and Lending Groups "Historical classification by income" dataset.
Note: Income classification is based on country GNI per capita in US\$ (Atlas methodology). Share of total countries in a given income group per year is calculated based on the number of LAC countries included in the database for that year.



Source: World Bank's LAC Equity Lab (September 2021 update).
Note: Monetary thresholds are expressed in terms of 2011 PPP. For the period 2000-2015, the regional aggregate shown is based on the series "Latin America & the Caribbean (Old)." For the period 2015-2019 the regional aggregate shown is based on the series "Latin America & the Caribbean (New)."

While Latin America and the Caribbean has become a middle-income region, it has not yet become a middle-class society. A consolidated middle class is important not only because it means that more people will be living a life free from poverty—but also because it is an important engine for fostering economic growth and because it can give rise to a more stable and cohesive social fabric.

In this graph, we can see how national economies in the region have grown rapidly and steadily over the past few decades, but this growth has not necessarily been equitably shared across households. In the left-hand side panel of the graph, we can see that at the start of the millennium, almost half of the countries in the region (45%) were classified as lower-middle income or low-income economies. However, by 2020, there were no longer any low-income countries in the region, and lower-middle income countries comprised just 14% of economies in the region. During this period, countries in LAC overwhelmingly improved their Gross National Income (GNI) per capita and graduated to upper-middle income or high-income status.

However, when we look closer at how this growth has been shared across households—the story becomes more nuanced. In the right-hand side panel of the graph, we can see the changing share of the population defined as poor (living on less than \$5.50 2011 PPP per day), vulnerable (between \$5.50-\$13.00 2011 PPP), middle class (between \$13.00-\$70 2011 PPP), and rich (above \$70 2011 PPP). In the figure we can see that poverty has been steadily decreasing in the region (falling from 44% of the population in 2000 to 22% in 2020) and the middle class has been steadily expanding (increasing from 22% of the population in 2000 to 38% in 2020). However, despite this important achievement, we can also see that the economic security of households has not necessarily stabilized. A staggering 37% of households in the region remain vulnerable. These households have a relatively high probability of falling back into poverty if some sort of an adverse event or shock were to happen. This follows the vulnerability approach to middle class, originally presented in Ferreira et al (2013) and López-Calva and Ortiz-Juarez (2014).

Thus, while sustained economic growth complemented by improved social programs have helped to lift many families out of poverty and expand the middle class—too many families still remain vulnerable and at-risk of falling back into poverty. For the region to effectively achieve its aspiration of becoming a middle-class society, a long road still remains ahead.

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PART II.

THE THREE-LANE ROAD: PRODUCTIVITY, INCLUSION, AND RESILIENCE

How can we build cohesive middle-class societies? This is not an easy question to answer. However, efforts that work toward advancing countries' progress along the "three lane road" of productivity, inclusion and resilience can bring us closer to this goal.

Long-term prosperity can only be sustained by productivity growth. As Nobel Laureate Paul Krugman remarked a few decades ago, "Productivity isn't everything, but in the long run it is almost everything."¹ One way to think about the infamous "middle income trap" is that countries struggle to transition from a growth model based on factor accumulation and reallocation to one led by productivity and innovation. In the context of LAC, we see that countries in the region are failing to increase their productivity, thereby widening the gap with respect to high-income economies (Vignette 2). However, productivity led growth alone is not enough to build middle class societies—how that growth is translated at the household level is of critical importance. We see that while LAC remains one of the most unequal regions in the world, income inequality has been on the decline in recent years. Labor markets have played a very important role in reducing this inequality, but, not necessarily for the right reasons—as those with higher skills have been losing in terms of the returns to their schooling and their experience, as well in terms of the level of their wages (Vignette 3). It is also not clear that the progress toward inequality reduction will continue without sufficient redistributive support—as we see that while growth in LAC has been generally pro-poor over the past few decades, changes in its incidence suggests that its progressive nature has been steadily flattening out (Vignette 4). Moreover, as rapid technological change continues to shift the nature of work, we need to ensure that the race between skills and technology does not end up further concentrating the benefits of growth and deepening existing inequalities (Vignette 5).

Inclusion is fundamentally about ensuring that no one is left behind. Factors such as a person's gender, race, sexual orientation, disability status, age, or geographic location should not determine what opportunities they have (or do not have) to pursue the life that they have reason to value. Unfortunately, many groups of people continue to face systematic exclusion based on circumstances beyond their control. For example, whether you live in a poor or a rich area of a city in LAC could lead to a gap of as much as 18 years in life expectancy (Vignette 6). Discrimination in LAC is widespread—with almost one fifth of all Latin Americans reporting that they perceive themselves as part of a group that is discriminated against, with indigenous people reporting much higher rates of discrimination than non-indigenous people of all genders and ages (Vignette 7). The consequences of this discrimination are multiple, ranging from lower prospects for economic mobility to suffering violence. While formal laws are an important step toward combatting discrimination and exclusion, they are insufficient on their own. Changing informal rules such as social norms are also of fundamental importance. We see this divergence, for example, in regard to gender-based violence in the region. Despite widespread legislation criminalizing femicide, perceptions that domestic violence is acceptable remain prevalent in many LAC countries (Vignette 8).

Resilience is the ability to return to a predetermined path of development in the shortest time possible after suffering from an adverse shock. We experience many different types of shocks at both the individual level (i.e. an illness) and group level (i.e. a pandemic); and resilience matters at both the micro level (for households) and the macro level (for economies). At the micro level, households adopt strategies (such as savings) to smooth their levels of consumption—so that in periods when they have less, they are still able to meet their basic needs. The extent to which these strategies protect household assets, particularly human capital, is critical for households' well-being and resilience in the future. However, households in LAC are less likely to use savings in an emergency than households in other regions (Vignette 9). At the macro level,

¹ Krugman (1997).

countries also need to adopt policy measures to smooth consumption during times of shocks that could impact GDP. For example, the 2008 financial crisis halted the steady growth path that many LAC countries had experienced in previous years due to the “commodities boom” and its extremely favorable terms of trade—resulting in the fact that on average LAC countries spent 21 out of 47 quarters in “negative growth” following the crisis (Vignette 10). When shocks are recurrent, such as the in case of extreme weather-related events in the Caribbean, the challenge of strengthening resilience is particularly acute as countries are continuously struggling to rebuild in the wake of extensive social, economic, and environmental damages (Vignette 11).

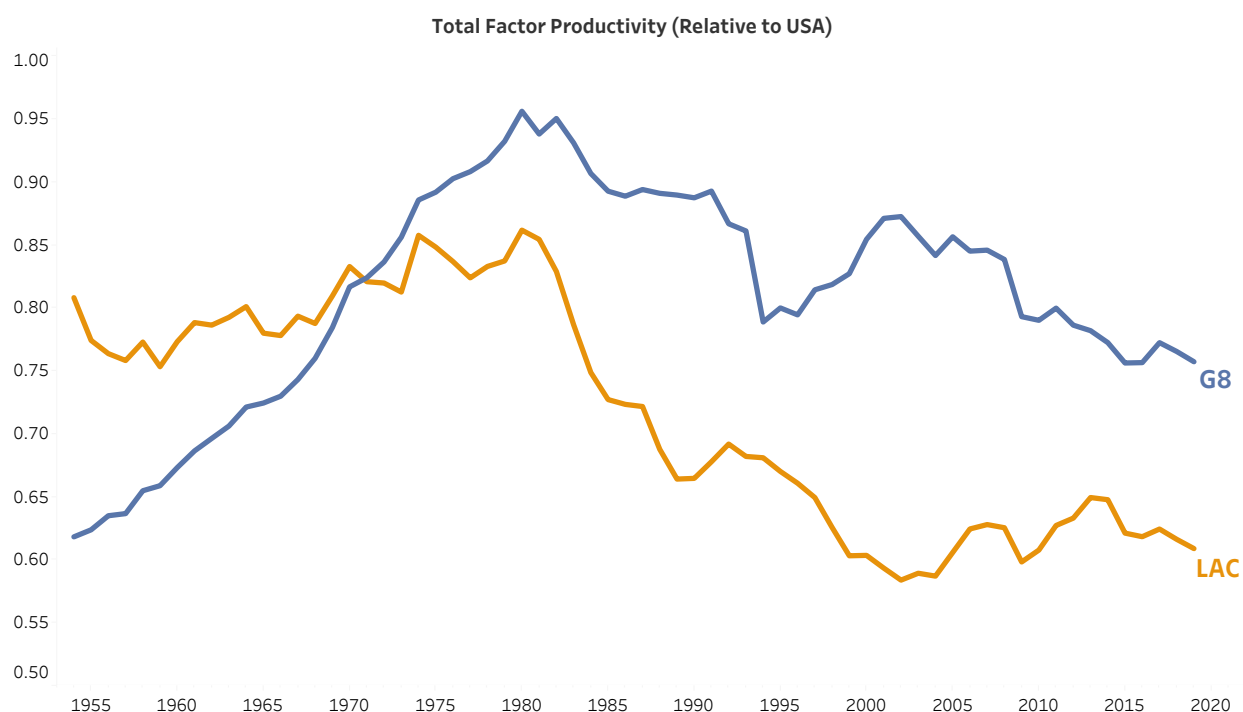
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Vignette 2

WHERE DID THE PRODUCTIVE CAPACITY GO?

Productivity has failed to increase in LAC in the past decades, widening the gap with respect to G8 countries.



Source: Penn World Table

In recent decades, Latin American and Caribbean countries have invested heavily in both human and physical capital. One example: secondary and tertiary education completion rates have increased, radically changing the schooling composition of the labor force. Yet, growth in the region has been disappointing. As an underlying determinant of such poor performance, productivity has failed to increase, widening the gap with respect to high-income economies. Consider the graph in this vignette featuring the evolution of total factor productivity (TFP) in LAC, which broadly measures the efficiency with which factors of production are combined to produce goods and services.

Since the 1980s, in most LAC countries TFP has been a decreasing fraction of that of the United States. This is explained mainly because the *level* of TFP has increased in the United States, while it has remained stagnant in LAC. Weak TFP growth is a symptom of countries not taking full advantage of their capacities. In other words, LAC countries do not grow despite their investments because they are not able to capitalize their returns. The question is, why?

There is no definite answer, but a compelling argument is that human and physical capital are “misallocated.” That is, they are not allocated to their most productive use. There are a number of ways in which misallocation happens. One is when individuals are employed in occupations that do not use their talents and abilities. Imagine if Cristiano Ronaldo is sent to play tennis and Serena Williams to play soccer. Another example is when productive companies face restrictions to grow and either remain small or are forced out of the market. Finally, workers and firms can also be sub-optimally matched.

There are many stories in Latin American and Caribbean cities about college graduates, say engineers, driving taxis. Consider this example presented by Santiago Levy in his recent book *Under-Rewarded Efforts*.² Think about a number of taxi drivers, working independently; each taxi is a one-worker enterprise which requires only driving skills. Now think of the same number taxis coming together in a transportation company. Now, the company would need an engineer for logistics, a lawyer, an accountant, in addition to drivers. Not only that, but the company could improve the individual productivity of each taxi driver, potentially introducing new technologies that allow for a better utilization of assets, and thus, the productivity not only of the transport sector, but other sectors for which transport is an input. If there are constraints for firm growth –related to the financial sector, fiscal systems, contract enforcement, or others- the companies will remain small and the people with skills will be penalized in their earnings.

In his book, Levy goes on to explain that misallocation is a consequence of policies and institutions that impact the behavior of workers and entrepreneurs to the detriment of productivity. Misallocation can result from policies, such as fiscal policy, trade policy, labor regulations, and social insurance policies. It can also be a result of the institutional environment: the extent to which institutions are able to enforce rules and regulations and provide basic services.

In formal terms, an efficient allocation would be one in which the value that can be obtained with one unit of capital and labor is the same regardless of the firm to which that unit is allocated.³ Thus, according to one line of thinking, one way of measuring the inefficiency in an environment is to observe the dispersion of TFP of firms within a specific sector: the greater this dispersion, the greater the degree of misallocation. What we observe in LAC is that within narrowly defined industries, some firms are able to produce significantly more output than others, using the same amount of inputs. Consider the case of Ecuador: in 2005 a firm in the top 90th percentile of productivity was 286 percent more productive than a comparable firm in the 10th percentile.

On the labor market side, we find a similar kind of distortion, in particular, of how investment in education is remunerated. In a perfectly functioning market, we would expect that more educated individuals would be more productive, and thus, earn more than less educated, less productive, individuals. We call this “extra” wage for additional years of education a wage premium. We observe that for most countries there is steady drop in the education premium (see Vignette 3). One explanation for this distortion is that educated workers are not able to find jobs where they can deploy the skills acquired. In an environment where firms have incentives to remain small and informal, they are less likely to invest, grow, become more productive, and thus, hire more educated workers.

Other causes typically cited to be behind the misallocation of resources and the dispersion of TFP among firms are (i) cost of entry (and exit), (ii) learning (initial conditions and after changing products/processes), (iii) adjustment costs for factors of production and (iv) access to credit constraints. To improve productivity and reignite growth, LAC countries will need to address the bottlenecks to the optimal allocation of resources. While this discussion has just pointed to the usual suspects, bottlenecks and how to address them are always country-specific; there is no unique prescription to address the productivity puzzle. In each country context, development efforts will need to focus on removing the existing “artificial” barriers to productivity

² Levy (2018).

³ Hsieh and Klenow (2009).

growth and working to smooth the “natural” ones. There is no need to reinvent the wheel but only to fix it.

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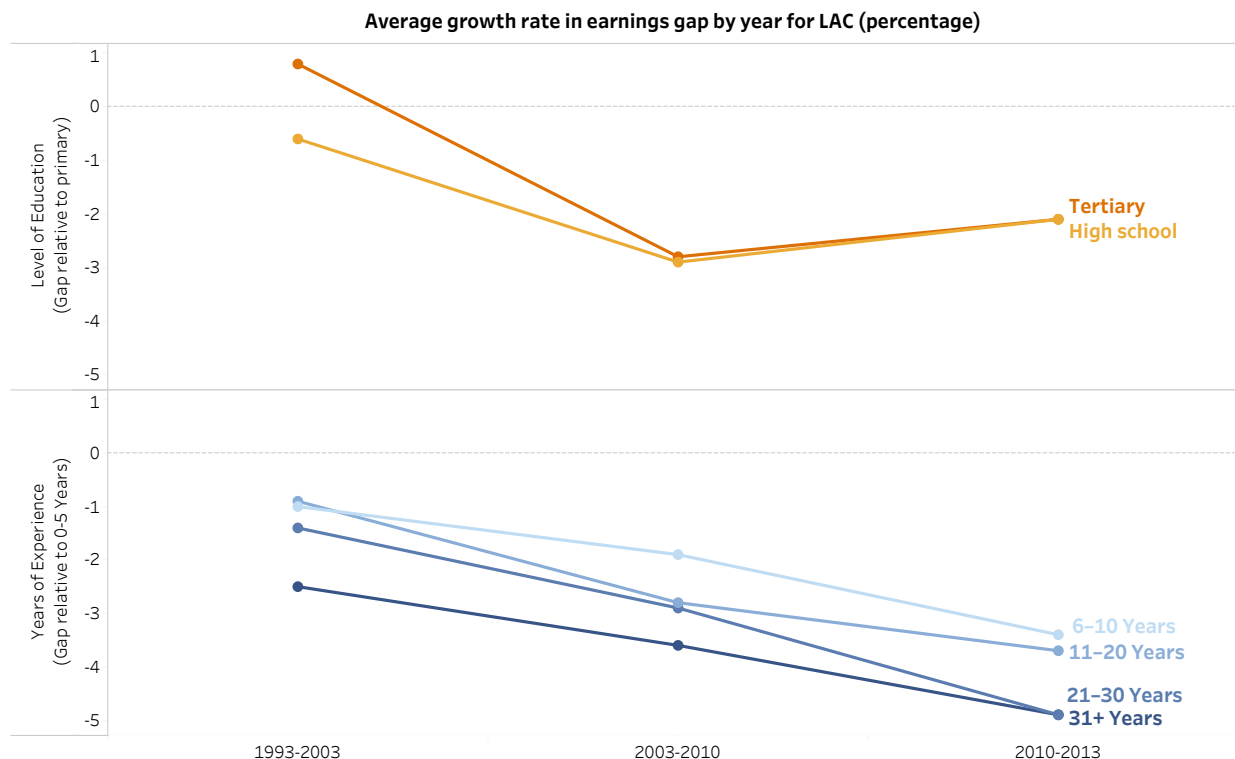
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Vignette 3

LEARNING MORE, EARNING LESS: THE ROLE OF FALLING RETURNS TO EDUCATION AND EXPERIENCE IN “REDUCING” INEQUALITY

The decline in labor income inequality in LAC in 2003-2010 can in part be explained by the decline in education and experience premiums during this period.



Source: Table 1 in Rodríguez Castelan, Carlos; López-Calva, Luis F.; Lustig, Nora; Valderrama, Daniel. 2016. “Understanding the Dynamics of Labor Income Inequality in Latin America.” Policy Research Working Paper; N°. 7795. World Bank, Washington, DC.
Note: Calculations based on the SEDLAC database using data for 17 LAC countries.

While Latin America and the Caribbean remains one of the most unequal regions in the world,⁴ income inequality has been on the decline. In recent decades, LAC has undergone three different “phases” of income inequality—with the Gini coefficient rising moderately during the 1990s, dropping significantly during the 2000s, and beginning to stagnate during the early 2010s.⁵

4 UNDP (2021).

5 Cord et al. (2014).

What is behind this decline in inequality? One important driver is related to the labor market—or, in other words, how much people are earning for the work that they do. Labor earnings are a very important part of understanding changes in income inequality, as they represent about 80 percent of the total household income distribution⁶ in any Latin American country.

The changing dynamic of labor income inequality in LAC is precisely what we explore in López-Calva, Rodríguez-Castelán, Lustig, and Valderrama (2016)⁷. What we found is that labor markets have indeed played a very important role in reducing income inequality in LAC. However, it was not necessarily for the right reasons. In the case of LAC, our results suggest that there has been a compression of the wage premium—meaning that those with higher skills have been losing in terms of the returns to their schooling and their experience, as well in terms of the level of their wages.

If we just look at who makes up the workforce, we see important compositional changes in recent decades: workers across the region are generally becoming more educated, more highly experienced, more urbanized, and more women are participating in the workforce. However, because this compositional change has been fairly constant during the past few decades, it does not alone explain the drivers behind the decline in labor income inequality. We thus need to look further—to see how the amount that these different groups of people have been able to earn, given their skill level, has been changing during this period.

This graph uses the analysis from our 2016 paper to discuss the changing nature of the earnings gap in LAC—specifically showing how the period of declining income inequality corresponds to a period of falling returns to education and falling returns to experience. The underlying data used in the analysis comes from the SEDLAC database of 17 countries in the region and looks at changes in labor income (after taxes) of full-time workers between 15-64 years old.

If we split the past few decades into three time periods, corresponding to the three “phases” of income inequality described above (roughly 1993-2003, 2003-2010, and 2010-2013)—we see some rather clear trends emerge. The top panel of the figure shows the average change in returns to education (relative to primary education) and the bottom panel of the figure shows the average change in returns to experience (relative to 0-5 years of experience) for these time periods. What we see in both cases is a clear drop taking place over the period 2003-2010—corresponding to the period of significant decline in income inequality in the region.

This suggests a steady decline in the education premium in Latin America and the Caribbean since the early 2000s that has been driven by larger growth in labor earnings among less well-educated workers in comparison to workers with high school or tertiary educational attainment. Starting in 2002, the labor incomes associated with relatively low-paying jobs (those in the bottom decile of the earnings distribution) increased by more than 50 percent, compared to an increase of 15 percent for well-paid workers (those in the top decile of the earnings distribution), and 32 percent for the median of the distribution.

Moreover, we see that this drop in the education premium has been coupled with a steady fall in the experience premium, which has been accelerating since the early 2000s. The most experienced workers have seen a reduction by almost half in their experience premium with respect to younger workers. This was the first paper to highlight the decline in the experience premium across the region, while previous literature had focused primarily on education and gender gaps.

One plausible factor to explain why these dynamics are taking place is skills obsolescence among older

6 World Bank (2011).

7 This paper was prepared as a background paper for the World Bank publication [Wage Inequality in Latin America: Understanding the Past to Prepare for the Future](#) (Messina and Silva, 2018). These original results have been replicated recently in an IADB working paper [Twenty Years of Wage Inequality in Latin America](#). (Messina and Silva, 2019).

age-groups. As Vignette 5 explores, the increasing mechanization and automation of sectors that have traditionally been intensive in the use of labor (manufacturing and services) has been changing the nature of the labor market in the region—with heterogenous effects across countries. Another explanation⁸ could have to do with distortions that allocate resources towards less productive firms that require less well-educated workers. However, there are many other potential factors that could be behind these trends, and more research is needed to test the demand, supply, and institutional factors that may help explain the reversal in earnings inequality in LAC.

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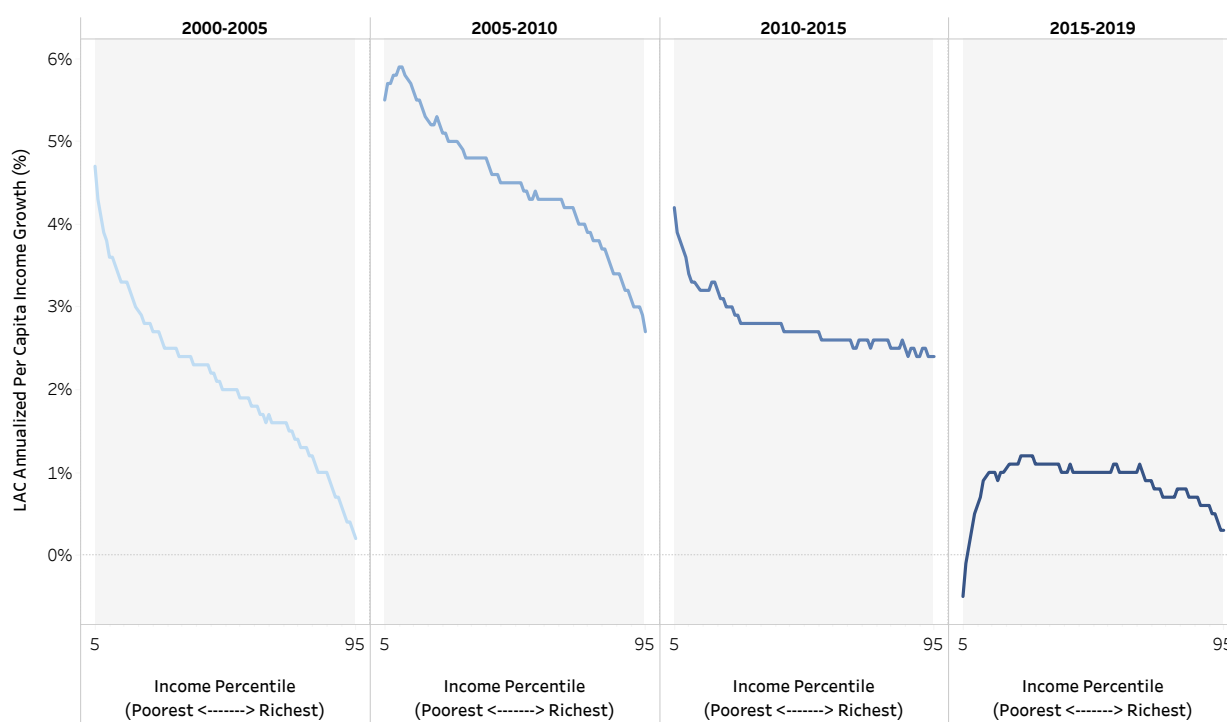
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⁸ Levy and López-Calva (2019).

Vignette 4

WHO BENEFITS FROM GROWTH?: A LOOK AT THE CHANGING INCIDENCE OF ECONOMIC GROWTH

While growth in LAC has been generally pro-poor over the past few decades, its progressive nature has been flattening out.



Source: Data from World Bank LAC Equity Lab “Economic Growth – Growth Incidence Curve (GIC)” Dashboard (www.worldbank.org/en/topic/poverty/lac-equity-lab1/economic-growth/growth-incidence-curve). (September 2021 update)
Note: For the periods 2000-2005, 2005-2010, and 2010-2015 the regional aggregate shown is based on the series “Latin America & the Caribbean (Old).” For the period 2015-2019 the regional aggregate shown is based on the series “Latin America & the Caribbean (New).”

Income inequality has been on the decline in LAC in recent decades. Indeed, in most countries in the region inequality was lower in circa 2018 than it was in circa 1990. However, people in LAC consistently report that the gap between the rich and the poor is widening. We observe this in perception surveys, but also in the mounting social conflicts and recent, very polarized, electoral processes that have taken place in the region. Over the past two years this concern has been reflected in widespread protests across the region, in which citizens cite concerns over inequality as a key motivating factor (see Vignette 18).

What explains this dissonance between what inequality measures tell us and what people perceive in LAC? One reason for this apparent “mismatch” between observed patterns and perceived patterns may be due to the way that we are measuring inequality—and the limitations of these measures to capture the aspects of inequality that actually matter to citizens. For example, traditional measures of inequality (such as the Gini

coefficient) are troublesome because they are not sensitive to changes in the shape of the distribution or to what happens in different parts of the distribution (particularly the tails).

This vignette explores this “inequality puzzle” by looking at how people across the income distribution have differently benefitted from the gains of economic growth in recent decades. To do this, the graph uses data from the World Bank’s “LAC Equity Lab”⁹ dashboard on the incidence of economic growth in the region. Using their constructed aggregate of 18 countries in the region, this graph plots LAC’s “Growth Incidence Curves” over the period 2000-2019 broken into 4 time periods each spanning roughly 5 years (note that the final time period covers 4 years and ends in 2019, given data availability). For each of these 5-year periods, the figure shows the average annualized growth of each income percentile between the 5th and 95th percentiles (ranging from the poorest income percentiles on left to the richest income percentile on the right). Thus, if the graph is downward sloping (higher on the left than on the right), we can interpret that growth in the period was pro-poor (meaning that the income of the poor was growing at a faster rate than that of the rich). If the graph is upward sloping (higher on the right than on the left), we can interpret the opposite.

Watching the graph’s evolution over time, we see that while growth in LAC has been generally pro-poor over the past few decades, its progressive nature has been flattening out. This shift might be partially explained by the commodity boom that characterized the region’s economies at the beginning of this period, which shifted relative prices in favor of non-tradable sectors intensive in low skill labor, and which came to an end around 2013. This movement of the growth incidence curve implies that the economy’s growth pattern has been such that the poor are no longer the group that is most benefitting. This supports the notion that the story of declining inequality in the region may not be so simple as it first appears. Indeed, a dynamic look across the whole distribution complicates the story.

Moreover, it is important to note that this graph is missing two very important pieces of information: what is happening at the tails of the distribution (the poorest 5% and the richest 5%) and what is happening in the other countries in LAC (only 18 countries are included here). This information is unfortunately missing due to data constraints. Indeed, it is very difficult to accurately capture what is happening at the very bottom and at the very top of the income distribution, and to know what is happening at any point in the distribution in countries with limited household survey data. However, new measures have emerged that try to capture the income at the top, and report much higher inequality levels. For example, if we look at a similar graph produced by the New York Times¹⁰ on the changing growth incidence in United States (the graph which inspired this one), we see that most of the action happens at the very top of the income distribution (in the Top 1%). Recent studies suggest that a similar pattern is likely to be true in LAC as well. For example, a recent study on Brazil found that between 2001-2015 the income share of the Top 1% increased from 26.2% to 28.3% (and the income share of the 10% increased from 54.3% to 55.6%).¹¹ Indeed, concentration of income at the top, when it is possible to measure it, seems to have increased.

While it can be argued that increasing inequality is not bad per se (for example, in some cases it can serve as an incentive to advance or can be productivity-enhancing), it is typically associated with patterns of economic, social, and political exclusion, and leads to significant costs for society. These costs manifest in different ways, ranging from power asymmetries, to policy distortions, weak social cohesion, and persistent underinvestment. Thus, if countries in LAC are to make progress in consolidating themselves as strong cohesive middle-class societies, they will need to continue tackling the challenge of inequality. Moreover, they will need to do by going “beyond averages, beyond income and beyond today,” as the UNDP Human Development Report 2019¹² contends.

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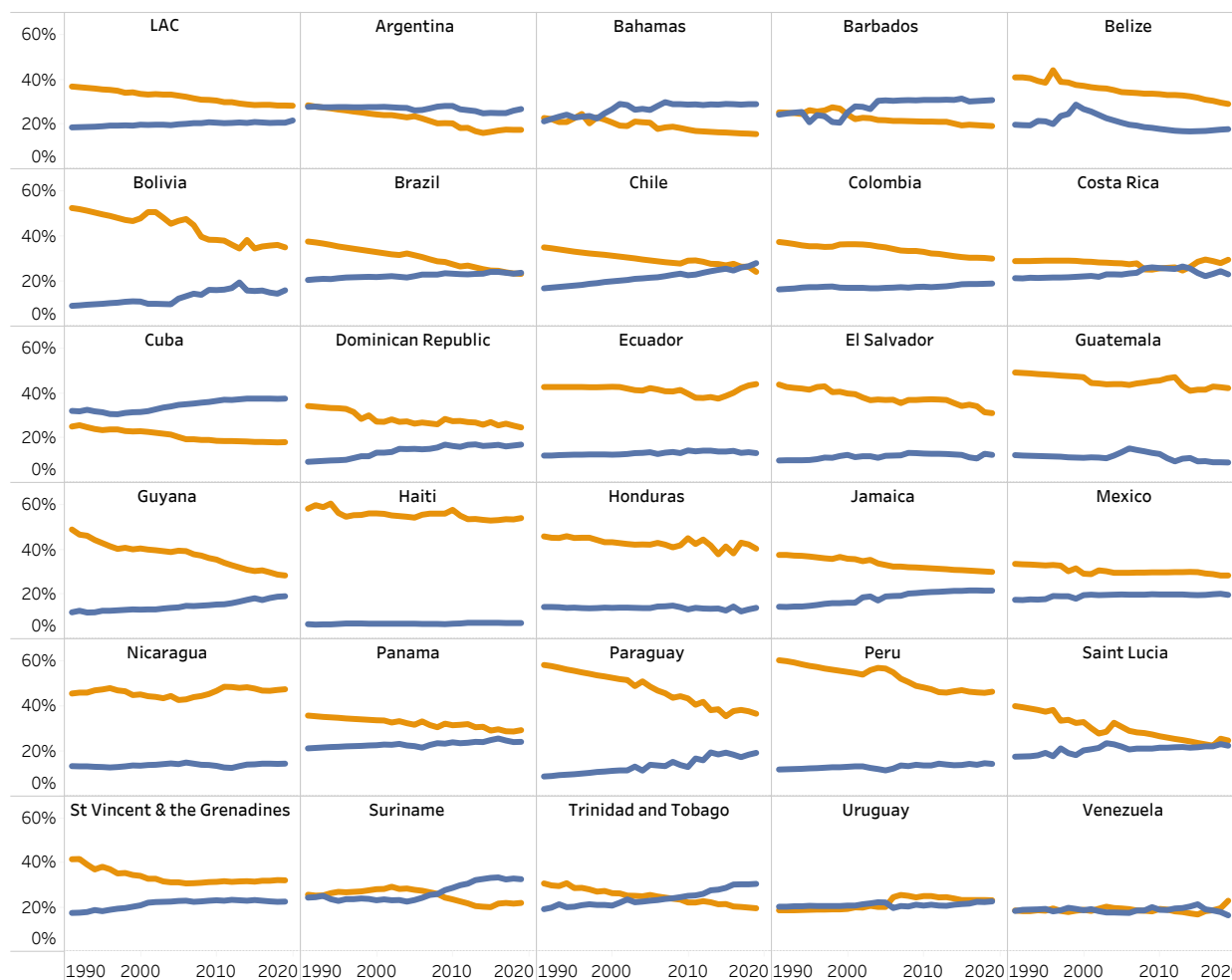
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Vignette 5

“I’LL BE BACK”... (TO TAKE YOUR JOB AWAY): AUTOMATION AND JOB POLARIZATION

Technology is expected to have a polarizing effect on jobs in developed economies, boosting the share of both low and high skill jobs. In LAC, however, the evidence is mixed so far.

Share of employed workers in low-skill and high-skill occupations (1991-2019)



Source: ILOStat (Employment by sex and occupation – ILO modelled estimates, Nov. 2020).

Note: Following ISCO-08, occupations are classified into low, medium (not shown), and high skill. High-skill occupations include ISCO-08 categories 1 (Managers), 2 (Professionals), and 3 (Technicians and associate professionals). Low-skill occupations include the reported combined ISCO-08 category 96 (Elementary occupations and skilled agricultural, forestry and fishery workers). While ISCO-08 only classifies category 9 (elementary occupations) as low-skill, due to underlying data misclassifications, the ILO modelled estimates merge and jointly estimate categories 6 and 9 to ensure consistent and internationally comparable classification.

The evolution of technology has always shaped economic and social outcomes by determining how people organize to produce goods and services. This process is punctuated occasionally by technological discontinuities, where changes are abrupt. These periods are called *industrial revolutions*.

The so-called *Fourth Industrial Revolution* is exactly this: a period of technological discontinuity. But why is it different from previous periods? Technology is changing much faster than ever before. Cycles are shorter, and obsolescence realizes itself much faster. The pace and rate of change are exceeding, so far, our capacity to adapt. Additionally, technology has allowed the outsourcing of parts of the production process and thus, transformed employment relationships, in many cases transferring risks from the employer to the employee. Finally, the current wave of technological improvements is, increasingly, able to develop machines that perform the kind of tasks that we did not think were susceptible to automatization. While we were used to machines that replace routine/predictable work, we are now facing the reality that non-routine tasks could also be performed by robots.

To understand the problem, it is important to consider that any occupation is composed of a set of tasks. Some of these tasks are routine, some non-routine, some manual, and some cognitive. For instance, a lawyer might spend time doing a lot of paperwork (i.e. a routine task), but the occupation requires a significant amount of reasoning (i.e. a cognitive task). This is important because machines replace tasks, not jobs. For example, employment in cleaning services did not disappear because of the emergence of the vacuum cleaner. Instead, those employed in the cleaning sector were able to spend less time sweeping and reallocate their time to other (perhaps more productive) cleaning tasks. This is the case because the set of tasks that compose that occupation are diverse and contain a number of non-routine tasks that are not easily replaceable. Now, consider the paradigmatic case of cashiers. Since the job is highly intense in routine tasks (put simply, taking money in or out of accounts) it was easily replaced by ATMs.

In fact, it has been largely documented that in developed countries the share of jobs intensive in routine tasks (usually associated with “medium skilled” jobs) has decreased while those intensive in non-routine tasks, both manual and cognitive (usually associated with “low skilled” and “high skilled” jobs, respectively), have increased in a phenomenon known as job polarization. In LAC countries, however, we do not observe this pattern of job polarization clearly. As a whole, the share of low skilled employment has been slowly decreasing while the share of high skilled employment has been (very) slowly increasing. The regional average for LAC, however, hides a lot of heterogeneity. In Belize, for example, medium skilled employment has increased a lot at the expense of high skilled employment. Uruguay, on the other hand, seems to show a pattern more aligned with job polarization theory.

A few words of caution at this point. First, the region is known for having highly informal labor arrangements, which could be associated with slow technology adoption and therefore a slow process of job polarization (if any). Second, it cannot be inferred from this argument that high skilled wages are increasing in LAC countries. In fact, the evidence suggests the contrary (see Vignette 3). Finally, it is important to keep in mind the distinction between technical and economic feasibility. Even if technology could replace some tasks, firms might still choose not to do so because of high costs of adoption or low gains in profitability.

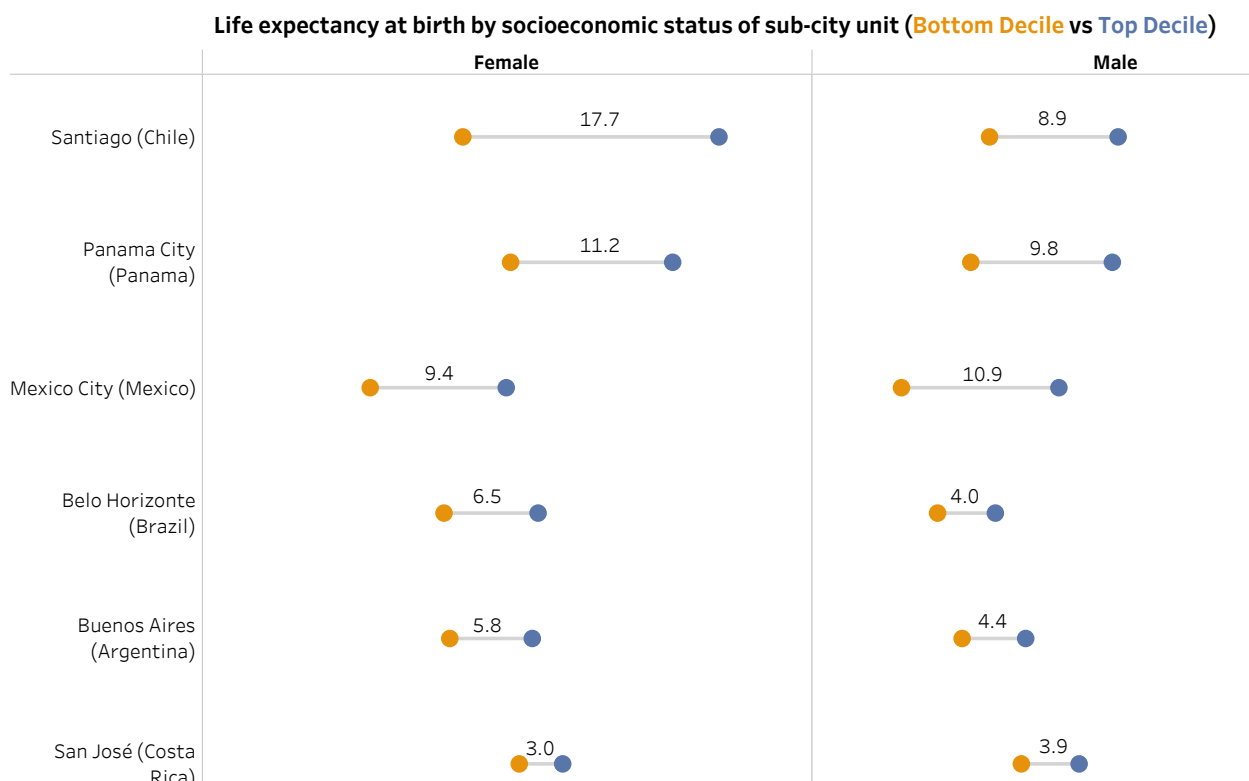
In fact, the adoption of new technologies and its ultimate impact on LAC countries will depend on the occupational structures of countries and how governments and private sector actors react to the new environment. Since technology substitutes routine and manual tasks and complements non-routine and cognitive ones, the policy challenge is to ensure workers have the right kind of skills—such as critical thinking, reasoning, analytical and interpersonal abilities that machines do not have for the time being. Countries may need to adapt education policies, ranging from formal schooling to on-the-job-training. Fiscal policy is also critical as a means of redistributing the productivity gains derived from technological improvements. However, it should be taken into account that taxing robots could discourage their adoption and result in a missed opportunity for productivity gains.

There is a difficult equilibrium to be reached against a complex backdrop of uncertain circumstances and fears that a large share of employment is under threat. However, it is important to note that we do not observe a persistent increase in unemployment around the world. This signals that human labor is reallocating towards new occupations and even brand-new sectors. This requires policies that prepare workers, so they can accommodate technical progress and be able to quickly adapt to change. Otherwise, we run the risk of machines telling us “*Hasta la vista, baby.*”

Vignette 6

TELL ME WHERE YOU LIVE, AND I'LL TELL YOU FOR HOW LONG: INEQUALITY AND WITHIN-CITY GAPS IN LIFE EXPECTANCY

In some Latin American cities, where you live matters for how long you live. People living in richer areas have systematically higher life expectancies than people living in poorer areas – by as much as 18 years for women in Santiago.



Source: Data from Table 2 in Usama Bilal, P., Marcio Alazraqui, Waleska T Caiaffa, Nancy Lopez-Olmedo, Kevin Martinez-Folgar, J Jaime Miranda, Daniel A Rodriguez, Alejandra Vives, and Ana V Diez-Roux. "Inequalities in Life Expectancy in Six Large Latin American Cities from the SALURBAL Study: An Ecological Analysis." *The Lancet Planetary Health* 3.12 (2019): E503-510. Web.

As inequalities manifest across territories, location becomes a critically important lens for thinking about how opportunities are unequally available to people. While many traditional measures of territorial inequalities look at disparities in GDP, it is important think about how spatial disparities are manifested beyond income. Perhaps more relevant than inequalities in GDP per capita are inequalities in the provision of public goods and services—which have important implications for key dimensions of well-being such as education and health.

Inequalities in health are often broadly captured by comparing measures of life expectancy at birth across groups. As the global UNDP Human Development Report 2019¹³ notes, gaps in life expectancy at birth are narrowing between countries with low levels of human development and countries with very high levels of human development (as measured by the HDI). While we are seeing convergence in the basic capability of living a long and healthy life—primarily driven by the fact that gains made in life expectancy among low HDI countries were three times the size of the gains made in very high HDI countries—the gap still remains unacceptably high. People in low HDI countries are expected to live 19 years less than those in very high HDI countries.

While gaps in life expectancy at birth across countries are narrowing, the available evidence shows that gaps in life expectancy within countries are increasing (for example, in Canada, Denmark, Finland, Japan, the UK, the US, and several Western European countries).¹⁴ There is much less evidence available on this issue in the context of developing countries – and where it is available, it often explores inequalities between rural/urban areas or is analyzed at the municipal level. Very few studies zoom in further to explore inequalities within cities.

In LAC, cities are an important unit of analysis for understanding spatial disparities—as they are both home to the majority of the population (81% of the population in LAC lives in cities¹⁵ – the highest share among developing regions) and are notorious for their high levels of inequality. A recent study by Bilal et al helps us to shed light on within-city spatial disparities in life expectancy.¹⁶ Using data from Panama City, Santiago, Mexico City, Buenos Aires, Belo Horizonte, and San José, the researchers measure gaps in life expectancy at birth between areas with different socioeconomic statuses.

This graph shows the results from that study, which reveal a systematic gap in life expectancy between people living in the richest areas (top decile) and people living in the poorest areas (bottom decile) of these cities. For women, this gap reaches as high as 18 years (in Santiago), and for men this gap reaches as high as 11 years (in Mexico City). The smallest gaps for both women and men were in San José. Further research is needed to understand the primary drivers behind these gaps in different contexts—including the role of environmental disparities (such as exposure to air pollution or disaster risk), disparities in public services (such as access to quality health care or availability of clean water and sanitation services), or disparities in other living conditions (such as high incidence of crime and violence).

When spatial disparities arise in dimensions related to the provision of public services, such as education or health, this can be seen as an important sign of governance deficits. Following O'Donnell¹⁷, the state should act as focal point of collective identity and should be equally responsive to the needs of all citizens, regardless of where they live within the territory. Unfortunately, State presence tends to be discontinuous across space.¹⁸ The State and its effectiveness in providing public services is often unevenly distributed—leaving many regions systematically neglected, and their populations excluded. So, if we are to truly “leave no one behind” as we make progress toward achieving the SDGs in LAC, addressing territorial inequalities must be a priority.

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18 Ceriani and López-Calva (2017).

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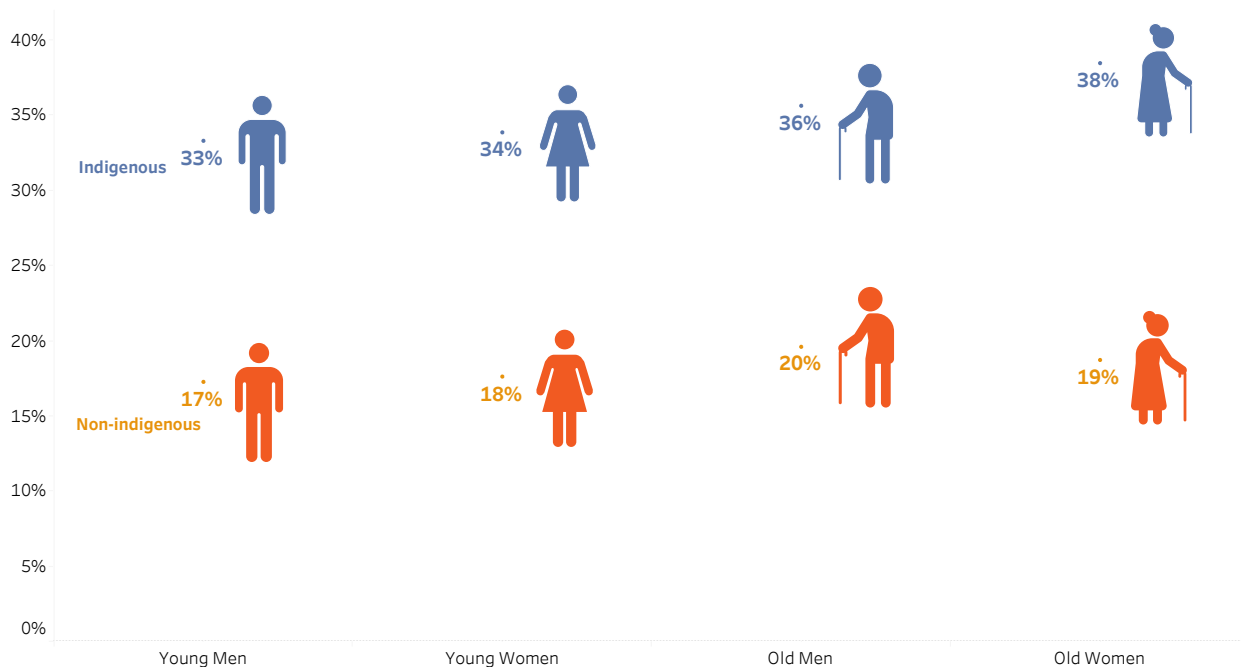
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Vignette 7

NO COUNTRY FOR OLD, INDIGENOUS WOMEN: THE CHALLENGE OF DISCRIMINATION

Indigenous people in Latin America report much higher rates of discrimination than non-indigenous people of all genders and ages.

"Would you describe yourself as part of a group that is discriminated against in your country?".
Share of population responding "Yes" (LAC Average 2010-2015)



Source: Data from Latinobarómetro. Authors' calculations.

Note: Reported shares represent predictions of a probit estimation where the interactions of dummy variables for indigenous, old (>50 years) and gender are plotted. Year and country dummies are also included. Data from Latinobarómetro waves of 2010, 2011 and 2015.

"Would you describe yourself as part of a group that is discriminated against in your country?" At the beginning of this decade a peak of more than 40% of Bolivians, 30% of Brazilians and almost 35% of Guatemalans answered "Yes" to this question. The perception of discrimination, in whatever form people feel it, is an issue in many LAC countries. On average, 17% of all Latin Americans reported that they perceived themselves as part of a group that was discriminated against in 2015. However, these average numbers hide the vast heterogeneity among different groups in the population. As we know, when it comes to discrimination—certain groups are much more adversely affected than others. Discrimination can take place along many axes—though some of the most common are race, gender, age, sexual orientation, and disability.

Using data from the Latinobarómetro perception survey, this graph summarizes the pooled responses of all Latin-Americans interviewed between 2010-2015, disaggregated by the respondent's gender, age, and whether or not they are indigenous. The data shows a 21 percentage point gap in the share responding "Yes" to the question between the group facing the least amount discrimination (non-indigenous younger men) and the group facing the most discrimination (indigenous older women). As this figure shows, the answers of men and women do not differ very much, nor do the answers of older and younger people. What we do see, however, is that the answers of indigenous and non-indigenous people differ systematically. In Latin America, indigenous people report much higher rates of discrimination than non-indigenous people of all genders and ages.

Discrimination is not only intrinsically unfair and harmful, but it can also have instrumental consequences for development. When discrimination takes place in the labor market, it can limit efficiency as it constrains certain individuals from generating income and actively contributing to growth. One way to think about the generation of household income is the assets-based approach.¹⁹ In brief, this approach argues that households generate income by accumulating assets (for example, by gaining human capital through higher education), using those assets intensively (for example, by putting education to work in the labor market), and obtaining returns to those assets (for example, by receiving a fair wage for work). However, if there are structural barriers (such as discrimination), which hold households back from effectively accumulating, using, and/or obtaining returns to assets, both individuals and countries will lose out on this untapped economic potential. The figure suggests that in Latin America, this may be the case for many indigenous people.

Discrimination is closely linked to the notion of equality of opportunity—commonly described as the need to ensure a “level playing field.” This would suggest that circumstances beyond one’s control (such as race, gender, age, sexual orientation, disability status) should not determine one’s chances for advancement. This is associated with the Rawlsian idea of “justice as fairness.” Where discrimination takes place, the playing field is systemically uneven—creating a dynamic in which inequalities are likely to be persistent over time, getting passed on from one generation to the next. In this way, discrimination interacts with equality of opportunity to the influence equality of outcomes (an ex-post notion which refers to the way resources are distributed among society).

A 2019 paper by Campos-Vazquez and Medina-Cortina²⁰ sheds light on the longer-term effects of discrimination in LAC. Taking advantage of a unique survey in Mexico, they show how skin color affects inter-generational mobility. The paper shows how much an individual’s parents’ wealth matters for determining their current wealth status—differentiating between three skin color groups: “white,” “light and medium brown,” and “brown and dark brown.”²¹ The authors’ results indicate that those in the group classified as “white” are not only more likely to stay in the highest income quintiles, but they are also more likely to move upwardly regardless of which quintile they were born into. Almost 90 percent of people classified as “white” that started in the richest quintiles (Q4 and Q5) stayed there. In comparison, only 67 percent of people classified as “light and medium brown” and 57 percent of people classified as “brown and dark brown” that were born into the richest quintiles stayed there. Moreover, among those born into the poorest quintile (Q1), those in the “white” skin color group were much more likely to be able to move upwardly into the richest quintiles. While 51 percent of people classified as “white” that were born in the poorest quintile moved up to the richest quintiles, only 23 percent of people classified as “light and medium brown” and 15 percent of people classified as “brown and dark brown” were able to do so. Overall, the findings suggest that among the poorest, upward mobility is strongly constrained by skin color.

If countries are to successfully “leave no one behind” in the implementation of the 2030 Agenda for

¹⁹ López-Calva and Rodríguez-Castelán (2016).

²⁰ Campos-Vazquez and Medina-Cortina (2019).

²¹ Data on skin color was collected in the survey by trained interviewers using the palette of 11 skin tones developed by Princeton University’s Project on Ethnicity and Race in Latin America (PERLA) and then aggregated into the categories used in the analysis as follows: white (PERLA 1-3), light and medium brown (PERLA 4-5), and brown and dark brown (PERLA 6-11).

Sustainable Development, they must take action to reduce discrimination. While policies to ensure that all individuals have equal opportunities to accumulate, use, and receive fair returns to their assets are critical in promoting a more “level playing field”—we also need to think about how to change the harmful social norms that these processes are embedded more broadly within. If we do not also change the informal institutions that prop up discrimination, simply changing formal laws will be insufficient to promote behavioral change. In its role as a “focal point” for coordinating behavior, formal law can help to jumpstart this norm shift.

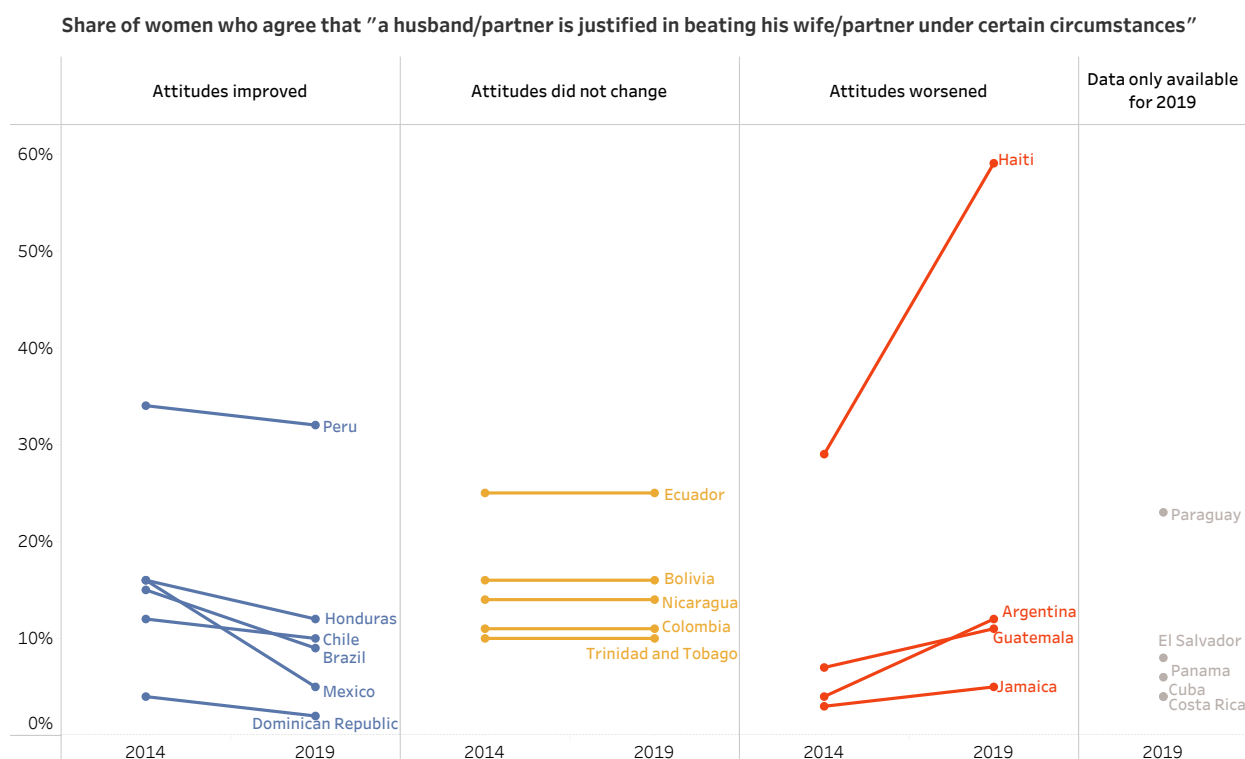
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Vignette 8

“AND IT WASN’T MY FAULT”: DANGEROUS SOCIAL NORMS AND THE URGENT NEED TO REIMAGINE OUR WORLD

Social norms against intimate partner violence have been slow to change in LAC. In the past 5 years, they have only improved in 40% of LAC countries with available data.



Source: OECD International Development Statistics Gender, Institutions and Development Database (Edition 2014 and 2019).

Gender-related violence manifests in a range of physical, sexual, and psychological forms and is a leading cause of women’s deaths around the world. According to a 2018 UNODC report,²² almost 60 percent of all female homicides in 2017 were committed by an intimate partner or family member—meaning that the home is the most likely place for women to be killed. This notion of gender-related killing is broadly referred to as “femicide” or “feminicide”—and it is a key challenge facing LAC countries. Indeed, out of the 25 countries in the world with the highest number of femicides in 2004-2009 – 14 of them were in LAC.²³

²² UNODC (2018).

²³ Nowak (2012).

Living free of violence is not only a human right, but a fundamental functioning that allows women to pursue the lives that they have reason to value. From the perspective of the capabilities approach, where human freedom and access to opportunities are the tenets of human development, women who are vulnerable to violence within the household experience a lack of bodily integrity as a fundamental capability deprivation. As Martha Nussbaum's work on women and human development²⁴ argues, bodily integrity is the capability of freely circulating from place to place, being safe from assault and sexual violence, and enjoying reproductive rights. In other words, it is imperative for human development to enable the social conditions (laws, policies, and interventions) that ensure the bodily integrity of women and lift this capability deprivation.

Countries across the region have been working to respond to this critical challenge by revising or expanding their legislation to criminalize femicide as an offense. Eighteen countries in the region have adopted laws in recent years—outlining national definitions of the concept and creating frameworks for prosecuting it. Costa Rica and Venezuela were among the first countries to adopt laws in 2006. This was followed by a cascade of other countries—with Uruguay most recently adopting legislation in 2017.²⁵

However, it is important to note that while formal laws are an important step toward eliminating violence against women, they are insufficient on their own. There is a call for state action that goes beyond criminalizing femicide and strengthening sentences—to actually enacting laws focused on prevention and protection, investigation and reparation.²⁶ Moreover, as Jeni Klugman²⁷ notes, “dealing with only the consequences of violence has obvious weaknesses, not least that the *causes of violence* can go unaddressed. This points to the importance of changing the norms that cause or at least sanction or tolerate violence, and how understanding laws and legal reforms can serve to change norms.” Indeed, social norms are a key part of this addressing this challenge.

Social norms about the acceptability of violence against women in the home can be extremely dangerous—and, as this graph shows using data from the OECD,²⁸ these norms remain very prevalent in many LAC countries. For example, in countries such as Haiti and Peru, the share of women who agree with the statement that “a husband/partner is justified in beating his wife/partner under certain circumstances” reached as high as 59% and 32% respectively in 2019. While social norms can be slow to change, it is important to note that in many LAC countries these norms are either remaining stagnant or “worsening” (meaning that the share of women who agree with that statement is increasing) over the past five years. Indeed, out of the 15 countries that had data available for 2014 and for 2019, these norms “improved” in 6 countries, did not change in 5 countries, and “worsened” in 4 countries. This means that in the past 5 years, social norms against intimate partner violence have only improved in 40% of the LAC countries with available data.

While these facts are not encouraging, we are living in a moment in which the tides are hopefully turning. Millions of women around the world are daring to speak out and taking to the streets to demand an end to gender-related violence and harassment. In LAC in 2018 alone, marches against gender violence took place in Chile, Uruguay, Colombia, Venezuela, Guatemala, Peru and Argentina. The call to action to ensure *#NiUnaMenos* (“Not One Woman Less”) spread rapidly across the region. International actors are also working to promote change. For example, the EU and the UN have joined together to launch the Spotlight Initiative²⁹ to eliminate all forms of violence against women and girls. In LAC, Spotlight will be implemented in Argentina, Salvador, Guatemala, Honduras and Mexico and will support laws that promote gender-equality, strengthen institutions, change cultural norms and support the research on this topic.

24 Nussbaum (2000).

25 UNODC (2018).

26 Deus and Gonzalez (2018).

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29 Spotlight Initiative (2022).

We need to work across all of the different fronts in order to enact meaningful change. In the words of Cecilia Suarez, a Mexican actress who delivered a beautiful and thoughtful speech (“Harta”) at the launch of the Spotlight Initiative, “*Al patriarcado hay que oponerle el corazón de cada ser humano, la inteligencia y la capacidad de imaginar las cosas de otra manera* / In order to fight the patriarchy, we need the power of each person’s heart, intellect, and capacity to imagine things in a different way.” Our imaginations are fundamental in seeing the world from the point of view of others—and thus laying the foundation upon which we can construct a more equitable world. As Cecilia explained (citing the words of Grace Paley),³⁰ “*Necesitamos la imaginación para comprender lo que les ocurre a las personas que nos rodean, para intentar comprender las vidas de los demás...es seguramente el acto más importante de la imaginación, y además puede ser de provecho para el mundo* / We need our imaginations to understand what is happening to other people around us, to try to understand the lives of others... This is probably one of the most important acts of the imagination that you can try and that can be useful to the world.”

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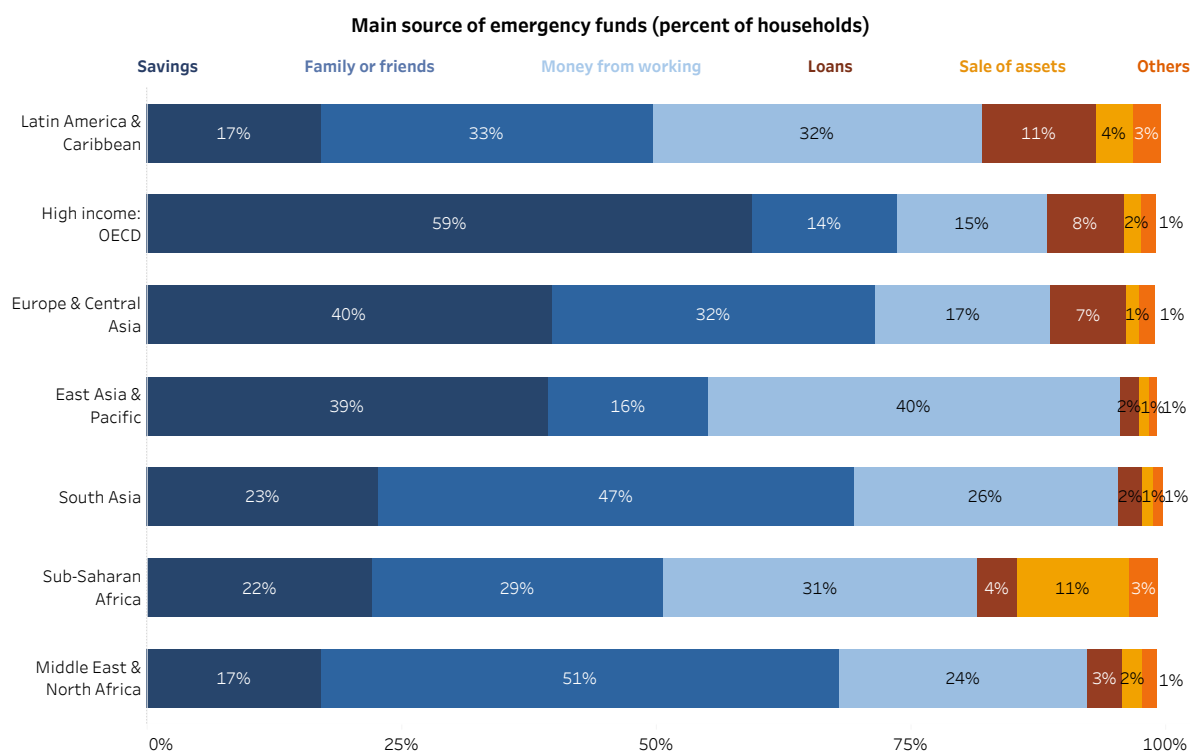
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³⁰ Paley (1999).

Vignette 9

UNDER THE MATTRESS: SAVING TO BE SAFE

Only 17% of households in LAC rely on savings in case of an emergency.



Source: Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. 2018. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. World Bank: Washington, DC.

Note: Among respondents age 15+ reporting that in case of an emergency it is possible for them to come up with 1/20 of gross national income (GNI) per capita in local currency.

Households experience many different types of shocks—ranging from illnesses to droughts to severe storms. The ability to recover quickly from shocks is more difficult for poor or vulnerable families, given that they have fewer assets on which they can draw during difficult times and thus have less capacity to cope with risk. Recovering quickly does not only mean returning to previous consumption levels. Resilience also requires being able to protect and rebuild levels of assets that impact the productivity of the household in the long-term. For example, in case of an emergency, a family might forgo preventative healthy behaviors (such as check-ups or the consumption of healthy food) in order to smooth consumption. However, this may come at the cost of deteriorating health—in which case, the household’s vulnerability is in fact increased.

Indeed, millions of families around the world are just one illness away³¹ from poverty. Think, for example, of a poor family which relies on agricultural income for survival. If one member suffers an accident and

31 Krishna (2011).

is unable to work on the farm during the planting or harvesting season—this family may lose the primary income source upon which they depend so heavily.

When facing shocks, households adopt strategies to smooth their levels of consumption—so that in periods when they have less, they are still able to meet their basic needs. The extent to which these strategies protect household assets, particularly human capital, is critical for the household's well-being and resilience in the future. An important way in which households smooth consumption is through savings. However, as this graph shows, based on data from the Global Findex Database³² for 2017, households in LAC are less likely to use savings in an emergency than households in other regions.

While in Europe and Central Asia, 4 in 10 households rely on their savings in the case of an emergency—in LAC, less than 2 in 10 households do the same. In LAC, rather, the majority of households turn to their family or friends for support. However, in the case of a shock that affects many people all at once—such as an earthquake or a tropical storm—this mechanism evaporates. One of the primary reasons why so few people in LAC rely on savings in the case of emergency is likely that few people in LAC have any savings to begin with. In 2017 in LAC, only 38% of individuals were able to save *any* money in the previous year—roughly half the share in OECD countries. Moreover, for the poorest 40% of the population in LAC, this number is just 28%, compared to 44% for the richest 60%.

What is driving this low level of savings in LAC? While an easy explanation may be that people do not save because they earn too little, the data does not necessarily suggest that this is the case. For example, LAC has a far lower rate of savings than poorer regions such as Sub-Saharan Africa—where the share of households that saved any money in the past year reaches 54%.

Interestingly, while 38% of individuals save in LAC, only 13% of individuals do so in a financial institution. This is striking considering that in LAC 54% of individuals have a bank account. While this is low compared to OECD countries (where 95% of households have bank accounts), the question remains why the majority of those who do save are choosing to do so outside of formal financial institutions.

This discrepancy perhaps reflects big a push from governments in the region for financial inclusion by banking the poor. However, as a recent IADB publication³³ explores, while those efforts might have addressed the issue of access by creating bank accounts for those without them, they might not have addressed some issues which determine whether households use them for savings or not. The publication identifies among the main reasons why these financial inclusion strategies have not resulted in increased savings as: (i) lack of trust and regulation (for example, in Chile—despite being a country with a very developed financial market—Findex data show that almost half of those who do not hold a bank account cite lack of trust as a reason), (ii) high transaction costs (for example, high monetary or labor costs involved in managing a savings account), (iii) information and knowledge gaps (for example, the majority of the population in Chile, Colombia, Guatemala, Mexico and Peru do not understand the term “interest rate”), (iv) social pressure (for example, when extended networks of family and friends impose demands on households’ accumulated stock of savings); and (v) behavioral biases (for example, a lack of self-control or present-biased decision-making).

Additionally, access to formal bank accounts is uneven in LAC. Indeed, the gap in access to banking between the poorest 40% and the richest 60% in LAC is four times higher than in developed economies. While in OECD countries there is a narrow gap of around 5 percentage points between the share of poor and rich households with bank accounts, in LAC countries there is a 20 percentage point difference between the access of those of at the bottom of the income distribution and those at the top.

³² Demirgüç-Kunt (2018).

³³ Frisanco (2016).

Policies to promote banking for the poor have succeeded in many countries around the world, such as in India and Chile (Pradhan Mantri's Jan-Dhan Yojana and Cuenta-RUT, respectively). The remaining, and perhaps more difficult, challenge is to actually change savings behavior. Indeed, there is considerable room to improve formal savings by incentivizing households to move their money from informal mechanisms (or from under their mattress) to bank accounts. Although this would not solve the savings problem in the region, which has multiple causes, it could be a first step towards the ultimate goal of building resilience.

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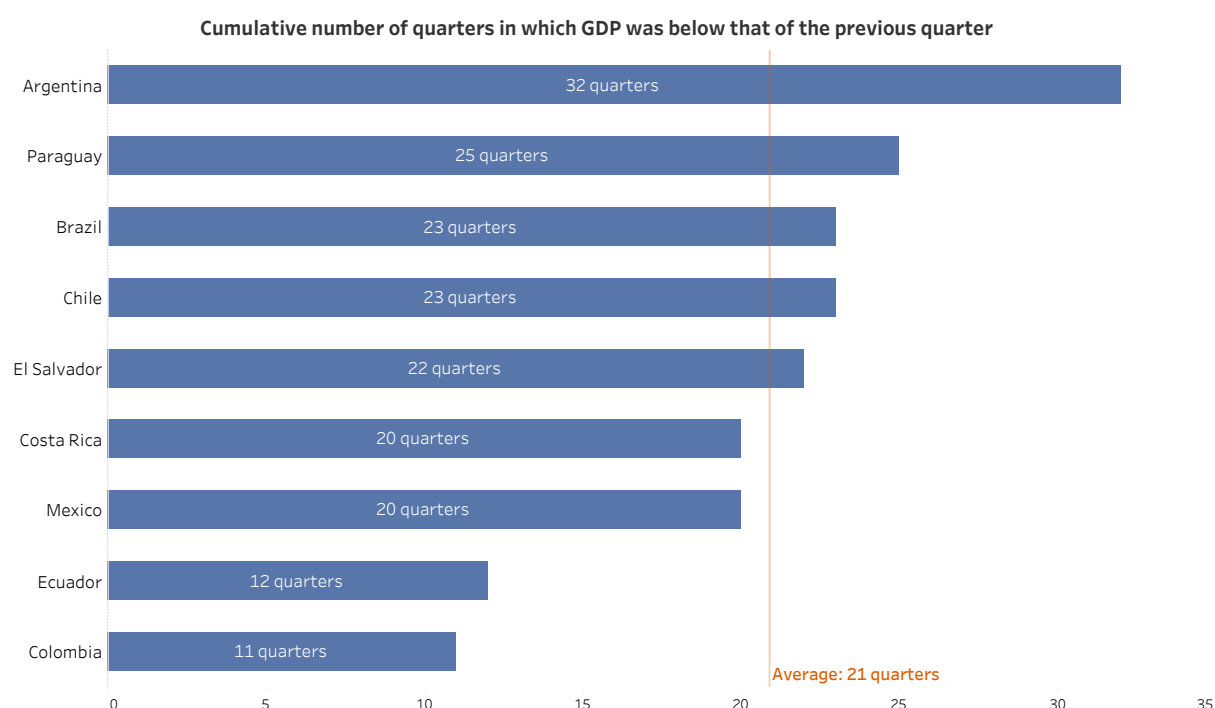
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Vignette 10

EPIC FALLS? ECONOMIC CRISIS AND HOUSEHOLD WELFARE

Countries across LAC showed diverse levels of macro-resilience following the 2008 financial crisis. On average, in 21 of 47 quarters there was a lower GDP than the previous quarter.



Source: International Monetary Fund.

At the macro level, a country's resilience depends on its ability and willingness to adopt policy measures to smooth consumption during times of shocks that impact GDP and, ultimately, individual wellbeing. Consider the world economic crisis which was set off by the collapse of Lehman Brothers in September 2008. As a result of this crisis that trickled down from Wall Street to the rest of the world, the GDP flow (the total value of the products and services traded in one year or, equivalently, the sum of everyone's income) of most countries fell. In LAC, this halted the steady growth path that many countries had experienced in previous years due to the "commodities boom" and its extremely favorable terms of trade (the price of a country's exports relative to its imports).

In this context, one way we can think about measuring a country's macro resilience is by counting the number of quarters in which GDP level was below that of the previous quarter (i.e. negative growth) after the 2008 crisis. This graph shows how this number evolves for a sample of LAC countries from the beginning of the crisis in 2008 through the third quarter of 2019 (a total of 47 quarters). The results show that on average in LAC, countries spent 21 out of the 47 quarters in negative growth. This means that on average they

experienced negative growth for close to half of the period. However, the results are very diverse across the region. On one extreme, Argentina spent 32 quarters in negative growth (around two-thirds of the period). On the other extreme, Colombia and Ecuador spent only 11 and 12 quarters in negative growth, respectively (less than one third of the period).

Why is macro resilience relevant for outcomes at the household level? Because when an economic crisis takes place, households and governments may react by reducing investments in key areas such as health or schooling. This may be the case if households are unable to smooth their consumption (for example, by drawing on their stock of savings during periods of economic hardship) or if governments do not have the necessary counter-cyclical fiscal policies in place (for example, which allow them to draw on savings or debt to spend more during times of recession). Consequently, welfare-related aspects of people's lives may worsen. Even when levels of health or education return to their pre-crisis paths, it is important to remember there may be more permanent effects for certain groups (or cohorts) within the population that were uniquely affected by the shock.³⁴ For example, a study on health impacts of the 1980 economic crisis in Peru estimates that there was a 2.5 percentage point increase in infant mortality rates for children born during the crisis (meaning that 17,000 more children died than would have in the absence of the crisis).³⁵ Similarly, a study on unemployment shocks in Brazil estimates that an unemployment shock to the male head of a household significantly increases the chances that a child will have to enter the labor force and will have poorer schooling outcomes (dropping out or failing to advance).³⁶

While it might be too soon to draw conclusions on the effects of the 2008 crisis on households' well-being, the lessons from past crises still apply: policies which support governments in minimizing the impact of macro shocks on micro variables, such as health or education, are critical to strengthening resilience. In particular on a macro-level, counter-cyclical policies can play an important role in helping countries to recover quickly. Two examples from the region's experience during the crisis of 2008 are worth mentioning. In the case of Colombia, the central bank had enough room to lower interest rates (that were high because of the country's high inflation at the time) which allowed them to apply a strong monetary policy (similar to what the United States did). In the case of Chile, the country had a fiscal rule that allowed the government to spend strongly in periods of crisis (and forced it to save during booms) which allowed the country to quickly recover through fiscal policy.

However, it is important to remember that policies, such as the fiscal balance rules mentioned here, are not enough on their own to build resilience. Effective governance is a necessary precondition to ensure that countries can commit to these types of long-term goals in practice. Consider, for example, the difference between Chile and Mongolia.³⁷ While both countries introduced similar fiscal rules in order to manage fluctuations in the price of their natural resources (which account roughly for 8 and 30 percent of their fiscal revenues, respectively), in practice only Chile's expenditure patterns were countercyclical. Therefore, the sole adoption of policies that have proven effective elsewhere does not guarantee anything: they have to be implemented by actors willing to accept and follow the rules in order to be credible and successful.

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34 Fernández and López-Calva (2010).

35 Paxson and Schady (2005).

36 Duryea et al (2007).

37 World Bank (2017).

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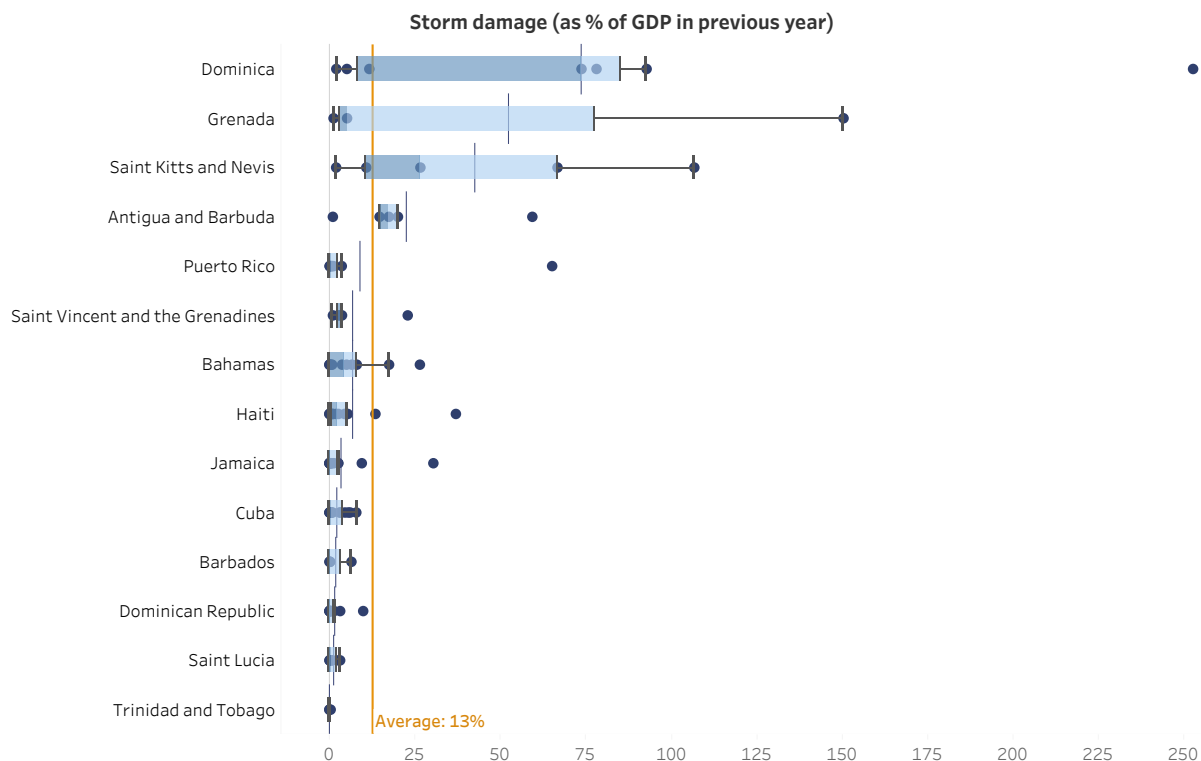
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Vignette 11

AFTER THE RAIN: THE LASTING EFFECTS OF STORMS IN THE CARIBBEAN

On average, countries in the Caribbean suffer yearly losses from storm damages equivalent to 13% of their GDP (for years that they were hit by storms during 1973-2020).



Source: Storm data from EM-DAT: The Emergency Events Database - Université Catholique de Louvain (UCL) – CRED. GDP data from World Bank World Development Indicators.
 Note: GDP data refers to GDP in the year previous to the storm (in current US\$). The sample is restricted to countries and years for which both storm data and GDP data are available.

Sustainability is constitutive of the concept of development. Just as economist Amartya Sen has argued that there is no point in discussing the relationship between development and freedom because freedom is constitutive of the concept of development, there is no point in trying to disentangle sustainability from the notion of development itself. A key foundation of promoting sustainable development is strengthening resilience. We know that countries' development trajectories are not linear. Shocks of many different types disturb this path, and vulnerability to these shocks can slow down (or even reverse) progress.

For countries in the Caribbean, the challenge of strengthening resilience is particularly acute as nations suffer recurrent extreme weather-related events. Countries are continuously struggling to rebuild in the wake of

the economic, social, and environmental damages inflicted by frequent exogenous shocks, such as tropical storms—storms which climate scientists have warned us are only getting wilder and more dangerous due to global warming. This makes the probability of distribution over intensity of shocks one with “thicker tails” which in turn makes insurance more complex and expensive. As a 2018 IMF report³⁸ found, “natural disasters occur more frequently and cost more on average in the Caribbean than elsewhere—even in comparison to other small states.” Since 1950, 324 disasters have taken place in the Caribbean, inflicting a loss of over 250,000 lives and affecting over 24 million people.

This graph uses data from the International Disaster Database EM-DAT³⁹ to look at the damages caused by storms in the Caribbean during the period 1973-2020. As the graph shows, we see that most countries experienced several storms during this period. Each blue dot represents a country’s loss in property, crops, and livestock due to total storm damages in a given year – expressed as a percentage of its national GDP (using GDP from the year before the storm)⁴⁰. On average over time, we can see that countries in the Caribbean suffer yearly losses due to storm damages equivalent to 13% of their GDP (for years that they were hit by storms). Of course, this varies greatly across nations both due to the severity of storms as well as the size of countries’ GDP—ranging from an average loss of less than 1% in Trinidad and Tobago to an average loss of 74% in Dominica. In 2017 alone, Dominica lost the equivalent of 253% of its GDP (during Hurricane Maria). This was just two years after it lost the equivalent of 92% of its GDP (during Hurricane Erika). These losses are compounded by losses resulting from other extreme natural events, such as earthquakes, floods and droughts.

The repercussions from these damages have long-term consequences at the national level. A cross-country study on the impact of cyclones on long run economic growth found that impacts on GDP persist as much as twenty years later.⁴¹ Moreover, the authors find that “for countries that are frequently or persistently exposed to cyclones, these permanent losses accumulate, causing annual average growth rates to be 1-7.5 percentage points lower than simulations of ‘cyclone-free’ counterfactuals.” Thus, developing resilience to the repeated shocks faced by countries in the Caribbean is critical for ensuring their ability to pursue long-term growth. As the World Bank World Development Report 2017⁴² argues “long-term growth is less about how fast one grows than about how often you trip along the way.”

The damage caused by extreme weather events can also lead to long-term consequences at the household-level. Using data on typhoons in the Philippines, one study found that in addition to the loss of durable assets, household income was reduced which is passed on through decisions to spend less on items such as medicine, education, and high nutrient foods—decisions which may have long term consequences for the development of human capital.⁴³

In order to mitigate the serious consequences of shocks on development, we need to focus on strengthening resilience. The capacity of countries in the region to strengthen the resilience of households will depend on the processes that allow households to make decisions that help them build their adaptation mechanisms. Efficient, effective and flexible social protection systems to incorporate victims; early warning systems for disasters; investment in mitigation of environmental risks; and impact-resilient social services and infrastructure, are some of the ways through which governments in the region could build and strengthen resilience.

Moreover, in order to effectively strengthen resilience, we need to rethink how we evaluate it. Traditionally, economists have approached this notion from a perspective of “flows” – such as GDP, consumption or income.

38 Ötör and Srinivasan (2018).

39 Guha-Sapir et al. (2022).

40 Note: The sample is restricted to countries and years for which both storm data and GDP data are available

41 Hsiang and Jina (2014).

42 World Bank (2017).

43 Anttila-Hughes and Hsiang (2013).

However, if we rely solely on this type of approach, efforts to strengthen resilience could take place at the expense of the depletion of the “stock” of assets. For example, the recovery of GDP at the expense of natural capital. Thus, if we truly believe the notion that sustainability is a constitutive element of development, we need to move from an evaluation space defined by flows to one that also includes a measure of stocks. We need to think more broadly about the so-called “wealth of nations”⁴⁴ by valuing not only their GDP but also their stock of natural, physical, human and social capital.

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PART III.

PAVING THE ROAD: EFFECTIVE GOVERNANCE

Paving the three-lane lane road requires effective governance as a parallel requisite. Policies and rules to promote productivity, inclusion, and resilience are, in the end, agreements among actors (state and non-state actors). Ultimately, however, no rules function if the agreements among the actors involved are broken, if people do not comply, or people do not believe that others will follow the rules.

If existing governance frameworks cannot effectively respond to the distributional tensions arising from an uneven development process, societies will find alternative ways to adapt. In extreme cases, violence can become a mechanism to process conflict. Indeed in LAC, we see that homicide rates are much higher than those of countries with similar levels of GDP per capita, in particular for some countries in Central America and the Caribbean (Vignette 12). People can also “opt out” of the social contract—for example by avoiding taxes or seeking public services from the private market. In other cases, people may just “vote with their feet” and leave. In LAC, we see that the number of people moving abroad has almost tripled between 1990 and 2020 (Vignette 13). All of these individual actions are symptoms that show that tensions are not being processed in a way conducive to inclusive development.

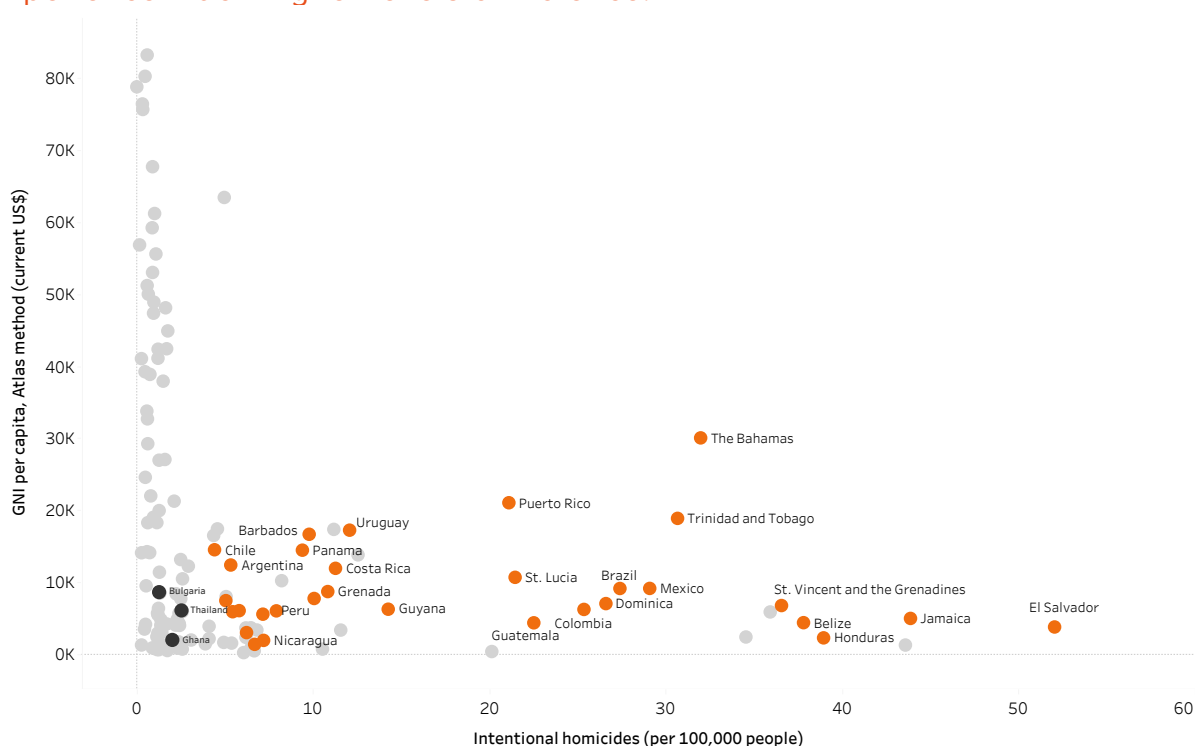
One key factor that undermines the effectiveness of governance is the unequal distribution of power in the policy arena. Power asymmetries, the fact that actors have different capacity to “influence” the system, can lead to policies marked by exclusion, capture and clientelism, ultimately contributing systematically to poor development outcomes. Unfortunately, almost 3 in 4 citizens in LAC believe that their country is governed in the interest of a few powerful groups rather than for the good of all (Vignette 14). If citizens do not believe that institutions are responsive to the needs of all, they may choose not to cooperate. Moreover, while issues such as the “rule of law” have improved greatly over the past century, many countries in the region have continually seen their progress set back at various points along this trajectory (Vignette 15). In some countries, the application of rules still depends very much on who you are. One way this manifests is in the region is in the context of unequal access to justice. In LAC, 4 in 10 people are imprisoned without a conviction—a group disproportionately comprised by people from vulnerable and marginalized backgrounds (Vignette 16). While the distribution of power in the policy arena remains highly unequal in the region, countries have progressed in a few areas—for example in expanding women’s representation at multiple levels of decision making (Vignette 17). Including previously excluded groups in the policy arena strengthens their voice and subsequently their ability to make the system more responsive to the demands and aspirations of those communities—ultimately fostering more equitable development outcomes.

Changes in governance can come from many different types of actors or coalitions among actors—including elites, citizens, and international actors. From a democratic perspective, citizens have four primary ways to voice their demands: voting, social organization, political organization, and public deliberation. Over the past few years, social organization was a particularly important channel in LAC, as citizens across the region took to the streets in protest—reflecting their growing frustrations about the concentration of development gains as well as the concentration of power (Vignette 18). These protests were an important reminder of the need to continue investing in building and maintaining a robust “civil society space.” While civil society space in LAC expanded steadily throughout the 1980s and 1990s, it has recently begun to shrink again (Vignette 19). Moreover, as technology has both advanced the speed and reduced the cost of information flows, civil society space is being threatened in new ways. One key way this is happening is through the increased creation and spread of false information—including misinformation and disinformation (Vignette 20). This carries with it broader political concerns, such as potentially deepening levels of political polarization and weakening trust.

Vignette 12

KILLING DEVELOPMENT: THE DEVASTATING EPIDEMIC OF CRIME AND INSECURITY

In comparison to countries with similar levels of GDP per capita, countries in LAC experience much higher levels of violence.



Source: World Bank World Development Indicators database (GNI per capita) and UN Office on Drugs and Crime's International Homicide Statistics database (Homicide rate).
Note: LAC countries are denoted in orange and non-LAC countries are denoted in grey. Homicide rate data is for the most recent year available (circa 2015-2018). GNI per capita data corresponds to that same year.

Development is a very uneven process, accompanied by heterogeneity in outcomes across sectors, across regions and across income groups. Such process, Albert Hirschman elegantly established about 60 years ago,⁴⁵ constantly generates tensions and demands for the redistribution of resources and power. In this sense, conflict is inherent to development.

Long term outcomes in terms of prosperity, equity and peace will always depend on the way in which such tensions are processed. Indeed, it depends on the way in which actors interact to solve these tensions; in other words, it depends on effective governance. If tensions are solved by excluding some groups systematically, inequity and violence are more likely to characterize societies. Indeed, we see that throughout Latin America

45 Hirschman (1958).

and the Caribbean violence has become a mechanism to adapt to these tensions and to process conflict. The UNDP Regional Human Development Report 2013-2014 “Citizen Security with a Human Face”⁴⁶ showed the ways in which crime and insecurity undermine development in Latin America and the Caribbean. Crime erodes the well-being of citizens and deters economic growth.⁴⁷ Despite recent progress in citizen security and marginal reductions in violence, LAC remains the most violent region in the world. Indeed, a 2018 report by the Igarape Institute⁴⁸ states that while Latin America is home to 8 percent of the world’s population, 33 percent of all homicides take place there. Moreover, according to UNODC data for 2018, 15 of the 20 countries with the highest homicide rates in the world are in LAC.

We see in this graph that homicide rates (expressed per 100,000 inhabitants) in the region, in particular for some countries in Central America and the Caribbean, are much higher than those of countries with similar levels of income per capita. For example, Honduras and Ghana have similar GNI per capita rates, however Honduras suffers 39 homicides per 100,000 people, while Ghana suffers just 2. Similarly, while Mexico has a homicide rate close to 30, Bulgaria, with a similar GNI per capita, has a rate close to 1. The homicide rate in Colombia is over 25, while in Thailand it is only around 3.

Vilalta, Castillo and Torres⁴⁹ offer an overview of four existing theories to answer this question in the region. As they explain, the *economic perspective* argues that individuals weigh the costs (of eventual punishments) and benefits to decide whether or not to engage in crime. The *socio-structural perspective* links changes in crime and violence with changes in societal structures, culture, and institutions. For example, it would interpret rising violence as a result of factors such as worsening labor market conditions and economic crises. The *political perspective* argues that recent political processes in LAC countries have fostered inefficiency and corruption within many government agencies charged with public safety. This has been accompanied, for example, by anti-drug policy agendas that have had unintended effects on expanding illegal markets as well as diverting resources away from social policies toward policing and criminal justice systems. Finally, *social disorganization theory* argues that “antisocial and criminal behaviors are socially learned.” According to this view, local social dynamics such as peer networks and neighborhood structural characteristics combine to shape crime patterns. Depending on the country context, a combination of these theories helps to explain crime in LAC.

Empirical research offers support for the different theories: the sense of impunity in some countries encourages law offenders to engage in criminal activities;⁵⁰ the lack of confidence in police and justice systems sometimes prevents victims from reporting crimes⁵¹ (moreover, it is not rare that corrupt police collaborate with organized crime in some countries, for money or out of fear); support for extralegal violence is significantly higher in societies characterized by low support for the existing political system;⁵² and the lack of economic opportunities also plays a role, as a strong correlation between crime and youth unemployment has been found.⁵³ Evidence also demonstrates the effect of inequality on crime.⁵⁴

As this booklet emphasizes, the road to development in LAC requires effective governance as a pre-condition to improve productivity, inclusion and resilience. That is, effective governance is about creating socio-economic opportunities, strengthening institutions and enhancing citizen security. These are challenging tasks as these figures show. Fact-based initiatives such as INFOSEGURA⁵⁵ which aims to promote and improve the quality of information on citizen security in the region, are critical public policy instruments to address this challenge.

46 UNDP (2014).

47 Enamorado et al. (2014).

48 Muggah and Aguirre Tobón (2018).

49 Vilalta, Castillo and Torres (2016).

50 Walsh and Menjívar (2016).

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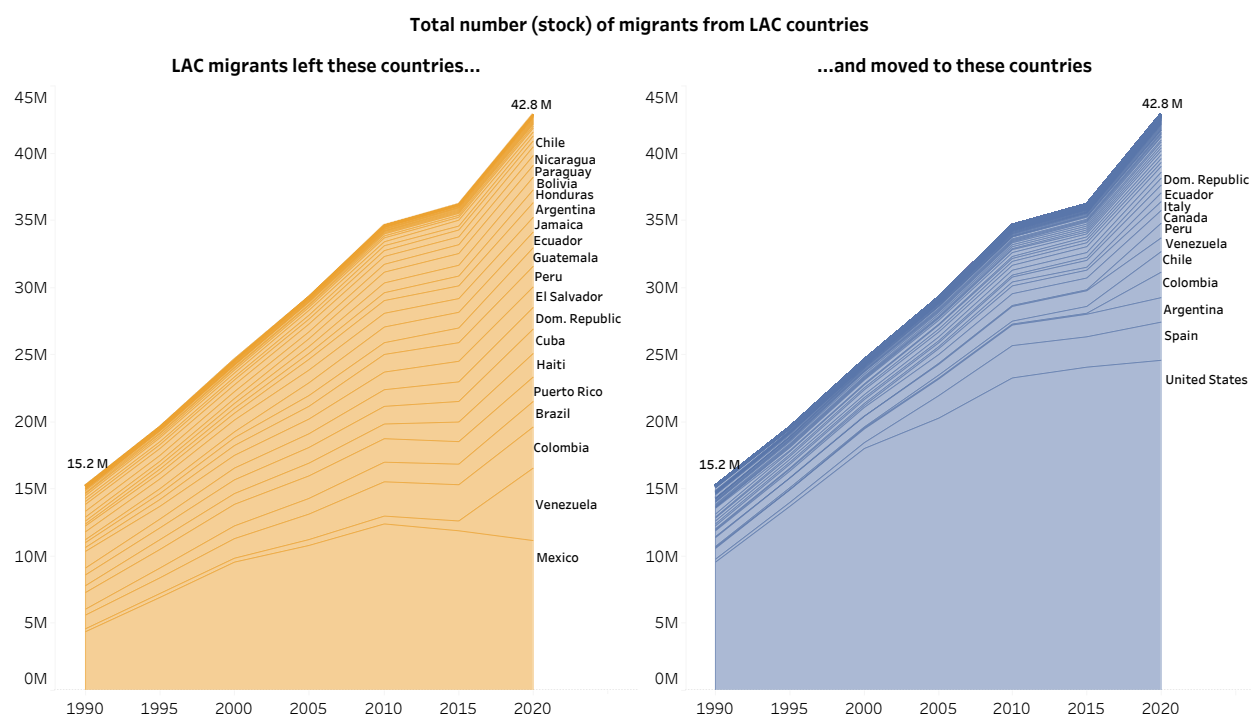
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Vignette 13

LEAVING FOR A BETTER LIVING: MIGRATION AND REMITTANCES

Over the past thirty years, the number of people born in LAC countries who are living abroad has almost tripled. In 2020, 42.8 million were living in other countries, though many stayed within the LAC region.



Source: United Nations, Department of Economic and Social Affairs, Population Division (2020). International Migrant Stock 2020.

Note: Stocks are calculated mid-year and include all foreign-born residents in a country (including refugees) regardless of when they entered the country. Stock data should not be confused with annual migration flow data (i.e. the number of migrants that entered or left a country within one year).

One way in which people adapt to the tensions that arise from the uneven process of development is by migrating, or “voting with their feet.” In 2020, around 3.5% of the world’s population was living in a country different from the one that they were born in. In LAC, this share is almost double—around 6.5% of the region’s population. In the sub-region of the Caribbean, it is far higher still—reaching over 20%.

Using data from UNDESA’s International Migrant Stock⁵⁶ database, this graph shows the evolution of migration from LAC countries during the thirty-year period from 1990 to 2020. Note that this graph presents data on migration “stocks,” or the number of foreign-born residents in a country at a given point in time. This is different from data on migration flows, which tracks the number of migrants that entered or left a country within a given year. Overall, we see an increasing trend of migration in the region. The number of people born in LAC countries that are living abroad almost tripled between 1990 and 2020, rising from 15.2 million

56 UNDESA (2020).

to 42.8 million. However, the speed at which migration stocks were increasing has slowed down for almost all countries since 2010. The recent steep increase in the graph is primarily driven by the rapidly changing patterns of migration from Venezuela since 2018.⁵⁷

The two panels in the graph present the same overall trend data, but the left-hand panel reveals which countries migrants are leaving from while the right-hand panel reveals which countries they are moving to. As we can see, Mexico has consistently been the origin country with the largest total number of migrants while the United States has consistently been the destination country receiving the largest total number of migrants. As of 2020, over 24 million people born in a LAC country lived in the United States. However, beyond North America, European countries (such as Spain and Italy) and other LAC countries (such as Argentina and Colombia) are among the most common destinations for international migrants from the region.

Why do people choose to leave their home country and move abroad? In economics, the discussion on the causes of migration derives from the notion that migration movements are motivated by the balance of wage differentials, the probability of finding a job, and costs (pecuniary or otherwise) for different individuals. In other words, many people migrate in pursuit of greater economic opportunities and returns to their labor – and, contrary to popular belief, it is not just “lower- skilled” workers who migrate from poor countries to rich countries (“negative selection”). For example, a 2005 study⁵⁸ by Chiquiar and Hanson found that in the case of Mexico, it is primarily young adults with moderately high levels of schooling that choose to migrate to the United States (“positive selection”). It is important to remember that while the pursuit of economic opportunities is a key “pull” factor for migrants, there are also many “push” factors which motivate people to leave their home countries – such as violence or lack of opportunities. Undeniably, violence and crime have been found to be key determinants among emigrants from the northern part of Central America. Indeed, 23%, 44% and 56% of individuals from Guatemala, El Salvador and Honduras respectively who have been victims of crime more than once report intentions to emigrate within the next three years.⁵⁹

As migrants earn better wages working abroad, they are able to send money to their families back home. Remittances are an integral source of income for many families in LAC countries. They represent the main source of income in 35% of households in Honduras, 29% of households in Mexico and Guatemala, 17% of households in the Dominican Republic, and 6% of households in El Salvador.⁶⁰ While remittances are crucial since they alleviate poverty and speed up growth – at the macro level they also pose challenges as it might affect labor supply and appreciate exchange rates in recipient countries. Remittances have been increasing in LAC for eight consecutive years. According to data from a report led by the Inter-American Development Bank,⁶¹ remittances to LAC grew 9% in 2017 (the highest annual rate observed in 11 years) to reach USD 77.02 billion (roughly 7% of total LAC GDP of around USD 10 trillion). If we look at the evolution of remittances inflows as a share of GDP for LAC countries since 1980, we see that although Mexico has clearly received the largest amount of remittances, countries from Central America and the Caribbean are the ones that have historically received the highest levels when the amount is compared to the size of their economies.

Migration in LAC is on the rise, and mostly driven by the people opting out of the social contract in places where development has resulted in unresolved, distributional tensions. However, for countries that choose to host migrants in a productive and inclusive manner, migration can represent an opportunity. While there is a lot of controversy over the impacts of migration to host country labor markets – the standard labor model of supply and demand (which is simplistically used to oppose migration by predicting a drop in wages due to increased labor supply) does not take into account the fact that supply and demand is differentiated by skillsets. Newcomers tend to compete with previous migrants, who often have skillsets similar to theirs, rather than with host country workers. Research has actually found positive effects of immigration on the

57 UNHCR (2019).

58 Chiquiar and Hanson (2005).

59 Hiskey et al. (2018).

60 IADB (2018).

61 Ibid.

average wages of host- country workers.⁶² Moreover, immigration can bring other important benefits to host countries such as higher levels of innovation,⁶³ an increased labor supply with more diverse skills, fiscal support,⁶⁴ and consumption. However, for migrants to assimilate and contribute productively, host countries need to (i) support their insertion to the host economies in order to enhance productivity, (ii) provide access to basic services and build social capital to promote inclusion and (iii) generate the adequate safety nets so migrants can become resilient.

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62 Ottaviano and Peri (2011).

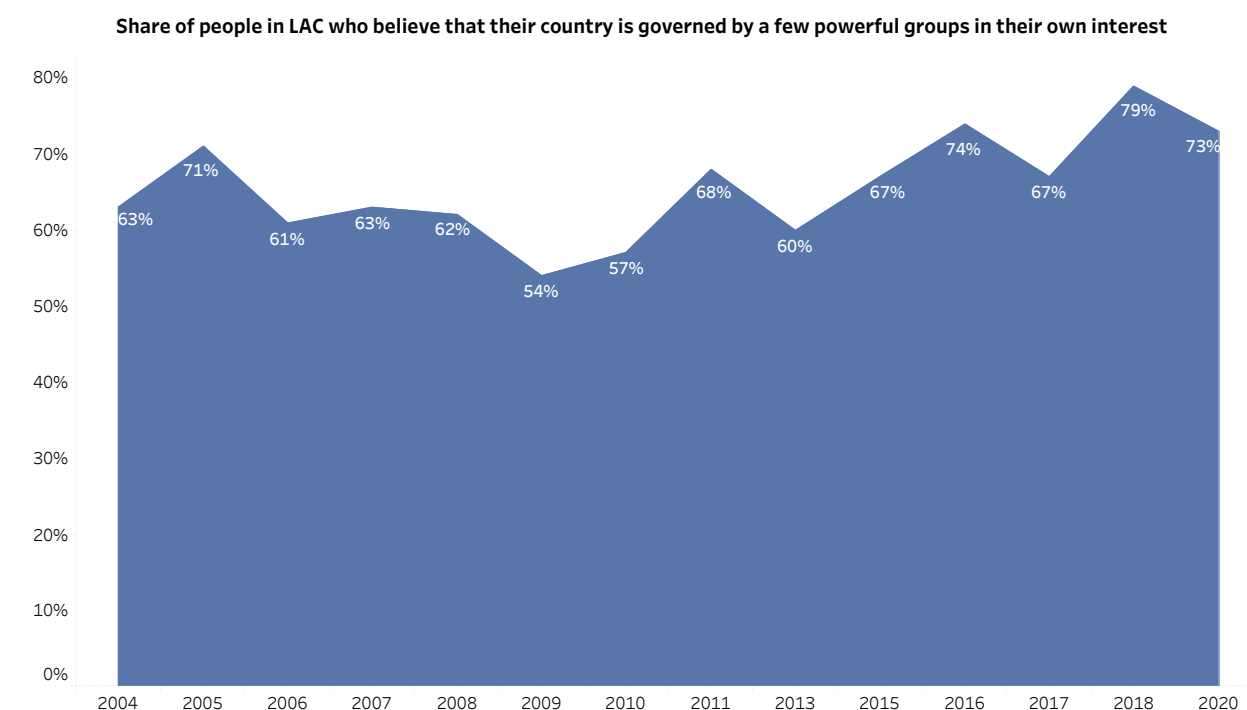
63 Chellaraj, Maskus and Mattoo (2008).

64 OECD (2013).

Vignette 14

RULING FOR THE FEW? HOW WEAK LEGITIMACY CAN HINDER COMPLIANCE AND COOPERATION

The majority of people in LAC believe their country is governed by a few powerful groups in their own interest rather than in the interest of the public good. In 2020, almost 3 in 4 people agreed on this.



Source: Latinobarómetro Annual Report 2021.

Do you think your country is governed in the interest of a few powerful groups or is it governed for the good of all? According to 2020 perceptions data from Latinobarómetro,⁶⁵ 73% of citizens in Latin American countries believe that their country is governed in the interest of a few powerful groups. In countries such as Paraguay and Costa Rica, this number reaches as high as 93% and 89% respectively. Since data on this indicator started being collected in 2004, more than half the population has consistently believed this.

The widespread belief that countries are governed to benefit “the few” rather than “the many” suggests that the legitimacy of institutions may be of concern in the region. We can think of three key sources of legitimacy: outcome-based legitimacy, created when a government is reliable in delivering on its commitments such as the provision of public services; procedural or process-based legitimacy, derived

65 Latinobarómetro (2021).

from perceptions of fairness in the way that decisions, policies, or laws are designed and implemented; and relational legitimacy, where individuals recognize authority encouraged by a shared set of values or norms.⁶⁶ The recent increases in the share of people who hold the belief that their country is governed by and for the few since 2013 may reflect the erosion of procedural legitimacy. Why does procedural legitimacy matter for development? Because when people believe that rules are fair, they are more likely to comply with them voluntarily. Voluntary compliance is a key enabler of cooperation and coordination, and thus ultimately an important foundation of positive governance-development dynamics. As explained by Margaret Levi,⁶⁷ “...citizens are willing to go along with a policy they do not prefer as long as it is made according to a process they deem legitimate, and they are less willing to comply with a policy they like if the process was problematic.”

If citizens do not believe that institutions are responsive to the needs of all, they may choose not to cooperate. We can think of this as “opting out” of the social contract. One common example of this is tax morale. Since the gains of evading taxes are high vis-à-vis the potential costs (i.e. penalties), people “decide” whether or not to pay taxes. This decision is likely to be affected by their perceptions of procedural legitimacy, i.e. whether they perceive the tax system is fair, both in terms of how taxes are collected and how they are spent (as well as by strategic considerations linked to the presence of penalties, but let us leave that aside for a moment for the sake of the argument). This may also materialize in the choice to rely on the private provision of services such as education and health. For example, in Central American countries such as Guatemala and Honduras, there are respectively five to seven times as many private security guards than public police officers.⁶⁸

This type of “exit” has consequences for the social cohesion across groups and can potentially lead to conflict as the stability of the social contract erodes. This was reflected, for example, during the 2013 protests in Brazil in anticipation of the 2014 FIFA World Cup. The demands of protesters for “FIFA standards” for their public schools and health centers can be seen as a reflection of the belief that public money was being spent unfairly in the interest of a powerful few rather than in the collective interest of the many.

Now, what can policy-makers do to improve this dynamic? A good starting point to promote process legitimacy is to enhance “ex ante” accountability mechanisms by creating a more participatory or inclusive decision-making process that is responsive to the demands of ordinary citizens. In other words, expanding the policy arena, which is the place where power asymmetries manifest. While this is easy to say, it is difficult to do—especially given the historical inertia of institutions and the distribution of power in society. The “extractive institutions”⁶⁹ created in Latin America centuries ago are still found to have impacts on inequality, income levels, and racial disparities today. However, this does not mean that change is impossible. Incremental changes, such as increasing the contestability of the policy arena by enabling more citizens’ voices to be heard can be crucial in charting the path toward a new equilibrium for both governance and development.

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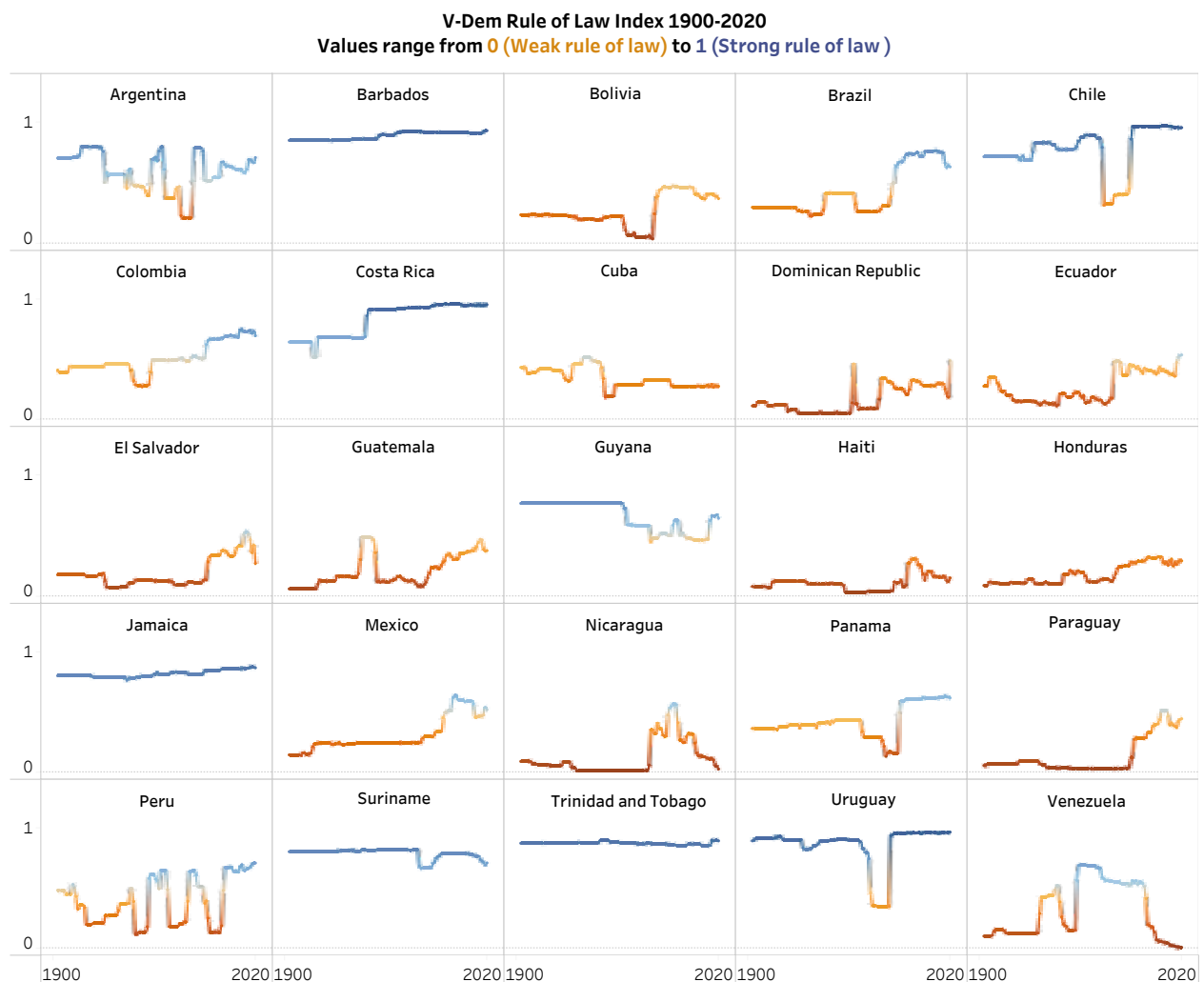
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Vignette 15

“TO MY FRIENDS, ANYTHING; TO MY ENEMIES, THE LAW”: CHANGES IN THE RULE OF LAW

Achieving progress in the rule of law in LAC countries has been a constant battle. Although generally improving, most countries still have a long way to go.



Source: “V-Dem [Country–Year/Country–Date] Dataset v11.1” Varieties of Democracy (V-Dem) Project. doi.org/10.23696/vdemds21.

The “rule of law” is invoked frequently in discussions about governance. But what is it? The rule of law involves two main components. First, the rules must be applied impersonally. This means that they must be applied in the same way to every person—regardless of who they are. Second, the people who are in charge

of applying and enforcing the rules are also subject to the same rules. If both of these two components are consistently present, then we can say that a society has a “strong” rule of law.

Collecting data on the rule of law to compute changes over time and make comparisons across countries is difficult, given the inherent challenges in measurement. While no measure is perfect, we can still learn from the data that is available. We use the Rule of Law Index⁷⁰ developed by the Varieties of Democracy (V-Dem) project at the University of Gothenburg, to explore how countries in the region have performed in the rule of law since 1900. The index ranges from 0 (a weak rule of law, denoted in redder tones) to 1 (a strong rule of law, denoted in bluer tones). Overall, we see that most countries are generally improving in terms of the rule of law in the long term, though not all. Moreover, there are several countries that have recently experienced a downturn. With a few exceptions (i.e. Barbados, Chile, Costa Rica, Jamaica, Trinidad and Tobago, Uruguay), the data suggest that across LAC the application of rules still depends very much on who you are and/or the rulers are not fully subject to the rules. This is reflected in the unfortunately common saying in the region: “To my friends, everything; to my enemies, the law.”

It is also important to note that progress within countries has rarely been linear. While overall, we see progress toward a stronger rule of law, that progress has been incremental and has been full of backslides and bumps along the way. Establishing the rule of law is not something that happens overnight. In most cases, it is a constant struggle. The rule of law is not a given feature of societies nor is it ever finitely “achieved.” At its core, we can think about the rule of law as a norm. Like many other norms, it is the result of a cooperative agreement among the members of a given society and thus it may be difficult to sustain if members have incentives to violate it. This is what makes it particularly difficult to sustain in contexts where some people have more bargaining power than others and more capacity to influence the political system.

What does it take to make progress toward the rule of law? This is a topic that we still have a lot to learn about. As Francis Fukuyama has observed⁷¹, the vast literature on “transitions to democracy” is not matched by serious analysis of how countries “transition to the rule of law.” One way to think about this transition, however, is that in order to make progress in the right direction, we need to fundamentally strengthen the different “roles of law.” Building on Chapter 3⁷² in the World Bank *World Development Report 2017: Governance and the Law*, we can think of three fundamental roles of law: the role of law in ordering power (it must establish credible limits to the exercise of power); the role of law as an effective tool for contestation (to challenge policies and decisions and to adapt rules to changing circumstances); and the role of law in ordering behavior (to reward socially desirable behaviors and deter socially undesirable behaviors)⁷³. If we understand clearly what kind of role the law must play and what are the instruments to strengthen those roles, we can work to progress in the direction of the rule of law.

In order to strengthen these roles of law and transition towards the rule of law, two practical elements are crucial: resources to make the roles of law credible and constraints on the individualistic, partial, application of rules. Examples of resources include tools such as enforcement technologies or inclusive processes that enable compliance, whereas examples of constraints include instruments such as access to information, formal checks and balances, civil society audits, and effective electoral systems. Mungiu-Pippidi⁷⁴ presents some examples of successful transitions, which show that, under certain circumstances, the rule of law is

70 The Rule of Law Index uses expert surveys and includes historical data dating back to 1789. According to V-Dem’s codebook (V-Dem Dataset, 2021), the Rule of Law Index measures “to what extent laws are transparently, independently, predictably, impartially, and equally enforced, and to what extent the actions of government officials comply with the law.” The index is formed from fifteen sub-indicators which include compliance with high court, compliance with judiciary, high court independence, lower court independence, executive respects constitution, rigorous and impartial public administration, transparent laws with predictable enforcement, access to justice for men, access to justice for women, judicial accountability, judicial corruption decision, public sector corrupt exchanges, public sector theft, executive bribery and corrupt exchanges, and executive embezzlement and theft.

71 Fukuyama (2010).

72 World Bank (2017).

73 A fourth role of law, from a less positivist and more normative perspective, is the expressive role of law: law as a way to reflect a system of beliefs about what are the values a society considers as the backbone of its collective identity.

74 Mungiu-Pippidi and Johnston (2017).

actually achievable as a sustainable agreement among actors in society. Though, as former UK Prime Minister Gordon Brown has said: “in establishing the rule of law, the first five centuries are always the hardest”.

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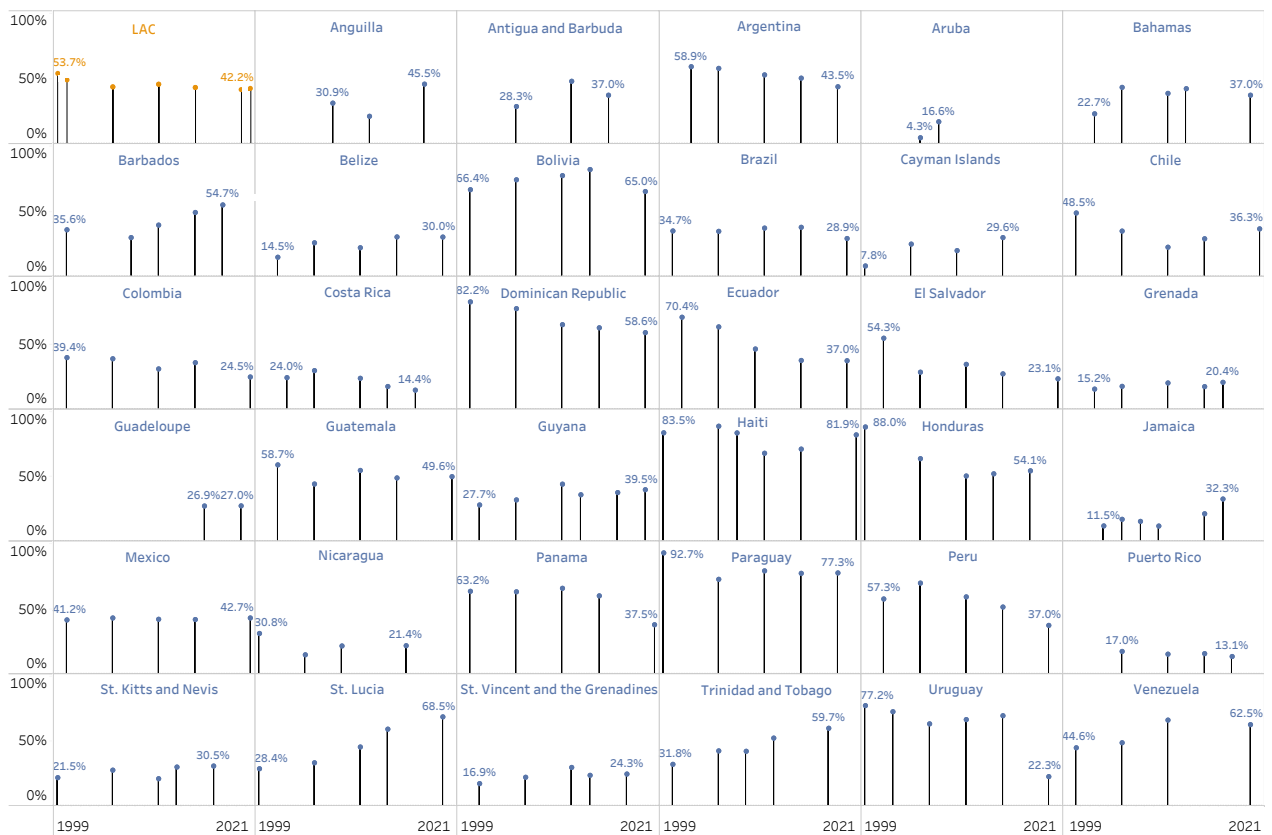
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Vignette 16

JUSTICE DELAYED: FOUR OUT OF TEN PEOPLE ARE IMPRISONED WITHOUT A CONVICTION

While there has been an important reduction over time in the percentage of detainees without a definite sentence in LAC, on average 4 out of 10 people that are in prison are still detained pending sentencing.



Source: World Prison Brief

Note: Individual country calculations include all the data available for each country at each point in time over the past two decades. The LAC average considers only the following years: 1999, 2000, 2005, 2010, 2015, 2020, and 2021, as they are the years with the most information available.

LAC has made important progress in strengthening the rule of law, however, as the previous vignette shows—countries in the region still have a long way to go. There are many different ways in which the rule of law can deteriorate or be undermined. One of these is unequal access to justice, since this is a basic service to which everyone must have access in an expeditious manner. Justice that is delayed, becomes, actually, injustice.

This vignette focuses on the number of people who are in prison without a conviction in LAC. Why does the excessive use of pre-trial detention or a slow resolution of a person's legal situation undermine the rule of law? Basically, for three reasons: it undermines the presumption of innocence⁷⁵, it can encourage corruption and, finally, it can promote criminality. Pretrial detention significantly increases the likelihood of conviction and is related to the socio-economic conditions of the accused.⁷⁶ That is, a person who has been detained for some time prior to their sentence tends to be more likely to plead guilty to the crime for which they are accused, and, in addition, has a relatively more unfavorable appearance before the court, inspiring less confidence than a person who has not been detained while awaiting sentence. Importantly, evidence shows that people in vulnerable groups constitute the largest proportion of people detained awaiting justice, and this is particularly true for judicial systems that operate through the bond payment mechanism. This fundamentally violates the first principle of the rule of law – that the law be applied equally for all – since it is certain vulnerable groups to whom justice comes slower. Likewise, corruption tends to manifest itself during the waiting-for-a-sentence stage because, in many cases, it is subject to less scrutiny, and, in turn, is subject to greater discretion compared to subsequent judicial stages.⁷⁷

Unfortunately, the negative impacts are not only limited to the weakening of the rule of law. According to recent economic literature, it also has negative causal effects on the individual's well-being, and, at a more aggregate level, on economic and social well-being.⁷⁸ This is largely because it is costly to keep people in detention, and their trajectories of socioeconomic achievement are altered. In a related way, in addition to reducing employment, detention pending conviction increases future crime through a criminogenic effect (although its net effects are ambiguous), something that is consistent with economic literature that studies the negative impact of crime incarceration in general, as well as detentions without conviction, on the formation of social and human capital.⁷⁹

The evidence for LAC is consistent with this pattern. According to data from the *World Prison Brief*,⁸⁰ on average, the percentage of people detained without a conviction for Latin America and the Caribbean is over 40%⁸¹. That is, more than 4 out of 10 people in prison in the region are there without a sentence. When we examine the subregional averages, we see that in the Caribbean this percentage is even higher: over 50% of the population detained is awaiting justice, which is almost double the number observed in the European Union.

If we complement this data with the average time that people spend in prison without a conviction, we see a picture that requires policy responses. Although time data is scarce, we know, for example, with surveys for the period 2016-2019 in several Caribbean countries, that detainees awaiting trial spend, on average, from 2.5 to 4 years in prison before a sentence.⁸² In other countries in the region where information is available, it is estimated that 59% of people detained without a sentence spent up to six months in prison, and 16% spent more than six months. In addition, 49% of the people detained pending their sentence ended up without receiving a single day in prison, either because they were not guilty or were punished without prison.

How has the situation changed over time in LAC? When we examine the percentage of detainees awaiting sentence within the total number of prisoners for the years available, we see that, in the region, in the last 20 years, there has been a reduction in the percentage, going from 53.7% to 42.2%.

75 See, for example, Article 11 of the "Universal Declaration of Human Rights."

76 Leslie and Pope (2017).

77 Open Society Justice Initiative (2011).

78 Dobbie et al. (2018).

79 Aizer and Doyle (2015).

80 World Prison Brief (2021).

81 This average incorporates the most recent observation for all available countries and regions in LAC.

82 Bergman et al. (2020).

What kinds of efforts have led to a reduction in the percentage of detainees without sentencing in these countries? Many, but an important one is that starting in the mid-1990s there was a process of reforms to the criminal justice system that implied a change from an inquisitorial system, where by law it was established as a general rule that defendants indicted for serious and moderately serious crimes had to remain in a regime of custodial control throughout their process or during a large part of it,⁸³ to a system characterized by procedural models of an accusatory nature. This was an important change, especially because within its objectives it was sought to use preventive detention in a manner consistent with International Human Rights Law. Examples of this include the reform of the Guatemalan Penal Code in 1994, the Peruvian reform of 2006, that of Panama that came into effect in September 2011, and that of Uruguay, where in 2017 the Government transitioned from an inquisitorial system to an accusatory one.

Are these efforts sufficient? While they have been fundamental, unfortunately, they are still not enough. In each country and in each context the measures necessary to resolve this situation will be different, but swift and concrete policy action is required.

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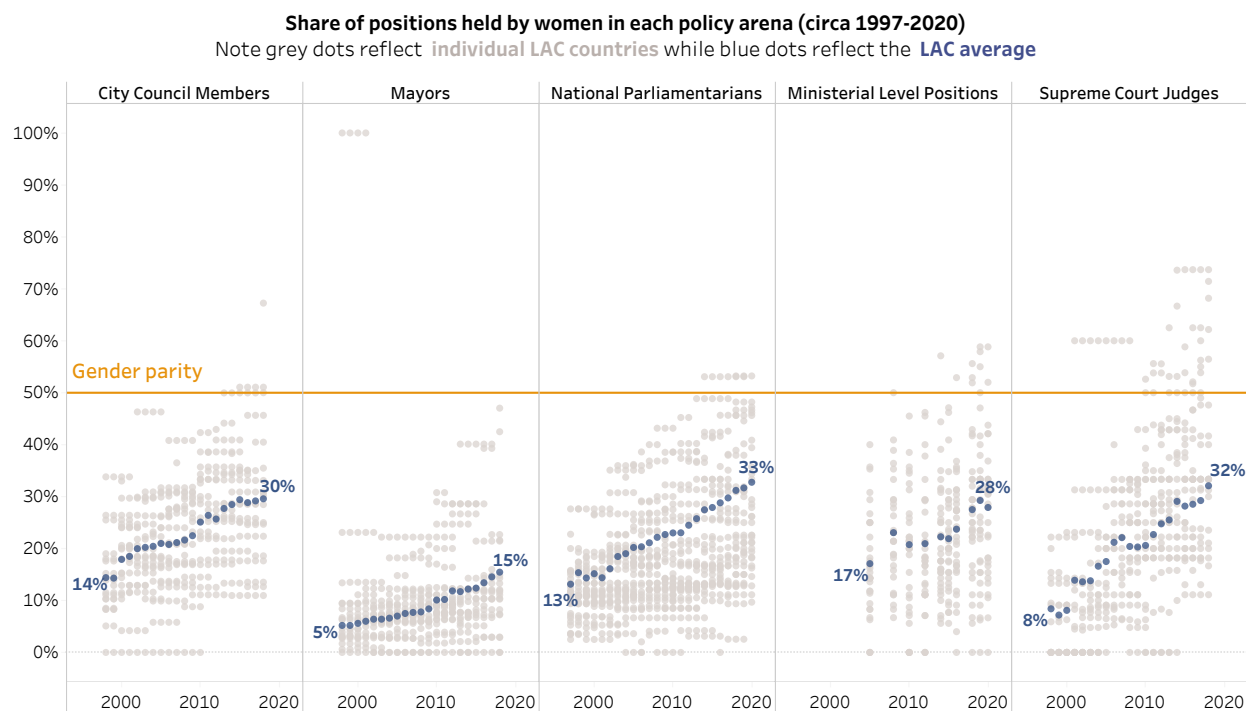
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83 CEJA (2013).

Vignette 17

WOMEN, POWER, AND THE CHANGING FACE OF POLITICAL REPRESENTATION

While women’s representation across various policy arenas is increasing on average in LAC, it still lags far behind gender parity in most countries.



Source: Data from CEPALSTAT (City Council Members, Mayors, Supreme Court Judges) and World Bank Gender Data Portal (Ministerial Level Positions, National Parliamentarians).

Gender inequality is about power asymmetries. In the late 1970s, Robert Putnam reflected on the status of women in policy decisions in his comparative study on political elites.⁸⁴ Quoting Elizabeth Vallance,⁸⁵ he concluded that, “where power is, women aren’t.” The challenge for achieving gender equity by rebalancing power has to be addressed in different spheres: the household, the market, and society at large. At the household-level, for example, women’s ability to make decisions about resource allocation or family planning are critical dimensions of empowerment; in the market, women’s access to economic opportunities, career advancement, and fair wages are of fundamental concern; at a societal level, the main focus of this vignette, women’s capacity to influence decision-making is paramount to progress in terms of equity.

⁸⁴ Putnam (1976).
⁸⁵ Vallance (1979).

Fortunately, over the past several decades the face of politics has changed in many Latin American and Caribbean countries. Not only have women been elected to the highest office many times in Latin America and the Caribbean since 1990—but women’s representation is also expanding across multiple policy arenas from the national to the local level. From (circa) 1997 to (circa) 2020, the share of women in important policy arenas in LAC (on average) has increased greatly: from 14% to 30% among city council members, from 5% to 15% among mayors, from 13% to 33% among national parliamentarians, from 17% to 28% among those in ministerial level positions, and from 8% to 32% among supreme court judges. However, despite progress on average, representation in most countries is still well below parity level and heterogeneity across countries remains substantial. Moreover, it is important to note that while women’s representation overall has been increasing, minority women such as Afro-descendants and indigenous women remain systematically excluded from the policy arena.⁸⁶

If we look closer at the country-level data, we see that only 19 of the 46 LAC countries included in the dataset achieved “gender parity” (defined in this case as a share of women greater than or equal to 50%) at some point in time in at least one policy arena in the past two decades. While 10 countries have had gender parity in the supreme court during this period, the numbers are far lower in the other policy arenas: just 5 countries have had gender parity in ministerial level positions; 3 in city council member positions, 2 in the national parliament; and only 1 in terms of mayors.

Why does it matter to have women in political leadership? Support of women’s leadership has a normative value in itself and should be a guiding principle in our societies. However, it also has an instrumental value by helping to make the system more responsive to women’s demands and aspirations. Evidence suggests that enhancing women’s representation in the policy arena can help to bring a gender-lens to policy—for example in issue areas such as travel mobility, starting a job, equal pay, marriage and divorce, parental leave, running a business, asset management and inheritance, and pensions. For example, research on Brazil finds that women’s representation in municipal government leads to the adoption of more “women-friendly” policies in areas such as domestic violence and childcare.⁸⁷

Given the importance of women’s representation in the policy arena both intrinsically and instrumentally—what can be done to accelerate its progress? Gender quotas (laws stipulating a required share or number of women in political positions) are an increasingly common solution, and perhaps one of the main drivers of why political representation has increased. However, even where quotas exist, informal norms may clash with formal legal structures—leading to situations in which quotas remain unimplemented⁸⁸ or strategically circumvented. For example, in the LAC region, we saw this in the case of the “*Juanitas*” and, more recently, the “*Manuelitas*” in Mexico,⁸⁹ where women ran for office on the ballot in compliance with gender quotas—only to later renounce their position and cede it to a man. Cases such as this reveal the deeply entrenched discriminatory norms and beliefs still held by so many about women’s ability to lead. Moreover, according to data from the World Values Survey⁹⁰ Wave 7 (2017-2020), on average in Latin America (across the 10 countries included in the survey), 22% of people still agree or strongly agree with the statement that “men make better political leaders than women do,” reflective of the region’s historical *machista* culture.

While women continue to face both formal and informal barriers to entering the policy arena in Latin America and the Caribbean—the region represents a positive example of change in many ways. Not only has the share of women in politics increased, but it has coincided with the improvement of more gender-equitable development outcomes (such as women’s attainment of higher education) as well as more gender-equitable rules of the game (such as gender quota laws). These achievements have in turn respectively helped to redistribute greater *de facto* and *de jure* power to women, which further strengthens their voice in the

86 Escobar-Lemmon and Taylor-Robinson (2014).

87 Meier and Funk (2016).

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policy arena and subsequently their ability to make the system more responsive to women's demands and aspirations.

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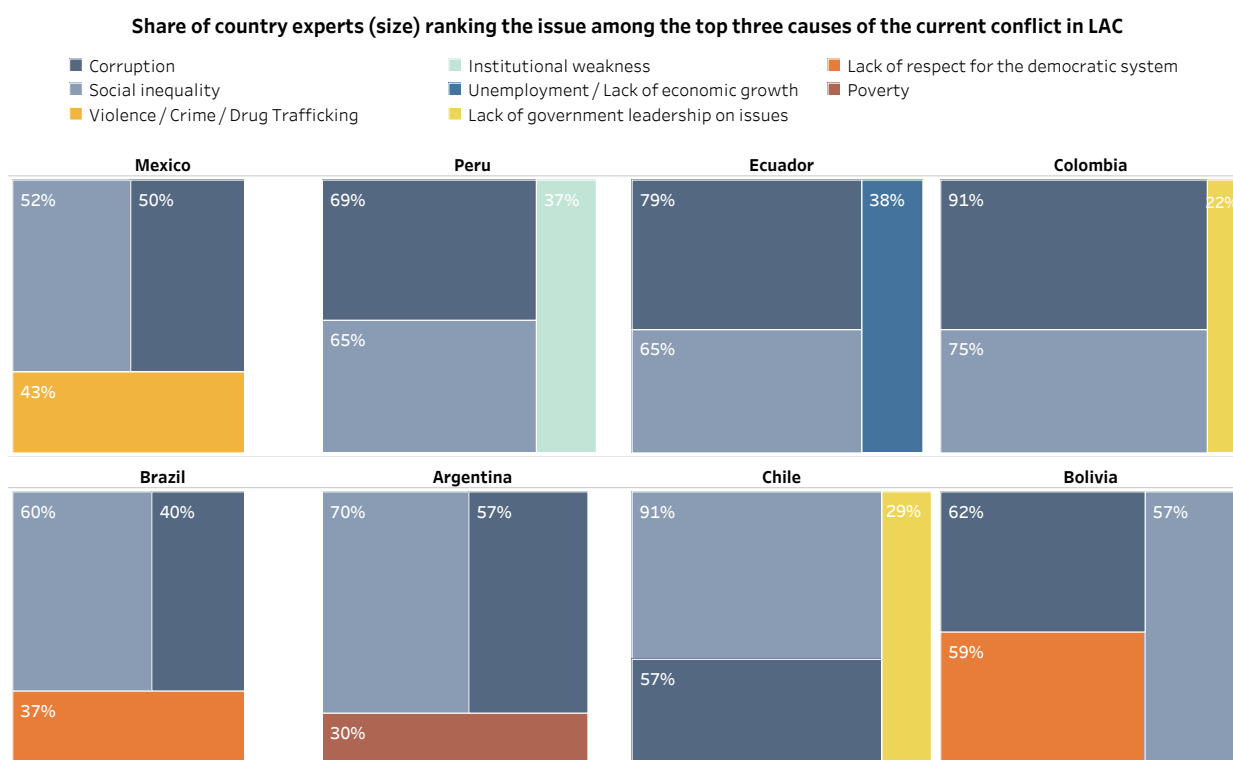
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Vignette 18

“NO SOMOS NI DE IZQUIERDA, NI DE DERECHA”: REFLECTIONS ON THE ROLE OF GOVERNANCE FAILURES ASSOCIATED TO THE RECENT SOCIAL UNREST

Social inequality and corruption rank among the top three causes of LAC’s current conflict. However, depending on the country, other factors matter a lot too.



Source: Data from IPSOS survey of public opinion leaders on “The Crisis in Latin America.” December 2019. www.ipsos.com/sites/default/files/ct/news/documents/2019-12/la_crisis_en_america_latina.pdf

In late 2019 and early 2020, protests swept across the LAC region. While there has been extensive commentary on what sparked this widespread social unrest, most of the coverage has focused on the role of social inequality or corruption. Some researchers⁹¹ have rightly argued that there is a “crisis of expectations,”

91 Ferreira and Schoch (2020).

appealing to the Tocqueville Paradox. While these have undoubtedly been some of the most critical factors in driving people to voice their frustrations on the streets, they are not necessarily the only underlying causes, or even the proximate factors.

While there is little data available on the issue, a survey conducted by IPSOS in December 2019 helps us to gain some more insight about the governance failures that have become evident in the region. In this poll of public opinion leaders on the “The Crisis in Latin America,”⁹² IPSOS asked country experts to identify the top three reasons for the current conflict in the region. As this the graph in this vignette shows, while experts across all countries consistently ranked social inequality and corruption among the top three causes, depending on the country—other factors mattered a lot too. These other factors included frustrations with actors’ inability to effectively or fairly cooperate in the policy arena (institutional weakness, lack of government leadership on issues, and low valuation of the democratic system) as well as their failure to deliver on development outcomes (unemployment/lack of economic growth, violence/crime/drug trafficking, and poverty).

Using the World Bank World Development Report 2017’s⁹³ governance “infinity loop” as a framework, we can see that these issues relate to both sides of the loop—“the rules game” (where agreements on higher-level rules that shape the policy arena play out) and the “outcome game” (where the effectiveness of policies for development plays out). These two cycles (respectively) feedback into long-term governance dynamics by redistributing among the actors the capacity to influence the system. We can think about this infinity loop as describing the ways in which countries are able to process tensions.

From this lens, if we reflect on development results in recent decades in LAC, we see patterns of mediocre and slowing growth; we see persistently high levels of inequality (despite declines since the 1990s); we see a deteriorating fiscal balance; we see high levels of vulnerability among the population (despite declines in poverty); we see an increasing concentration of income at the top; we see disproportionately high levels of violence; and a large youth population in need of employment opportunities. It is thus unsurprising to see the widespread agreement of experts on the role of social inequality in driving the region’s conflict (ranging from 52% of experts in Mexico to 91% in Chile). However, we also see the importance of issues like violence/crime/drug trafficking in Mexico (43% of experts), unemployment and lack of growth in Ecuador (38% of experts), and poverty in Argentina (30% of experts).

Now, if we turn our attention to the rules in LAC, we see patterns of low and declining perceptions of government effectiveness, trust in institutions, and control of corruption. Unsurprisingly, we see widespread agreement of experts on the role of corruption in driving the region’s conflict (ranging from 40% of experts in Brazil to 91% in Colombia). However, we also see the importance of issues such as institutional weakness in Peru (37% of experts), lack of government leadership on issues in Colombia and Chile (22% and 29% of experts), and lack of respect for the democratic system in Bolivia and Brazil (59% and 37% of experts).

Considering the interplay between outcomes and rules can help us to better understand some of the longer-term dynamics behind the region’s social unrest. If we look at the case of Chile, for example, it can be interpreted as a crisis of expectations generated by the gaps between these two games. On the “outcome” side, Chile experienced high levels of growth and an expansion of the middle class—within a context of persistent inequality. On the “rules” side, these changes were accompanied by new expectations for better governance and better services. In this context, protests calling to fundamentally rethink the constitution, can be read as a demand that solving this problem at the outcome level through a policy solution is not enough—that it also needs to be solved at the level of the rules.

Whether interpreting the protests through the lens of outcomes or rules—one message very clearly emerges: this is an issue of governance as an underlying factor (with ideology not playing an obvious role). It reflects

92 Ipsos (2019).

93 World Bank (2017).

the growing frustration about the concentration of development gains as well as the concentration of power. As shown in Vignette 14, the share of the population in LAC believing that their country is governed in the interests of a few powerful groups is at an all-time high. The demands stemming from this feeling are succinctly reflected in a phrase that has been sighted on multiple protest posters and graffiti walls across the region: *“No somos ni de izquierda, ni de derecha, somos los de abajo y vamos por los de arriba,”* which roughly translates as “We are neither from the left nor from the right, we are the people at the bottom and we are coming for those at the top.” At its core, the social unrest in the region reflects a frustration with elite capture that undermines the effectiveness of governance.

In order to foster more positive long-term governance dynamics in the region, it is critical that we strengthen the foundations of “representative democracies” (as opposed to what Guillermo O’Donnell calls “delegative democracies”).⁹⁴ While countries across the region have undergone a “first” institutional transition from authoritarian regimes to delegative democracies, not all countries have successfully undergone a “second” transition to become fully representative democracies. The critical difference is moving beyond the establishment of mechanisms of vertical accountability (in which governments are democratically elected by the people) to also intentionally strengthen and consolidate mechanisms of horizontal accountability (in which systems of checks and balances are effectively institutionalized within government). Without stronger horizontal accountability, countries across the region may continue to struggle in effectively processing the emergent social, economic, and political tensions.

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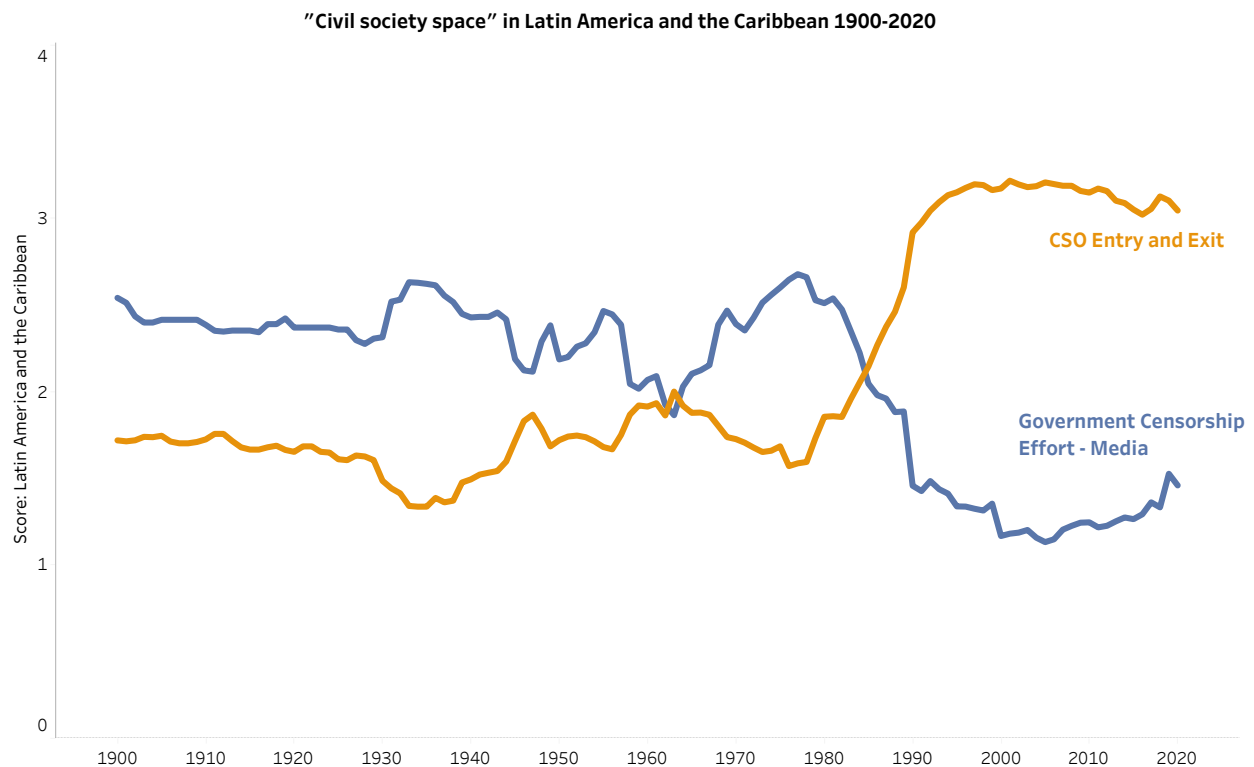
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Vignette 19

A VIEW FROM THE BOTTOM-UP: HOW IS “CIVIL SOCIETY SPACE” CHANGING?

Since the late 1970s, civil society space in LAC expanded steadily. However, since the early 2000s it has remained stagnant and more recently it has begun to shrink.



Source: “V-Dem [Country–Year/Country–Date] Dataset v11.1” Varieties of Democracy (V-Dem) Project. doi.org/10.23696/vdemds21.

Note: Figure based on World Development Report 2017 Figure 8.10. The “CSO entry and exit” variable is measured on a 0–4 scale, ranging from 0 (more constrained) to 4 (less constrained). The “government censorship effort (media)” variable is reversed and measured on a 0–4 scale, ranging from 0 (less censorship) to 4 (more censorship). CSO = civil society organization.

Over the past half century, our global society has undergone a transition from a society divided by ideology to a society united by ideals.⁹⁵ The 2030 Agenda for Sustainable Development with its 17 Sustainable Development Goals (SDGs) are a reflection of this transition. While countries across the world have very different political systems—ranging from more autocratic to more democratic regimes (and in fact, most countries have a mix of these different elements)—there is a growing agreement about what types of policy outcomes these systems should work toward achieving for their citizens.

⁹⁵ López-Calva (2018).

An important way by which democratic societies advance progress toward achieving these goals is by engaging citizens. We can think in particular of four complementary pillars⁹⁶ by which citizens play a role in democratically influencing policy outcomes: voting, political organization, social organization, and public deliberation. This vignette dives deeper into the democratic pillar of social organization in LAC.

Using data from the Varieties of Democracy (V-Dem) database,⁹⁷ this graph looks at how the institutional environment for social organization is changing in the region. To explore this, the graph looks at how two key variables are changing in tandem: “CSO entry and exit” and “government censorship of the media.” The first variable measures the extent to which governments impede the formation or operation of civil society organizations (CSOs) and the second variable measures the extent to which governments routinely attempt to censor media either directly or indirectly (in the case of indirect censorship, this may take the form of actions such as politically motivated awarding of broadcast frequencies, withdrawal of financial support, influence over printing facilities and distribution networks, selected distribution of advertising, onerous registration requirements, prohibitive tariffs, or bribery. Indeed, effective social organization requires both an institutional setting which enables citizens to collectively act and make demands (which often happens through autonomous civil society organizations) as well as available channels through which those demands can be publicized and made accessible (which often happens through independent media organizations). It is important to note, however, that in our age of social networks, rapid information flows, and rising misinformation (see Vignette 20)—the impacts of media censorship on civil society space may be changing.

In a way, the size of the “space” that civil society has for social organization can be thought as the distance between these two variables (calculated as the score for CSO entry and exit minus government censorship of media). A “large” civil society space would thus be one with a high score in CSO entry and exit (closer to 4) and a low score in government censorship of media (closer to 0). Conversely, a “small” civil society space would be one with a low score in CSO entry and exit (closer to 0) and a “high” score in government censorship of media (closer to 4). When we look at the data over time, we see that for most of the 20th century, civil society space in LAC was very small—and was actually “negative.” Starting in 1978, the size of civil society space began expanding steadily and rapidly (and becoming “positive” in 1985). This expansion coincided with the transition away from military dictatorships in several countries across the region. Since the early 2000s, however, the size of civil society space has remained relatively stagnant in the region. Not only has its expansion halted, however, in recent years the trend has begun to reverse. This is in line with global trends, which have experienced a slight retraction since 2011.

If LAC’s democracies are to remain strong, healthy, and vibrant—it is critical that governments invest in expanding civil society space. Social organization is a vital pillar of democracy and serves as a means for citizens to voice their demands in ways that other mechanisms of democratic participation cannot necessarily achieve. This is ever more important in the current political moment we are living in now—one in which LAC’s citizens are increasingly losing trust that governments are willing to respond to the needs of the “many” rather than only the “few” (see Vignette 14). To ensure that democracies function for all, we need to create space in which citizens can peacefully mobilize to raise their collective voice.

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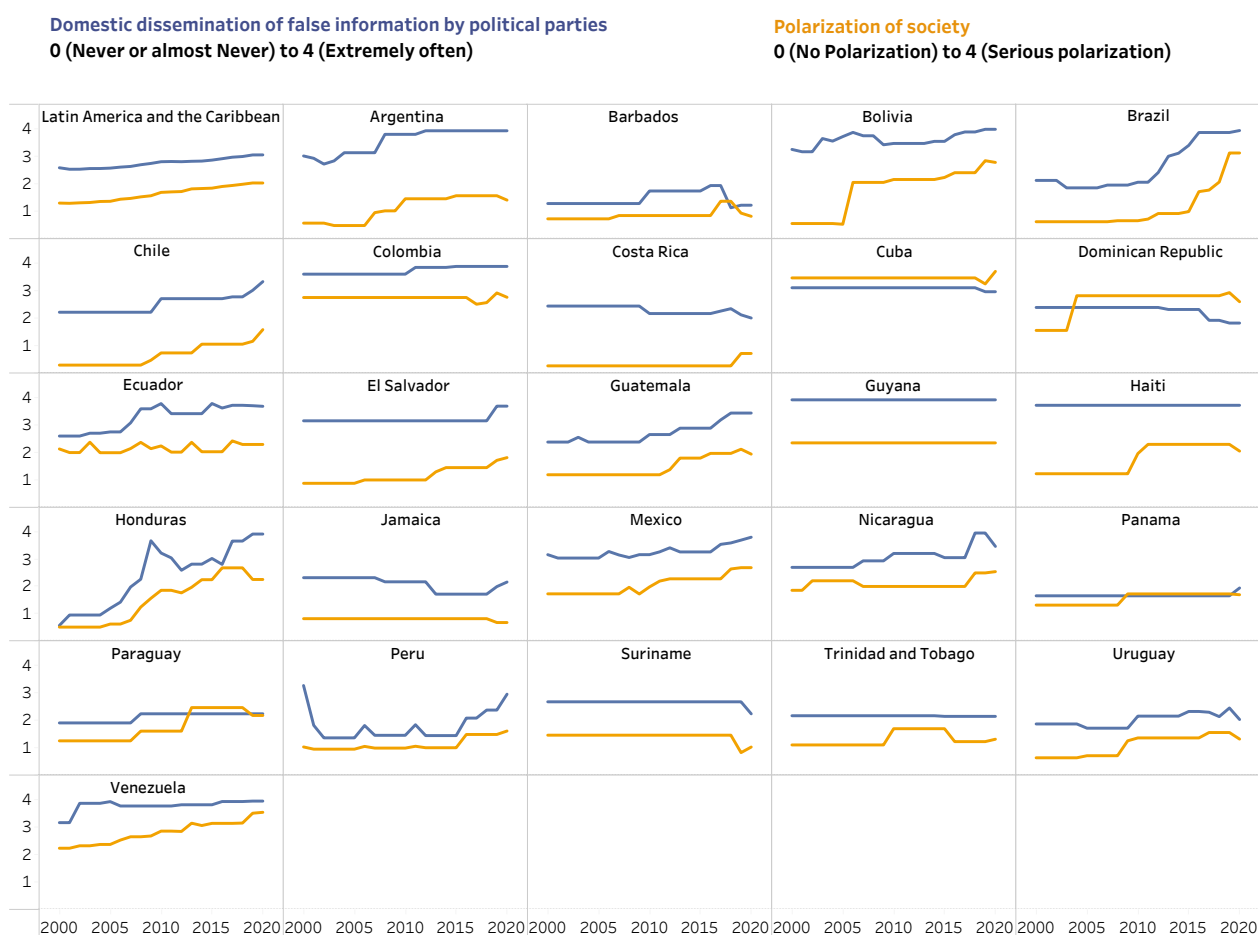
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Vignette 20

ACCOUNTABILITY IN A TIME OF MISINFORMATION: GOING BEYOND TRANSPARENCY

On average in LAC, the frequency of political dissemination of false information and levels of societal polarization are increasing in tandem.



Source: Mechkova, Valeriya, Daniel Pemstein, Brigitte Seim, Steven Wilson. 2020. Digital Society Project Dataset v3. Note: Variables scales are reversed from original data.

Transparency is a critical element of making governance more effective. By making information available, it creates a foundation for greater accountability to citizens. In recent decades, transparency has been on the

rise across Latin America and the Caribbean. According to data from the Global Right to Information Rating,⁹⁸ 25 countries in LAC have laws securing citizens' right to information. Colombia was the first country in the region to pass such a law in 1985, and Saint Kitts and Nevis was the most recent country to do so in 2018.

While transparency is a necessary condition for promoting accountability, it is not a sufficient condition.⁹⁹ We can think about transparency as a first step. While transparency makes information available, we also need publicity to make information accessible, and accountability mechanisms to make information actionable. Information, per se, is nothing without publicity and accountability. If information does not reach the interested audiences, its effect is negligible. Similarly, even if information reaches the public, if it does not lead to consequences, its effect is not only negligible but potentially harmful. For example, we have seen, unfortunately, many cases in LAC where people can access detailed information about corruption cases, but nothing happens to those who are responsible. This leads to frustration and destroys trust.

We can think about this progression from transparency to accountability as the “information value chain.”¹⁰⁰ Recently, one way in which the information value chain has been broken in Latin America and the Caribbean is the intentional creation and spread of false information (what is known as “disinformation”). In many cases these pseudo-facts are created for political purposes and target specific audiences, with the intention to induce certain outcomes (for example, by influencing voting behavior). This system has been called the “fake news” industry—a term widely used by politicians in recent times. It's important to note that false information can also be spread unintentionally (what is known as “misinformation”).

The rise of disinformation and misinformation has been facilitated by the rise of technology. Technology—particularly the rise of social media and messaging apps—has reduced the cost of disseminating information to massive audiences. This has made the “publicity” industry more competitive and created a new social dynamic in which people often take access to information as equivalent to knowledge. While knowledge is difficult to build and constantly update, information has become easy to get, and public debates are increasingly based on false—and often deliberately false—information. Indeed, a 2018 study¹⁰¹ by scholars at MIT found that false news spreads much more rapidly than true news—and this effect is particularly salient for false political news (in comparison to false news about topics such as terrorism, natural disasters, science, urban legends, or financial information).

According the 2018 Reuters Institute Digital News Report,¹⁰² citizens in LAC countries are facing high exposure to false information, and are very concerned about what news is real and what news is fake on the internet. In each of the four LAC countries included in the study (Brazil, Chile, Mexico, and Argentina), over 35% of respondents stated that they were exposed to completely made-up news in the last week—reaching as high as 43% of the sample in Mexico. Moreover, over 60% of respondents stated that they are very or extremely concerned about what is real and what is fake on the internet when it comes to news—reaching as high as 85% of the sample in Brazil. This high level of concern is consistent with recent experiences with political disinformation in the region—for example, the use of automated bots to influence public opinion in Brazil, Argentina, and Venezuela.¹⁰³ This problem carries with it the concern for broader potential consequences such as deepening political polarization¹⁰⁴ or the erosion of trust in the media. Indeed, as the graph in this vignette shows, over the past few decades years, the political dissemination of false information and levels of societal polarization are increasing in tandem in LAC. While there is heterogeneity at the country level, data reveal jointly rising trends in countries such as Brazil, Chile, Guatemala, Honduras, Mexico, and Peru. There is a concern in the region about how disinformation campaigns, coupled with microtargeting of political messages and sophisticated online advertising through social networks and online platforms, could affect the

98 The RTI Rating (2022).

99 Naurin (2006).

100 World Bank (2017).

101 Vosoughi, Roy and Aral (2018).

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103 Forelle et al. (2015).

104 Tucker et al. (2018).

outcome of democratic elections. There is a lot we can do in this area to protect the information value chain and the quality of elections—such as “clean campaign” agreements between political parties, the creation of independent fact-checking services, greater enforcement by social media companies, and the promotion of information literacy among citizens. In LAC, these initiatives are still nascent, but they are growing. It is important to recognize, however, that combatting the challenge of disinformation campaigns will require the coordinated action of multiple stakeholders such as electoral courts, the media, civil society, academia and tech businesses (such as Facebook, Google, WhatsApp, and Twitter). Without a strong coalition of actors, it will be difficult to successfully repair the information value chain and achieve accountability.

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The background is a solid dark blue. In the lower half, there are two overlapping bell curves. The left curve is a medium purple, and the right curve is a darker purple. A horizontal dotted line in a light brownish-gold color crosses the middle of the curves. Above the curves, there are two stylized virus icons in a medium purple color. The text 'PART IV.' is centered in the lower half of the image, overlapping the curves and the dotted line.

PART IV.

JUNCTURE MEETS STRUCTURE: THE COVID-19 CRISIS

On March 11, 2020 the World Health Organization declared COVID-19 to be a global pandemic. While it was slow to reach LAC countries at first, the region quickly became a global hotspot for the virus—claiming far too many lives in its wake. While official data from countries in the region has confirmed the loss of over 1.5 million lives, unfortunately it is likely that this is a vast underestimate of the pandemic’s true death toll (Vignette 21). As countries took the necessary actions to “flatten the curve” by implementing containment policies such as lockdowns and quarantines—economic and social crises began to follow the health crisis. As businesses and schools shut their doors and countries closed their borders, both economies and households across the region have been facing enormous challenges.

Moreover, this shock has not been distributionally neutral. For example, while a key foundation of these containment policies was encouraging people to stay at home, the ability to stay at home was a privilege that many were unable to afford. In this context, many countries implemented emergency social protection responses to reach vulnerable households. However, rapidly delivering or scaling up social assistance measures required a history of investments in administrative capacity that not all countries in the region had made. Of particular relevance in this context was robust social registries that were able to go beyond information systems and serve as inclusion systems (Vignette 22). While public social protection measures were central to government response packages, private social protection in the form of remittances also played a key role in promoting households’ resilience during this time. While inbound remittance flows saw an initial drop, they rebounded quickly and have since reached historic highs in many countries in the region (Vignette 23).

COVID-19 has had a particularly pernicious impact on inequality. It has exacerbated the divides that existed in multiple realms, ranging from labor markets to classrooms. For example, women in LAC have tended to experience slower labor market recovery rates than men, with mothers of young children facing a particularly difficult set of challenges (Vignette 24). Within the classroom, educational inequalities between rich and poor students are worsening. As schools transitioned to distance learning programs, students with access to the internet, study devices, and a supportive home learning environment had vastly different learning experiences than those without—with long-term consequences for their future prospects (Vignette 25). The impacts of inequality reach all the way into the home. For example, we have seen increases in issues such as domestic and gender-based violence, as increased mobility restrictions left many women stranded at home in abusive situations (Vignette 26).

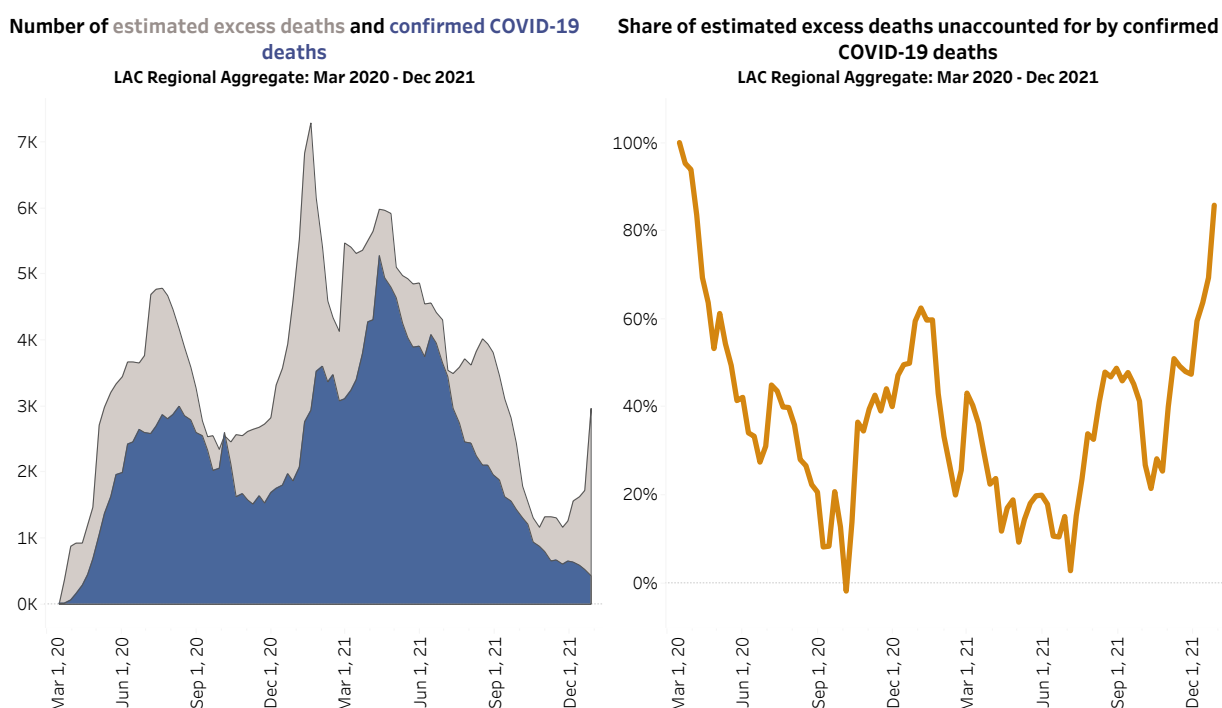
The broader economic environment has also been one shaped by exclusion and differential access to productive opportunities. While poor and vulnerable populations generally faced worsening economic conditions during this time, those at the very top of the income distribution have faced a different reality all together. As millions were pushed into poverty, some of the region’s richest individuals saw their wealth increase greatly as they earned growing returns on capital markets (Vignette 27). Moreover, at the societal level the majority of people in LAC found themselves excluded from taking advantage of basic opportunities afforded by digital tools and services—a critical lifeline during this period marked by distance and isolation (Vignette 28). Looking forward, expanding opportunities and fueling growth in the region will require investments in the business environment—in particular, boosting the resilient recovery of productive small and medium sized enterprises, many of which have faced great difficulties during this period (Vignette 29). Scaling up vaccinations in the region will be a critical step for returning to some version of “business as usual” as we learn to live with the pandemic. While vaccination progress has advanced rapidly in many countries in the region, it remains uneven with critical gaps both between and within countries (Vignette 30).

While some of these challenges are new, most of them emerge from or are exacerbated by the structural challenges that already existed in the region with regard to productivity, inclusion, resilience, and effective governance. COVID-19 has shone a spotlight on these issues, but it has also presented a unique window of opportunity for change—creating the potential for a so-called “critical juncture”. Arguably, the most notable opportunity that this crisis opens is the possibility for societies to rethink what their policy priorities should be. However, whether or not countries will take advantage of this opportunity remains an open question.

Vignette 21

A GREATER TRAGEDY THAN WE KNOW: EXCESS MORTALITY RATES SUGGEST THAT THE COVID-19 DEATH TOLL IS VASTLY UNDERESTIMATED

Data on “excess mortality” suggest that the death toll from COVID-19 in LAC is much higher than we know. However, national reporting systems have improved greatly throughout the pandemic.



Source: The Economist's Global Excess Deaths Model. github.com/TheEconomist/covid-19-the-economist-global-excess-deaths-model

COVID-19 has led to a tragic loss of life. As of the end of 2021, there have been over 1.5 million confirmed deaths due to COVID-19 across Latin America and the Caribbean. Unfortunately, it is likely that this number is a vast underestimate of the true death toll from the pandemic. As the researchers at Our World in Data¹⁰⁵ explain, there are several reasons why the number of confirmed deaths due to COVID-19 may differ from the pandemic's true death toll. These reasons largely fall into two buckets: *the way COVID-19 deaths are reported* (for example, reporting only those deaths which occur in hospitals, reporting only those deaths

105 Giattino et al. (2022).

for which a COVID-19 test was performed, or overall poor quality of death reporting systems) and *the way COVID-19 impacted the number of deaths occurring due to other reasons* (for example, increases or decreases in the number of deaths due to other reasons as a result of COVID-19 induced changes – such as a decrease in road accidents as a result of lockdowns).

Data on “excess mortality” provide one way to approximate the pandemic’s *true death* toll. Excess mortality is defined by the WHO¹⁰⁶ as “mortality above what would be expected based on the non-crisis mortality rate in the population of interest. Excess mortality is thus mortality that is attributable to the crisis conditions.” Excess mortality data thus relies on historical data to estimate the number of deaths we would have *expected* to take place for given a time period in a normal year—thus providing a counterfactual scenario to compare the number of *actual* deaths taking place. In the context of COVID-19, comparing the actual number of deaths (from all causes) recorded to the number of deaths we would have expected to see in the absence of the pandemic can be helpful for shedding some light on the pandemic’s true death toll.

The graph in this vignette uses the excess mortality data estimated by The Economist¹⁰⁷ to zoom in to aggregate trends for the LAC region over the period March 2020 – December 2021. The left-hand panel of the graphs show us how the number of estimated excess deaths (shown in grey) compares with the number of confirmed deaths from COVID-19 (shown in blue). If the actual death toll were entirely accounted for by the number of confirmed COVID-19 deaths, we would expect the grey curve and the blue curve during this period to be roughly the same. However, what we see is that the number of confirmed deaths from COVID-19 vastly underestimates the “actual” death toll from the pandemic (the blue curve is consistently much lower than the grey curve).

There are many reasons why underreporting may be happening. One primary reason may be the initial limited capacity to test in many countries in the region.¹⁰⁸ However, it is important to note that underreporting is not just a result of low testing rates—it also has to do with the quality of testing as well as reporting methodologies, among other factors. While countries in the region have certainly scaled up their testing capacity since the beginning of the pandemic, securing adequate access for all population groups has remained an issue throughout the pandemic for countries across the world. Moreover, many countries in the region have worked on refining their reporting methodologies and public health information systems throughout the pandemic—including developing working groups to report national and subnational statistics not only on confirmed COVID-19 deaths but also on excess mortality rates (see for example, government dashboards on excess mortality rates from Chile,¹⁰⁹ Mexico,¹¹⁰ and Peru).¹¹¹ These improvements have likely contributed to the narrowing of discrepancies between estimated excess deaths and confirmed COVID-19 deaths that we see at various points in the pandemic. This is shown in the in the right-hand panel of the graph, which plots the share of estimated excess deaths that are unaccounted for by confirmed COVID-19 deaths as a rough proxy for the possible degree of underreporting.

Moreover, we must be cautious in interpreting these numbers as the true degree of underreporting—as the accurate reporting of COVID-19 deaths is not the only reason that the grey and blue curves may differ. As mentioned before, it is possible that COVID-19 has also affected the grey curve by changing the rate at which people are dying from other causes. Indeed, COVID-19 containment measures may have led to changes in overall mortality rates due to impacts such as reduced road accidents (if mobility declined during lockdown), increased femicide (if domestic violence spiked during quarantine), or increased deaths due to other health-related issues (if hospitals became overwhelmed and health-seeking behaviors changed).

106 WHO (2021).

107 The Economist and Solstad (2021).

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Reliable and timely information is a critical tool in the fight against COVID-19. The difficult and urgent policy decisions that governments have been making in relation to the pandemic have been further complicated by the fact most information has been limited and imperfect. Improving the quality of health information requires extensive testing, robust reporting systems, and transparent statistics. Some governments were more equipped than others to invest in rapidly developing and deploying this type of approach—and given the need to act quickly, all governments ended up learning while doing. While data on excess deaths is not a perfect measure of the true COVID-19 death toll, it is one indicator that can help us to sharpen our understanding of the gravity of the situation. It can help us to reflect on what official statistics may (or may not) be able to tell us, and how we might be able to improve our existing information systems. This virus has claimed too many lives—many more than we know—and we must continue to do all we can to be better prepared for the future.

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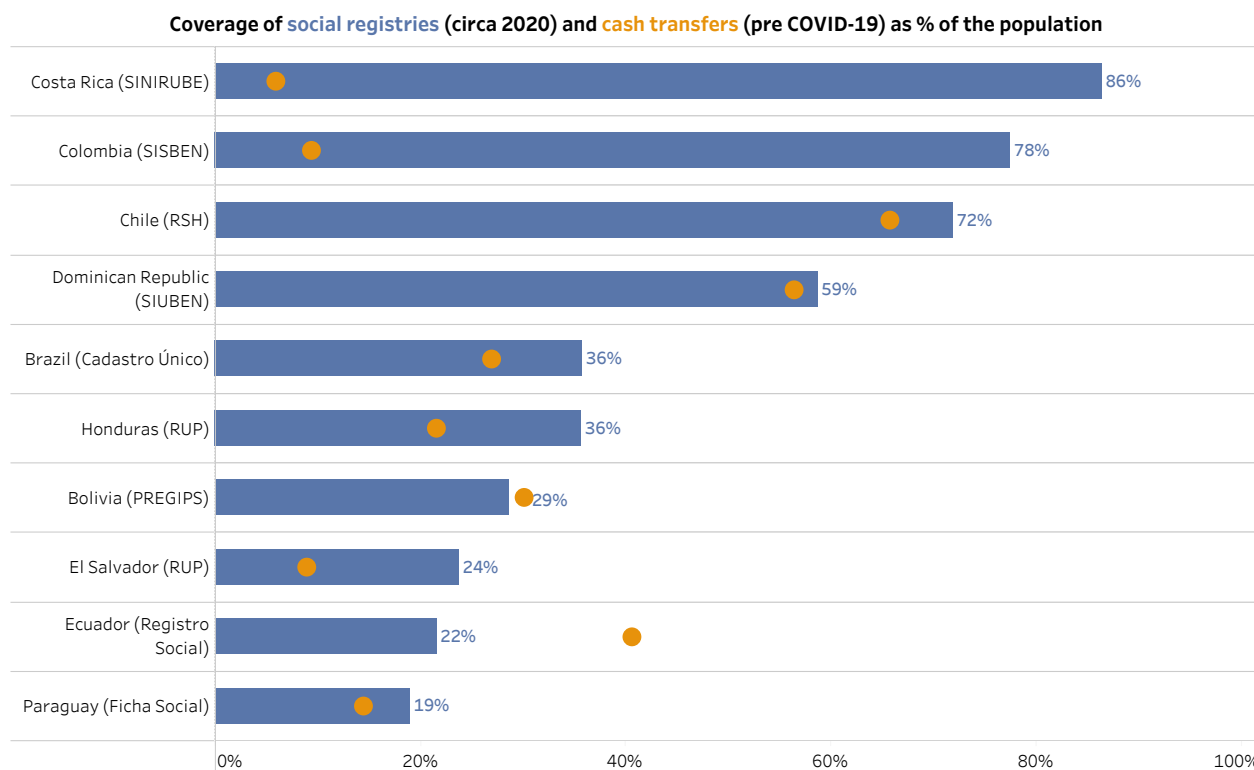
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Vignette 22

INCLUSION REQUIRES CAPACITY: THE ROLE OF SOCIAL REGISTRIES IN EXPANDING CASH TRANSFERS IN THE WAKE OF COVID-19

LAC countries have invested in improving social registries in recent decades, though coverage and quality remain heterogenous. This carries implications for the ability to rapidly scale up emergency social assistance benefits to those who need them, such as was the case during COVID-19.



Source for social registries: Coverage is calculated as the total number of individuals in social registries (latest data publicly available from country sources as of August 2020) divided by the total population (2020 data from United Nations World Population Prospects). Country sources are as follows: Bolivia: Data as of 2015 from World Bank (2019); Herramienta de Evaluación de Registros Sociales; Plataforma de Registro Integrado de Programas Sociales del Estado Plurinacional de Bolivia (PREGIPS); Brazil: Data as of June 2020 from Ministério da Cidadania; Chile: Data as of June 2020 from Analista Digital de Información Social - Ministerio de Desarrollo Social y Familia; Colombia: Data as of June 2020 from Departamento Nacional de Planeación - Sisbén; Costa Rica: Data as of circa August 2020 from Sistema Nacional de Información y Registro Único de Beneficiarios del Estado; Dominican Republic: Data as of January 2020 from Sistema Único de Beneficiarios Portal de Transparencia; Ecuador: Data as of 10/08/2020 (RS 2018) from Unidad del Registro Social; El Salvador: Data as of circa August 2020 from Registro Único de Participantes – Secretaría Técnica y de Planificación de la Presidencia; Honduras: Data as of circa August 2020 from Registro Único de Participantes (RUP) – Centro Nacional de Información del Sector Social (CENISS); Paraguay: Data as of 2017 from Secretaría Técnica de Planificación del Desarrollo Económico y Social.

Source for cash transfers: Gentilini et al (2020). Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures. "Living paper" version 12 (July 10, 2020). Annex 1 (drawing on the ASPIRE database for pre-C19 administrative data).

When households are faced with a sudden adverse shock to their income, such as a pandemic that restricts them from working or a natural disaster that destroys their livelihood, the rapid delivery of emergency social assistance can be a critical lifeline. In the wake of COVID-19, there have been ongoing local, national, and global debates about what types of emergency assistance measures should be put in place and the fiscal ramifications of doing so. However, many of these debates often overlook foundational issues of delivery. For example, a 2020 UNDP paper finds that a global temporary basic income¹¹² to poor and vulnerable households is “within reach” in terms of cost as a share of GDP. But is it “within reach” in terms of implementation capacity? This vignette explores the question of feasibility of scaling up cash transfers in LAC, recognizing that even if the economic resources and political will are there—implementing these types of programs requires extensive administrative capacity, which is both costly and time-intensive to build.

The LAC region has been a global pioneer in implementing cash transfer programs, and many countries in the region have invested in building up this capacity over the past 20 years. Social registries—“information systems that support outreach, intake, registration, and determination of potential eligibility for one or more social programs”¹¹³—are a foundational element of this capacity. In several countries in the region, social registries have been essential for the rapid scale up and delivery of benefits during this crisis. Where coverage of these systems is high and information is continuously updated, these information systems have the potential to also serve as powerful inclusion systems.

In order to gather an up-to-date understanding of the coverage of social registry systems in the region, this graph compiles data for several countries in the region (circa 2020) on the number of individuals registered in the national social registry (where data were publicly available). By dividing the total number of registered individuals by the country’s total population (using UN population estimates),¹¹⁴ we can estimate the share of population covered by the social registry at that period in time. The graph shows this information for several countries in the LAC region (the blue bars). As we can see, coverage levels are far from uniform. While countries such as Costa Rica and Colombia have coverage of more than three quarters of their population, countries such as Paraguay, Ecuador, and El Salvador have coverage of less than a quarter.

A key use of social registries in many LAC countries is for delivering cash transfers (though they often provide access to multiple types of social assistance benefits, and in this way can also serve as coordination devices). The orange dots on the graph show pre-COVID-19 coverage of cash transfers in each country (using data from Annex 1 of Gentilini et al 2020¹¹⁵ compiled from the ASPIRE database). As we can see, in some countries, social registries covered a far broader segment of the population than those that received cash transfers (suggesting vast scope for rapid horizontal expansion of benefits), whereas in others, this scope is much more limited. As countries worked to provide emergency relief during COVID-19, these issues materialized in real time. For example, countries with more extensive registries, such as the Dominican Republic (SIUBEN), were in a position to rapidly expand the reach of emergency programs.¹¹⁶ Other countries with robust social registry coverage but with limited reach beyond the poorest, such as Brazil (Cadastro Único), worked to find innovative solutions. For example, developing an app through which citizens (such as low-income informal workers) could self-report their information online to apply for emergency benefits. Still other countries, such as Honduras (RUP), worked to quickly invest in augmenting their existing information systems¹¹⁷ so as to be able to target their emergency programs to the right households.

It is also important to keep in mind how these social registries collect and update their information. While some offer open and continuous registration—others are based on census sweeps every few years (and thus

112 Molina and Ortiz-Juarez (2020).

113 Leite et al. (2017).

114 UNDESA (2019).

115 Gentilini et al (2020).

116 Presidency of the Dominican Republic (2020).

117 UNDP (2022).

likely missing many newly impoverished households in the context of the pandemic). Moreover, while some offer online enrollment—others require in person registration (thus presenting new barriers and concerns in the context of pandemic). These types of operational decisions matter greatly for the potential of social registries to serve not only as information systems but also as inclusion systems. To this same end, it is also critical that countries expand coverage of social registries to both include the “missing middle” as well as to ensure that extra efforts are made to include the “hidden poor.” The “missing middle” refers to groups such as vulnerable households or informal workers that may not have been poor prior to the pandemic but may now be eligible for social assistance benefits. Indeed, as Lustig et al. (2020) shows, the share of households’ income that is “at risk” during COVID-19 is not uniform across the income distribution but is actually highest for those “in the middle (roughly) of the ex-ante income distribution.” On the other hand, including the “hidden poor” recognizes that including the poor is a problem that compounds with the degree of poverty¹¹⁸—as the poorest may be precisely those with the most limited formal documentation or who live beyond the traditional reach of the state (such as populations living in remote areas, informal settlements, or on the street). This requires intentional and sustained active outreach and registration efforts. However, given the urgency of the emergency situations such as COVID-19, alternative solutions may be necessary in the short-term. For example, Lustig and Tommasi (2020) argue that in this context it may be essential to work closely with local social networks (such as NGOs, religious organizations, or social movements) that have greater proximity to poor and vulnerable households in order to effectively reach these groups.

Seeing social registries as more than information systems—and investing in them accordingly—will be critical for building more inclusive and resilient social protection systems. The ability to rapidly expand emergency social assistance succeeded in having large offsetting effects on the pandemic’s poverty consequences in some LAC contexts¹¹⁹—at least early on, while programs remained in place. As the pandemic has continued on, however, concerns over fiscal sustainability have brought many of these programs to an end or has reduced their coverage or generosity. While COVID-19 has tested the limits of many of our systems, it is also a teaching us how we can strengthen them so as to be better prepared for the future.

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¹¹⁸ Ravallion (2020).

¹¹⁹ Lustig et al. (2020).

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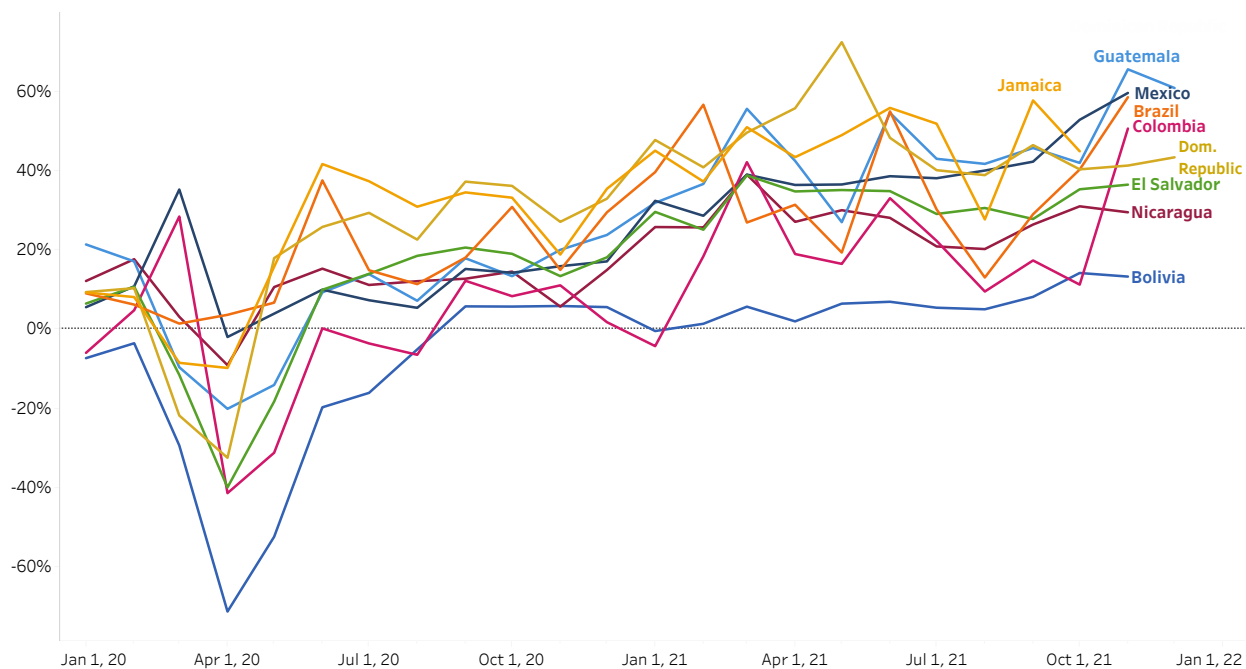
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Vignette 23

STAND BY ME: COVID-19 AND THE RESILIENCE OF REMITTANCE FLOWS

While remittances dropped sharply in the early months of the pandemic, in many LAC countries they recovered quickly and are now far outpacing 2019 flows.

Percent change in remittances (compared to the same month in 2019)



Source: Monthly data on inbound remittances from national central banks.

In the wake of COVID-19, analysts estimated that remittance flows (money sent home from migrant workers abroad) would face a steep decline. For example, in late April 2020, the World Bank projected an estimated 20% drop¹²⁰ in remittances for the year—which would have made it the “sharpest decline of remittances in recent history.” This was broadly anticipated due to expected losses of employment and/or wage contraction of migrant workers as a result of COVID-19 pressures on the labor market in host countries. This was of particular concern in the LAC region, where remittances are an integral source of income for many households. As discussed in Vignette 13, remittances have been growing steadily in LAC over the past decade—and represent a growing share of GDP in many Central American and Caribbean countries. In 2020, according to estimates from the World Bank,¹²¹ personal remittances reached over 1/5 of GDP in countries such as El Salvador, Honduras, Jamaica, and Haiti.

¹²⁰ World Bank (2020a).

¹²¹ World Bank (2020b).

These models, however, failed to predict the resilience of remittances. This graph relies on data from LAC countries' respective central banks to see what has happened with remittance flows to the region. For nine LAC countries with publicly available monthly data, this graph plots the percent change in remittance inflows compared to the same month in 2019—thereby showing a contraction in remittances when it dips below the 0% line and expansion of remittances when it rises above the 0% line. When looking at the data, we see a pattern of surprising resilience across LAC countries. While the shock of COVID-19 did lead to the expected drop-off of inflows initially—remittances rebounded quickly and have remained high. Overall in the region, the World Bank has estimated that in 2020, remittances to LAC grew by more than 6.5%¹²² compared to 2019 (reaching \$103 billion) and in 2021 remittances grew by 21.6%¹²³ compared to 2020 (reaching approximately \$123 billion).

As the graph shows, the initial drop-off in remittances primarily took place during the period of March–May 2020, with flows rebounding from June 2020 onward. The largest contractions took place in April 2020—with drop-offs ranging from just -2% in Mexico to over -70% in Bolivia. Brazil is the only country in the chart for which no contraction was recorded. By June 2020, all countries had recovered except for Bolivia and Colombia, which recovered by September 2020. Since this period, remittance flows have remained strong throughout the end of 2020 and grew even higher throughout 2021. By the end of 2021, countries such as Guatemala, Mexico, and Brazil were experiencing a volume of remittances inflows more than 50% higher than they were in 2019. In terms of the absolute value of total remittance inflows, many countries broke historical records during the pandemic (such as Brazil, Colombia, Dominican Republic, El Salvador, Guatemala, and Mexico).

Why have remittances been so resilient in LAC during COVID-19, defying early predictions? While there are likely many different reasons, researchers point toward several key underlying factors.¹²⁴ In the context of LAC, one of the most relevant is that many migrants abroad (this primarily refers to those in the United States—where over 75% of remittances to LAC originate¹²⁵) work in essential sectors,¹²⁶ and thus did not see as extensive a job loss as predicted, and some benefitted from COVID-19 stimulus payments or other social protection measures which may have been a boost to their income. Moreover, throughout late 2020 and 2021, the rise in remittances has been underpinned by economic recovery in the United States, alongside worsening conditions in some LAC countries in terms of issues such as rising inflation or shocks such as natural disasters.

Additionally, research on the role of altruism in driving remittances decisions suggests that remittances tend to be countercyclical¹²⁷—increasing when the situation in the migrants' country of origin worsens. Given the devastating impact of COVID-19 on many LAC economies, this is likely to be the case in many migrant's home countries. This altruistic and countercyclical behavior is reflected in the personal narratives of several migrant workers¹²⁸ from LAC in the US during the early months of the pandemic—who explained to reporters that “I won’t stop helping my mother even if my earnings fall” and that “We are struggling here, but it’s worse in Mexico.”

Beyond public social protection measures such as social assistance benefits, it is critical to remember that many households rely on a private global safety net. Making it easier and more affordable to send money digitally across borders is an essential part of making “people-to-people” social protection work effectively and strengthening economic resilience.

¹²² World Bank (2021a).

¹²³ World Bank (2021b).

¹²⁴ For example, Caron and Tiongson (2020) and KNOMAD (2020).

¹²⁵ Jewers and Orozco (2020).

¹²⁶ Kerwin and Warren (2020).

¹²⁷ Frankel (2011).

¹²⁸ Jordan (2020).

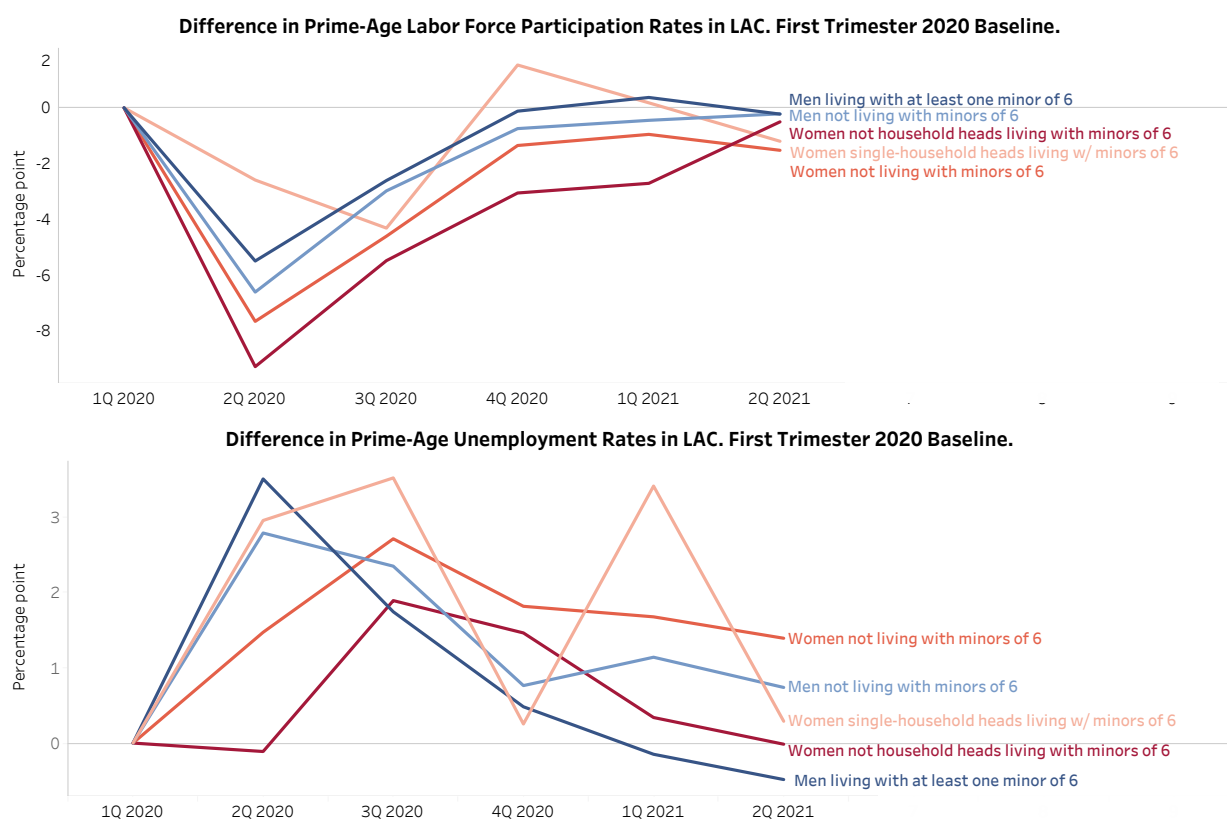
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Vignette 24

THE GENDER PENALTIES OF THE PANDEMIC: THE DISPROPORTIONATE IMPACT OF COVID-19 ON WOMEN'S LABOR MARKET OUTCOMES

In terms of employment, women with young children have been more impacted than other groups.



Source: National Household Surveys

Note: LAC aggregates the following countries: Argentina, Bolivia, Chile, México, Paraguay and Uruguay.

The multiple and intersecting health, social and economic consequences of the COVID-19 pandemic have exacerbated existing gender gaps and deepened the vulnerability of women across LAC. This vignette focuses the question of how COVID-19 has deepened pre-existing gender inequalities in the labor market, and uses data on household composition to explore this issue in greater depth.

While LAC has made moderate improvements in labor market outcomes in recent decades, COVID-19 risks much of this progress. Indeed, studies estimate that the pandemic could set back female labor force participation in LAC by approximately ten years.¹²⁹ One reason is that women have a higher labor force participation rate than men in many of the sectors that have been most negatively impacted by the crisis,¹³⁰ such as commerce, education, domestic work, and tourism. Another reason is the way that traditional gender norms have unfairly burdened women with an even greater share of unpaid domestic work and caregiving activities during this time (compounded, for example, by new demands such as remote home-schooling of children, caregiving responsibilities during remote working hours, and/or reduced access to previously relied upon support services such as family members, domestic workers, schools, or care facilities). It is taking a toll on not only women's (and particularly mothers') time but also their broader well-being. For example, a study that analyzed the effects of the pandemic on teleworking circumstances in Mexico¹³¹ shows a disproportionate impact on women's emotional well-being, the chronic exhaustion of mothers who telework, and the overload in household chores and caregiving activities, among others.

Using data from national household surveys in Argentina, Bolivia, Chile, Mexico, Paraguay, and Uruguay, the graph in this vignette delves into the impact of the pandemic on the recovery of labor force participation rates and unemployment rates, considering how this manifests differently by household composition. In particular, it looks at the gender of the household head and the presence of young children (specifically, the presence of at least one child under the age of six). These additional variables present a more nuanced understanding how COVID-19 has fostered gender and parental differentiated impacts within the labor market. While there are some differences across countries, an interesting divergence seems to emerge between mothers of young children who are heads of household (single-parent households) and those who are not heads of household (multi-parent households). In general, we are seeing that single-mothers are seeing faster labor market recovery rates than mothers in multi-parent households. Note that in Latin America, 39% of households are headed by a woman and 26% are single-parent households where the head is female.¹³²

This graph shows how this has played out in the context of labor force participation (top panel) and unemployment (bottom panel). The graphs show the trajectory of the indicator taking the first quarter of 2020 as a baseline; that is, comparing with the moment before the pandemic. Throughout the early months of the pandemic, we see that all groups in the analysis saw worsening labor market outcomes. However, in terms of labor force participation rates, we see that mothers in multi-parent households (darkest red line) faced the highest drop-in labor force participation rates and remained by the first quarter of 2021, as the furthest group behind pre-pandemic levels compared to other groups of the analysis period. Conversely, mothers in single-parent households (lightest red line) saw far lower drops and recovered, by the end of 2020, to above pre-pandemic levels. In terms of unemployment, we see that while women in single-parent households saw greater increases in their overall level of unemployment than women in multi-parent households, they again recovered faster to pre-pandemic levels.

Why might this divergence be happening? While there are likely many reasons for this, one key factor could be that women in single-parent households do not have the option of not working. They may be the only income generators in their households, which they supplement with remittances, aid from other households (for example, divorce pensions) and to a lesser extent, cash transfers. That is, the household and children depend on their labor income to survive, which may explain why these women do not withdraw from the labor market but persist in their search for employment even in the context of strict confinements and accelerated destruction of available jobs. The rise in unemployment is thus, in a way, the other side of the coin. For women living in other types of households (for example, two-parent), the impact of the crisis is not seen so much in unemployment, but rather in the decline in labor force participation. One reason may be because women in two-parent homes have had to take over caregiving duties almost full time. If, in addition, their

129 Bergallo et al. (2021).

130 Alaimo, Cabrita and Gutierrez (2020).

131 UNDP (2021).

132 Gutierrez, Martin and Ñopo (2020).

income was “complementary” (that is, the household had another relevant labor income), and they belonged to labor sectors that have been paralyzed (e.g., tourism, commerce, etc.), the decrease in labor participation it is a predictable result. Therefore, there is an almost mirror-like behavior, where if unemployment does not increase, labor participation will probably decrease.

This type of disproportionate impact of the crisis on women demands that policy responses take a gender-sensitive approach that considers the complexities and nuances of the current challenge we are facing. When analyzing the policy responses implemented in LAC, according to the Global Tracker of Gender Responses to COVID-19¹³³ of UNDP and UN Women, we see that roughly half of the region’s total registered measures to address the social and economic impacts of the COVID-19 crisis are gender sensitive. However, the vast majority of the measures captured by the tracker in relation to women’s economic security focus on social protection. Gender-sensitive interventions in terms of labor markets and support for other relevant sectors of the economy such as unpaid care and domestic work have been implemented to a far lesser extent. It is essential that policy responses integrate these different dimensions. For example, it is important to think about policies to invest in care infrastructure that allow women to not only reenter but thrive in the labor market. At the same time, complementary policy actions, such as reopening schools is imperative to support the millions of families who have been (and remain) adversely affected by prolonged school closings. Finally, policy action should also focus on shifting social norms towards a more equal distribution of unpaid domestic work and caregiving activities within the household.

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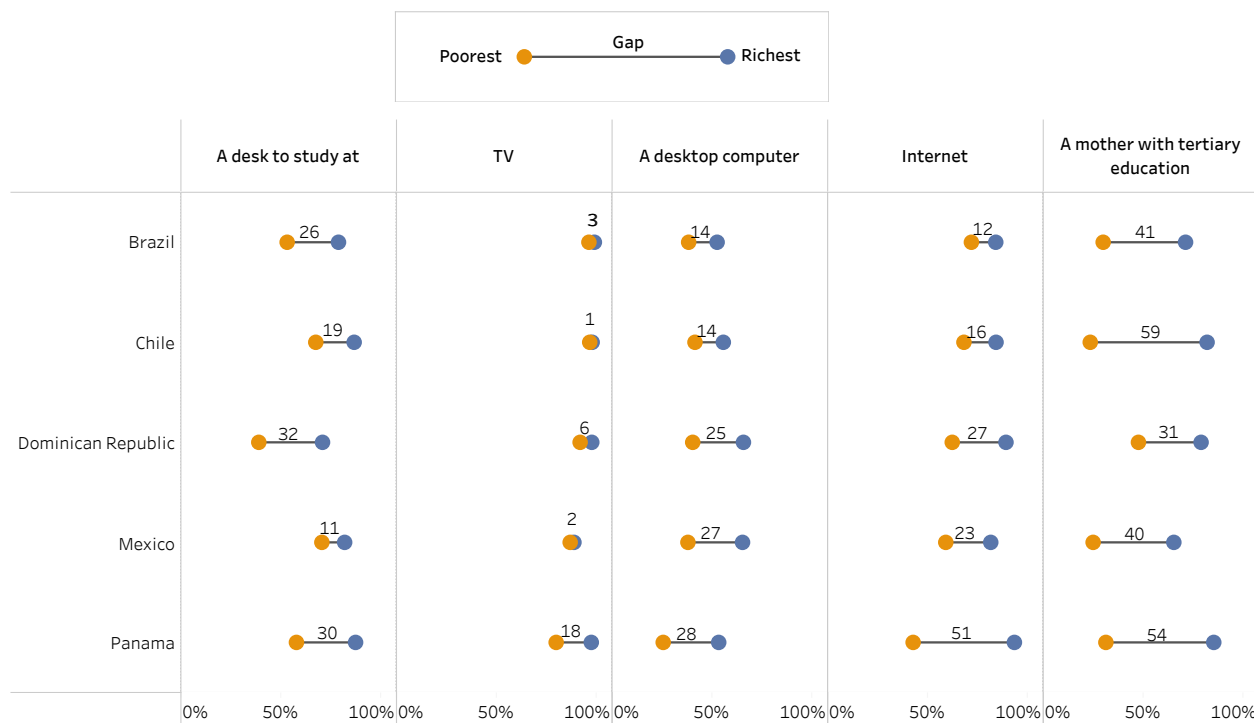
133 UNDP (2022).

Vignette 25

HEY TEACHERS, (DON'T) LEAVE THE KIDS ALONE! CONNECTIVITY AND EDUCATION DISPARITIES IN TIMES OF COVID-19

Studying from home is difficult, but much more so when access to study tools is limited.

Share of students (%) with access to different at-home educational resources, by poorest and richest of six income brackets



Source: Source: PISA 2018, 15 years old students

Note: Students are divided into the poorest and the richest of six household income brackets.

At the onset of the COVID-19 outbreak, governments across the world rushed to close schools in an effort to slow the spread of the pandemic. In LAC, it would be a long time before the doors would reopen. As of September 2021 (roughly 18 months into the pandemic), UNICEF estimated¹³⁴ that around 2 in 3 children in LAC were still out of the classroom. As in-person schools remained shut, children had to learn from home through distance-learning platforms with potentially large consequences for learning outcomes (while potentially concurrently facing a range of other serious challenges such as limited access to adequate

134 UNICEF (2021).

nutrition, deteriorating mental health, and/or the loss of a parent or caregiver). This was a particularly pressing need in the LAC region, where over half of children were already considered “learning poor”¹³⁵ (meaning that they are unable to read a short age-appropriate text with comprehension around age 10).

Moreover, ensuring that these initiatives reached all students equally—regardless of factors such as socioeconomic status, disability status, gender, or geographic location—was a critical challenge. The graph in this vignette uses data from the OECD’s 2018 Programme for International Student Assessment (PISA) to explore how pre-existing inequalities in access to essential distance-learning tools (such as internet, computer, TV, or a desk to study at) and parental learning support may have served to deepen educational inequalities during COVID-19. The graph plots the gap in access between students in the poorest and the richest of six household income brackets in LAC countries for which data is available.

Systematically, children in the richest income group are more likely to have access to the tools necessary for virtual learning. While the gaps are largest for access to internet and desktop computers, gaps also emerge in more basic elements such as access to a desk to study at. In the Dominican Republic, for example, those in the richest quintile are twice as likely to have access to a desk, in Mexico they are twice as likely to have a computer, and in Panama while close to all children in the highest income bracket can access the internet, only about 40% of those at the bottom can. Understanding and addressing students’ unequal access to distance learning tools is a critical first step in designing policies that prevent educational losses and a widening of achievement gaps across the digital divide. This means expanding the type of distance learning methods used to include alternatives such as radio or TV, which kids can access almost universally in LAC. Beyond access to tools for distance-learning, as children receive schooling at home, they are likely to rely more on their parents for support with lessons. Concretely, if a student’s learning outcomes become more dependent on their parents’ abilities during school closures, then similar students whose parents have different abilities (or education, as it is impossible to measure abilities) will likely have different outcomes. Moreover, since parental education highly correlates with household income levels, it is likely that in poorer households parents may have a more limited capacity to support their children’s learning process than in richer households. The data shows that between the poorest and richest income brackets of each country there is a 31 to 59 percentage point gap in the share of students whose mothers have tertiary education (technical or university). Hence, when children stop going to school, *peer effects* may play less of a role while a *parent effect* acquires greater importance.

Ultimately, a household’s previous stocks of assets (whether physical capital in the form of connectivity or human capital in the form of parents’ education) matters immensely for enabling the accumulation of human capital of children in the present. In the context of COVID-19, prevailing inequalities in a household’s asset-base are likely to play an even larger role in perpetuating future inequalities—not only reducing children’s human capital accumulation in the present, but also impacting their long-run labor market outcomes. Estimates from Mexico,¹³⁶ for example, have found that in the short-term students lost between 0.3-1.0 years of learning during the pandemic, accumulating into 1.3-2.1 years in the long-term. Moreover, data at the sub-national level suggests that students in the south of Mexico (which is the poorest region in the country) are facing far worse learning losses than students in other regions.

To recover from the individual and social losses due to COVID-19 school closures, the LAC region needs decisive compensatory action, investment, and targeted strategies to prevent long term regressive impacts. This includes policies such as training teachers on how to accelerate learning among students that are falling behind, building schools’ capacity to support students’ new social-emotional needs, and building the infrastructure to prevent future disruptions. Notably this includes investing in inclusive digitalization and universal connectivity strategies. At their core, these policies need to be sensitive to the large differences in the way these challenges manifest at both the sub-national and household levels.

135 World Bank (2021).

136 Monroy-Gómez Franco, Vélez Grajales and López-Calva (2021).

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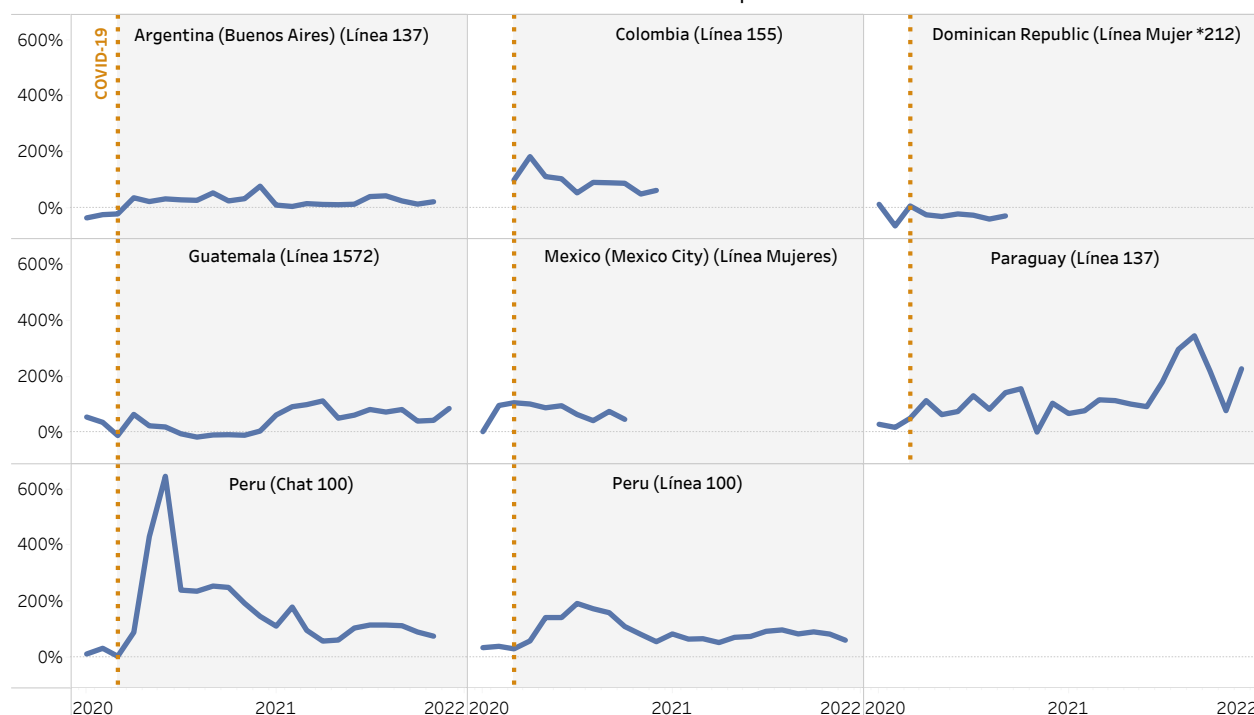
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Vignette 26

NO SAFER PLACE THAN HOME?: THE INCREASE IN DOMESTIC AND GENDER-BASED VIOLENCE DURING COVID-19 LOCKDOWNS

In the wake of COVID-19 quarantines, calls to helplines for domestic and gender-based violence increased in several LAC countries and cities.

Percent change in call volume to selected domestic and gender-based violence helplines compared to the same month in 2019
Shaded area denotes COVID-19 pandemic



Source: Data from national sources as follows: **Argentina** (Ministerio de Justicia y Derechos Humanos. Subsecretaría de Acceso a la Justicia. Programa Las Víctimas Contra Las Violencias), **Colombia** (Observatorio Colombiano de las Mujeres), **Dominican Republic** (Ministerio de la Mujer – Observatorio de Igualdad de Género de la República Dominicana), **Guatemala** (Observatorio de las Mujeres del Ministerio Público), **Mexico** (Datos Abiertos Ciudad de México - Agencia Digital de Innovación Pública), **Paraguay** (Ministerio de la Mujer – Observatorio de la Mujer), **Peru** (Ministerio de la Mujer y Poblaciones Vulnerables).

Note: In **Argentina** (Buenos Aires), Línea 137 is in charge of listening, containing, guiding and, in cases where an episode of family or sexual violence occurs at the time of the call, deciding to send a mobile team to the place where the victim is. In **Colombia**, Línea 155 is an orientation line for women victims of violence. In the Dominican Republic, Línea Mujer*212 is a program to assist women who are victims of violence and death threats. In **Guatemala**, Línea 1572 is an exclusive helpline for women who are victims of physical, psychological and sexual violence. In **Mexico** (Mexico City), Línea Mujeres offers free counseling focused on specific problems that women face. In **Paraguay**, Línea 137 “SOS Mujer” is aimed at providing clear and efficient responses to women in situations of domestic and intra-family violence. In **Peru**, Chat 100 is a real time personalized online service to identify situations of risk of dating abuse or violence. It also attends people affected by family and sexual violence. Línea 100 is a free telephone service for information, guidance, counseling and emotional support that will help you if you have been affected by or involved in acts of family or sexual violence, or you know of a case of abuse in your environment.

Graph shows the percent change from the same month in 2019, with respect to the following country-specific variables: **Argentina** (Calls answered by the professionals of Línea 137 about cases of domestic violence), **Colombia** (Calls to Línea 155), **Dominican Republic** (Victims of violence assisted through Línea Mujer), **Guatemala** (Incoming calls), **Mexico** (Calls made to Línea Mujeres categorized in any sub-type as “domestic violence” or combined sub-type as “domestic gender-based violence”), **Paraguay** (Calls about violence), **Peru** (Chat 100 inquiries and Telephone inquiries answered by Línea 100).

As COVID-19 spread across the globe, it was closely followed by various quarantine and lockdown policies. However, while stay at home orders were necessary to keep people safe from the virus, they also inadvertently put some people in greater danger from other deadly risks—such as the danger of domestic and gender-based violence. As UN Secretary General António Guterres [noted in early April 2020](#)¹³⁷, following his appeal for a global ceasefire to focus on addressing the pandemic: *“Violence is not confined to the battlefield. For many women and girls, the threat looms largest where they should be safest. In their own homes...We know lockdowns and quarantines are essential to suppressing COVID-19. But they can trap women with abusive partners.”*

Higher levels of social and economic stresses due to the pandemic combined with restricted mobility outside of the home and [reduced access to services](#)¹³⁸ have created a pressure cooker for potential abuse. In Latin America and the Caribbean, where gender-based violence was already widespread prior to the pandemic (see Vignette 8) and where [stringent stay at home orders have been prolonged](#),¹³⁹ this potential is particularly concerning.

While evidence on the impact of the pandemic on domestic and gender-based violence is not easily gathered, emerging research has suggested that overall patterns of abuse have increased around the world. This has been noted, for example, in the recent publication on the [“shadow pandemic” of violence against women](#)¹⁴⁰ by UN Women based on rapid gender assessment surveys, as well as in four research round ups by the Center of Global Development (in [June 2020](#)¹⁴¹, [September 2020](#)¹⁴², [December 2020](#)¹⁴³, and [April 2021](#)¹⁴⁴) covering approximately 100 studies on the topic.

It is difficult to know for certain how patterns of abuse have been changing, however, as the available data often do not tell the full story. While data from sources such as police reports, helplines, health centers, and shelters can help to provide general insights—these measures are unlikely to reflect the true situation, as victims of violence often do not report incidents due to reasons such as shame, stigma, or fear of retaliation. Moreover, underreporting may have been an even graver issue in the context of the pandemic, as seeking help in person may have been limited due to mobility restrictions and fear of contagion and telephone or internet reporting may have been limited as victims may have had fewer opportunities to secretly reach out if they were confined at home with their abuser.

In order to gather a regional picture on how gender-based and domestic violence trends may have been changing in LAC countries in the wake of the pandemic, this graph collates monthly data on call volume to helplines in Argentina (Línea 137 in Buenos Aires), Colombia (Línea 155), Dominican Republic (Línea Mujer 212), Guatemala (Línea 1572), Mexico (Línea Mujeres in Mexico City), Paraguay (Línea 137), and Peru (Línea 100 and Chat 100). While each helpline is unique in the services it offers, all helplines broadly support victims of gender-based or domestic violence. The blue line shows the percent change in call volume to the helpline during 2020 and 2021 in comparison to the same month in 2019. The grey shaded areas denote the pandemic period beginning in March 2020, when COVID-19 quarantine measures began to take hold across LAC countries.

As we can see in the graph, in most of the countries shown (except for the Dominican Republic) call volumes to helplines appear to have increased in the early months of quarantine. For example, in comparison to April 2019, call volume in April 2020 was up 34% in Argentina, 181% in Colombia, 64% in Guatemala, and 113% in Paraguay. In Peru, in comparison to the same month in 2019, call volumes were up 645% in June 2020

137 United Nations (2020).

138 Castro (2020).

139 López-Calva (2020).

140 UN Women (2021).

141 Peterman, O'Donnell, and Palermo (2020).

142 Peterman and O'Donnell (2020a).

143 Peterman and O'Donnell (2020b).

144 Bourgault, Peterman and O'Donnell (2021).

and 190% in July 2020 (for Chat 100 and Línea 100 respectively). It is important to note that while data for the Dominican Republic shows decreases in call volumes, this may not actually reflect a decrease in cases of violence—for the reasons stated above regarding constraints to reporting during COVID-19. Moreover, we see that in most countries, call volumes have remained steadily higher throughout 2020 and 2021—for example, in September 2021 call volumes in Paraguay reached 344% of their September 2019 levels.

The general trends shown here of increased call volume to domestic and gender-based violence helplines following COVID-19 quarantines are supported by emerging evidence from academic studies done using helpline data for several countries in the region. For example, using helpline data from Línea 137 in Buenos Aires, [Perez-Vincent et al. \(2020\)](#) find a significant increase of 32% in helpline calls following the introduction of mobility restrictions, and evidence of substitution in reporting channels (police calls to the helpline fell by 62% while direct victim calls increased by 127%); using helpline data from Línea 100 in Peru, [Agüero \(2021\)](#) finds a significant increase of 48% in helpline calls between April and July 2020, with effects increasing over time; and using helpline data from Línea Mujeres in Mexico City, [Silverio-Murillo et al. \(2020\)](#) find an overall null effect of the lockdown on calls regarding interpersonal violence—but with an increase in calls for psychological services and a decrease in calls for legal services. Using google search data on domestic violence combined with google mobility data, [Berniell and Facchini \(2020\)](#) also find an increase in domestic violence patterns during lockdown for several large Latin American countries.

Moreover, early evidence from [Infosegura](#)¹⁴⁵ (which gathers data on citizen security in Central American countries) from the first trimester of 2020 suggested increased levels of gender-based violence in [Guatemala](#), [El Salvador](#), [Honduras](#), and [Costa Rica](#). While crime statistics from the second trimester of 2020 in [Chile](#)¹⁴⁶ suggested a reduction in reporting of domestic violence to police (compared to the same period in 2019), this may only be indicative of reduced reporting through this channel, rather than actual reductions in violence.

In order to support victims of domestic and gender-based violence in the context of COVID-19, [UNDP](#)¹⁴⁷ outlined a broad range of approaches that governments should consider integrating into their national responses to the pandemic and how international partners can support in these efforts. Looking at the actual policy responses taken in the region (as collected by UNDP and UN Women's [COVID-19 Global Gender Response Tracker](#))¹⁴⁸ we see that in the LAC region (as of January 2022) 214 measures in 32 countries have been instituted related to addressing violence against women in the context of the pandemic.

The most common types of measures are those aimed at strengthening services (66% of measures) and those aimed at awareness-raising and campaigns (20% of measures). Examples of measures to strengthen services include measures related to helplines and other reporting mechanisms (for example, in Bolivia, Chile and Colombia, women can report violence and seek help in pharmacies, usually using a key word that alerts pharmacy staff of the situation), police and judicial responses (for example, Costa Rica has strengthened patrolling and home visits in areas where situations of violence have been previously registered and Barbados has introduced virtual courts for urgent cases, which include cases of violence against women and girls), coordinated services (for example, in Panama, the Health Minister, prosecutor's office, police, and judiciary are all part of an intersectoral group created by the Minister of Social Development to respond to violence against women during the COVID-19 emergency), shelters (for example in Argentina, shelters for survivors were identified as essential services to ensure their continued functioning), and continued provision of psychosocial support (for example, in El Salvador, an emergency psychological support center was established). Examples of awareness-raising and campaigns include efforts in Brazil (*Para algumas famílias, o isolamento está sendo ainda mais difícil* / For some families, isolation has been even harder),

¹⁴⁵ Infosegura (2020).

¹⁴⁶ CEAD (2020).

¹⁴⁷ UNDP (2020).

¹⁴⁸ UNDP (2022).

Ecuador (*#MujerEcuadorTeAcompaña* / *#WomenEcuadorIsWithYou*), and Peru (*Mascarillas Violetas* / Violet Masks).

While there is no single nor simple solution to combatting this “[shadow pandemic](#)”, it is clear that policy responses to COVID-19 must integrate a gender lens if they are to effectively meet the objective of promoting the safety of all citizens.

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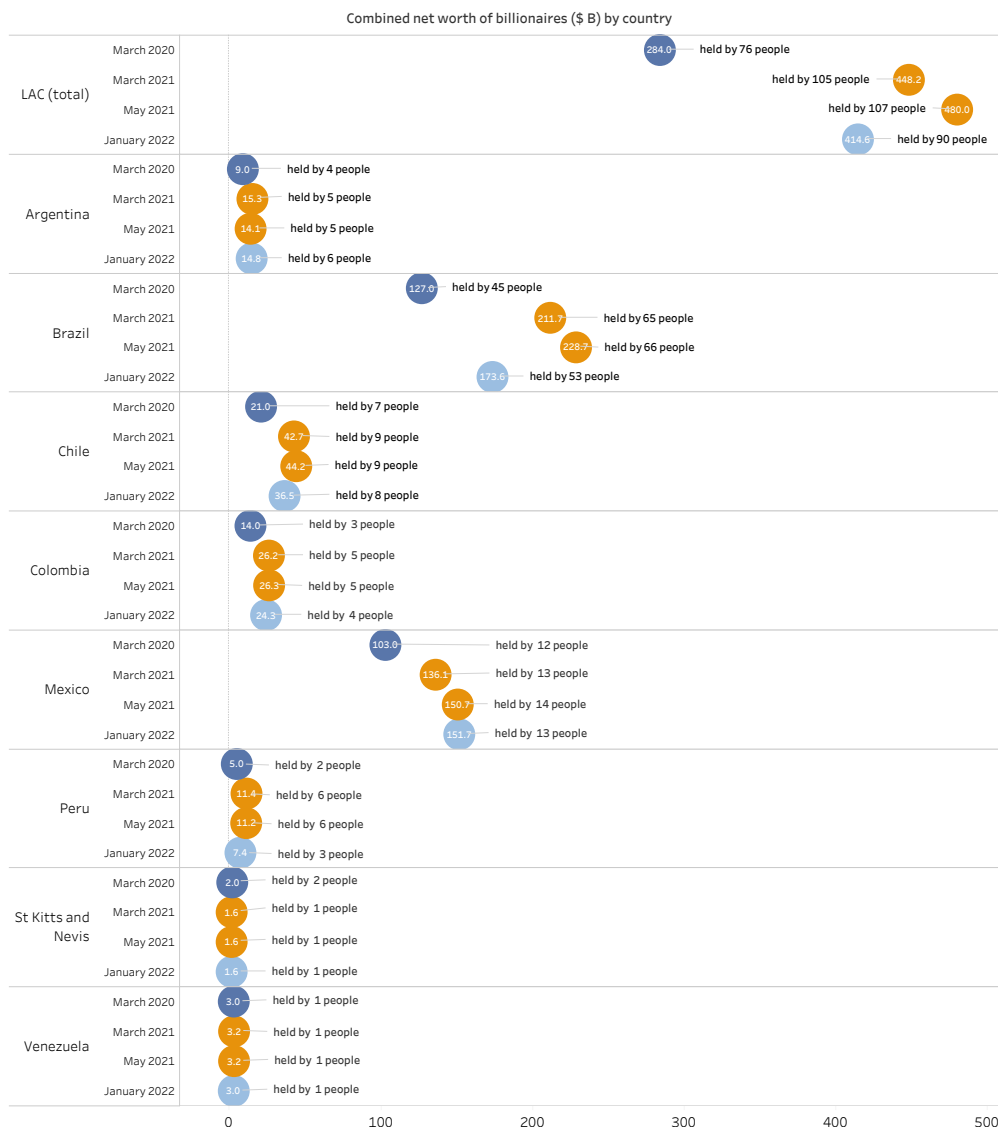
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Vignette 27

COVID-19 AND WEALTH AT THE TOP: MORE AND WEALTHIER BILLIONAIRES AFTER THE CRISIS

During the first year of the pandemic, there was an increase in net worth (+\$196 B) and total number (+31) of billionaires in LAC. While the stock of wealth held by these billionaires has since declined slightly, it remains higher than pre-pandemic levels.



Source: Data from Forbes List of Billionaires 2020, 2021, and Real Time List of Billionaires (May 2021 and January 2022)

There are many ways in which inequality manifests in LAC. In some cases it is more subtle; reflected, for instance, in disparities in access to good quality public services or in the amount of savings that households are able to accumulate to carry them through tough times (see Vignette 9). Indeed, inequality is often reflected in our capacity to navigate through difficult times. Dealing with a shock is expensive and wealthier people tend to cope better. And some people much, much better. According to 2019 data from the World Inequality Database¹⁴⁹ in Latin America, before the COVID-19 crisis the Top 1% of the income distribution captured 24% of all pre-tax national income, while the bottom 50% were left with just 10%.

How did the richest fare during such an unprecedented crisis? As expected, the COVID-19 pandemic has only exacerbated these extreme disparities. Millions of households across the region have struggled to get by, as they saw their incomes fall in the wake of closing and suffering businesses, rising unemployment and exit from the labor force, and limited opportunities for remote work during the extensive periods of lockdown. Alongside inadequate safety nets for low-income, vulnerable, and informal workers, this has led to a situation of rising poverty in the region. June 2021 estimates from the World Bank¹⁵⁰ projected an increase of extreme poverty in LAC from 24% in 2019 to 27% in 2020 and to 26% in 2021. March 2021 estimates from ECLAC¹⁵¹ suggest that an additional 22 million people were pushed into poverty in the region in 2020. Associated concerns about rising hunger in region have also been prominent, with the WFP estimating¹⁵² an increase of 269% in the number of people in LAC facing severe food insecurity.

Yet, not everyone is worse-off. Those at the very, very top appear to be doing very, very well. While it is hard to gather a full picture on this, as data on the richest in society are often scarce (and, where available, tend to be reported with a delay of several years), the Forbes World's Billionaires List¹⁵³ provides us with a glimpse into how the region's richest have fared during this time. It is well known that wealth values in that list fluctuate due to changes in the valuation of stocks of companies owned by the billionaires in the list and those might reflect market volatility, but overall these numbers do show a trend with enough information regarding real trends.

The Forbes database tracks the net worth of billionaires in countries around the world, and publishes both an annual list (providing yearly snapshots in time) and a “real-time” list¹⁵⁴ (providing a daily up-to-date snapshot). Data from the 2020 annual list (published on March 18, 2020, just as the pandemic was beginning) reveals that there was a total of 76 billionaires in LAC with a combined net worth of \$284 billion. Data from the 2021 annual list (published on March 5, 2021, one year into the pandemic), shows that this grew to a total of 105 billionaires with a combined net worth of \$448 billion. Recent data from the real-time list (referenced on May 17, 2021) shows that this again increased to a total of 107 billionaires with a combined net worth of \$480 billion. Taken together, we see that during the first fourteen months of the pandemic, the total number of billionaires in LAC increased by 31 and their combined net worth increased by \$196 billion – this is roughly equivalent to the size of the economy in Ecuador. That is, the stock of wealth by billionaires in LAC –as measured by Forbes list– grew by more than 40 percent during this time.

This vignette also includes the most recent data from the real-time list from 2022 (referenced on January 31, 2022). Conversely to the previous trend, this data point shows a decrease to a total of 90 billionaires with a combined net worth of \$414 billion, namely a decrease from May 2021 in \$65 billion and 17 billionaires. However, as of January 2022, the stock of wealth held by billionaires in LAC is still greater than it was at the beginning of the pandemic. The graph in this vignette shows these changes at the regional level and at the country-level. Notably, around three quarters of the billionaires in the region are from Brazil and Mexico, as is around 80% of their combined net worth. It is important to note, however, that even among billionaires there

149 World Inequality Lab (2019).

150 Lakner et al (2021).

151 ECLAC (2021).

152 WFP (2020).

153 Forbes (2021).

154 Forbes (2022).

are wide disparities. While 40% of the billionaires in LAC have an individual net worth between \$1-2 billion, the top three richest billionaires have an individual net worth of over \$20 billion each.

The concentration of resources in the hands of a few individuals is not only a problem intrinsically for inequality, but also a problem instrumentally for inequality. When the concentration of resources translates into a concentration of political power, which is often the case, it can lead to a vicious cycle that perpetuates these outcomes and distorts policy and resource allocation.

As the discussion in Vignette 14 noted, this cycle is becoming an area of increasing concern for people in the region, with the vast majority of people stating that they believe that their country is governed in the interest of a few powerful groups rather than for the good of all. However, this extreme level of affluence does not have to be a curse. In a context of constrained fiscal space and growing needs for increased social spending during the pandemic, there is a resurgent debate on taxation in the region and who should bear what share of that burden.

In LAC—the second most unequal region in the world—taxing the richest could provide some of necessary resources to promote widespread social and economic gains (this does not necessarily include taxing wealth, but the return to that wealth). Under the right circumstances, this could have positive impacts on both equity and efficiency outcomes. For example, a 2021 study from researchers at the University of São Paulo¹⁵⁵ found that in Brazil, a social protection policy of monthly cash transfers of R\$125 (approximately USD\$24) to the poorest 30% of society, financed by taxes on the richest 1%, could generate a positive impact of 2.4% on GDP through consumption multiplier effects. This is an important finding as countries struggle with the fiscal sustainability of temporary emergency income support measures provided to households during the pandemic. As the pandemic continues on in the LAC region, it is putting ever greater pressure on countries' fiscal systems and exposing the cracks in social safety nets. We must now reimagine a new pathway forward, one that is both more equitable and more sustainable than the one we were on before.

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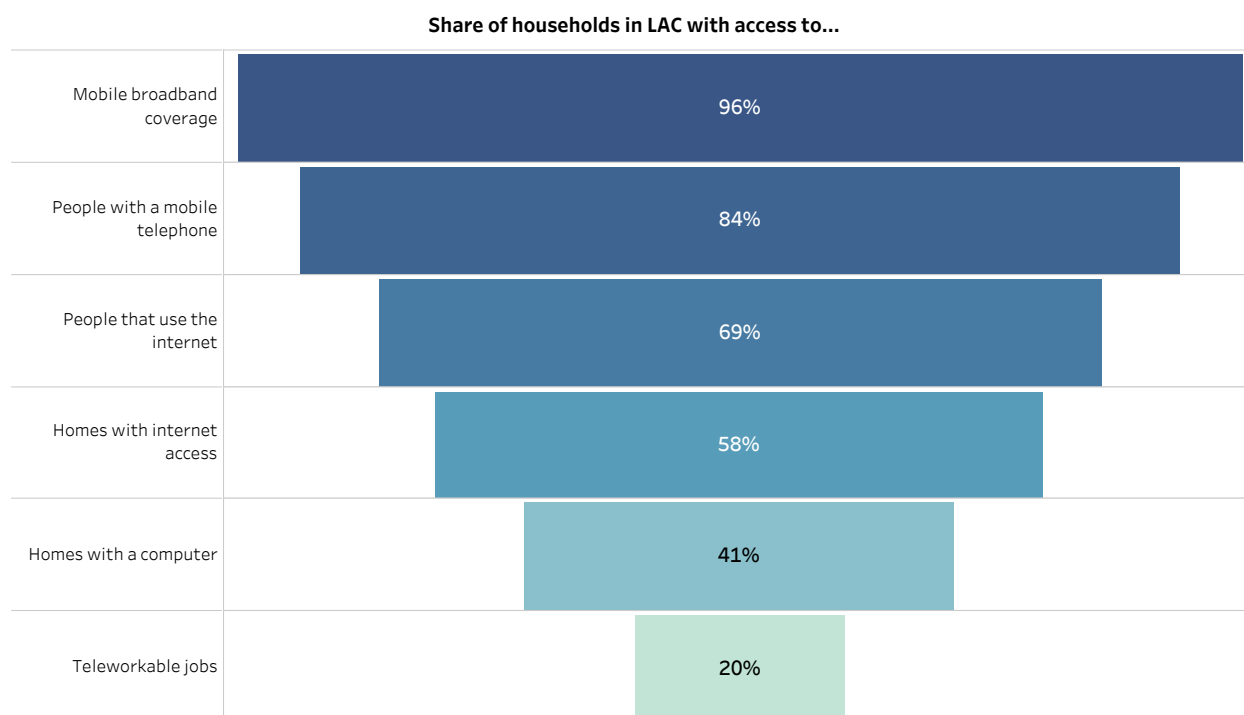
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155 Toneto, Ribas and Carvalho (2021).

Vignette 28

“YOU ARE ON MUTE”: WHY INTERNET ACCESS IS NOT ENOUGH FOR ENSURING INCLUSIVE DIGITALIZATION

Digitalization in LAC takes the shape of an inverted pyramid, in which each step leaves millions more people behind.



Source: Authors' elaboration based on ITU World Telecommunication/ICT Indicators Database. Data for teleworkable jobs from Dingel and Neiman (2020) "How Many Jobs Can be Done at Home?" NBER Working Paper 26948.

Note: Weighted averages are used for the Latin America and the Caribbean region.

If during the last two years you repeatedly heard the phrase “You are on mute” during professional or social virtual meetings, you are someone for whom digital tools are effectively serving to expand your life options. But how universal is this experience for people in Latin America and the Caribbean? Despite important advances in expanding broadband coverage across the region and in increasing the ubiquity of mobile phone ownership, the effective conversion of these digital advances into well-being improvements remains out of reach for the vast majority of the population due to limited access to tools, knowledge, and opportunities. As this graph shows, digitalization in the region takes the form of an “inverted pyramid,” where at each step millions more people are left behind.

As COVID-19 spread around the world, access to digital technologies suddenly became one of the most important determinants of people's well-being. Having access to the internet at home has been (and continues to be) an essential lifeline for many, since it has allowed people to continue with most of their essential daily activities, such as working, studying, and socializing while in isolation.

However, digital inequality persists in Latin America and the Caribbean, both within and between countries. While overall access to basic technologies has grown far more universal (practically all urban areas in Latin America and the Caribbean have mobile broadband coverage, and over 84% of the population owns a mobile phone), these two elements alone are insufficient for ensuring that a person is actually able to participate in activities like distance learning or remote working. Generally, a mobile phone only has access to the internet if you can afford to pay for the (often expensive) subscription to access mobile broadband services. The economic downturn during the pandemic has actually forced many people to suspend their cellphone subscriptions. In developing countries, mobile phone subscriptions fell for the first time in history, from 103 per 100 inhabitants in 2019 to 99 per 100 inhabitants in 2020.¹⁵⁶ Thus, even though 84% of people in LAC own a mobile phone, only 69% of people report using the internet. From this point on, access to digital technologies continues to become even more profoundly unequal.

If we consider, for example, someone's ability to do remote tasks such as to work or to study from home, a key determinant is whether or not their home has access to a fixed broadband service. Here, there is vast heterogeneity between countries in LAC. In countries like Chile and Costa Rica it is reported that more than 85% of homes have internet access, but in countries like Bolivia and Guatemala this share does not even reach 25%. Within countries, inequalities are also strongly shaped by the urban/rural dimension. In LAC, internet adoption tends to be much higher in urban areas. For example, in 2017, in Brazil the level of internet adoption was 65% in urban areas compared to just 33.6% in rural areas and in Ecuador it was 46% in urban areas compared to just 16.6% in rural areas.¹⁵⁷

Moreover, even if you have internet access at home, the possibility of working or studying remotely requires owning a digital device such as a computer. As we can see, the share of homes that own a computer in LAC is again lower than the share that has access to the internet. At the country level, computer ownership ranges from a high of 65% and 68% of homes in Argentina and Uruguay to just 17% in countries like Honduras and El Salvador and 11% in Haiti.

Taking into account access to the internet at home and having at least one computer per household, we can see that around 60% of the population of LAC remains digitally excluded. Another relevant factor for how digitalization is (or is not) converting access into inclusion, is what people are using the internet for. For example, are people using it to perform key activities (providing a virtual alternative for those activities which previously required physical contact) or are they primarily using it to communicate through social networks? The "digital resilience at home index" created by CAF provides a way to measure this and suggests that in the region the use of the internet as a virtual tool for conducting essential activities remains limited. While there is substantial heterogeneity in the index scores across the region, most LAC countries included in the database fell below CAF's index threshold of 30. Below this threshold, countries' populations are thought to have a limited digital capacity to access health information, participate in educational activities, carry out monetary transactions, and acquire goods through electronic commerce at home.

From the perspective of inclusive development, digitalization efforts need to be universal such that every person at least has the chance to access and use the internet. However, as the graph in this vignette shows—internet access alone is insufficient. Turning digitalization into well-being still requires a transformation of the labor supply (including advances in training and skills) and a parallel transformation of labor demand. In

¹⁵⁶ ITU (2020).

¹⁵⁷ Katz, Jung, and Callorda (2020).

LAC, the average proportion of jobs that can be done from home is just 20%.¹⁵⁸ This is lower than in other economies with similar incomes. The share of teleworkable jobs varies between 14% in Honduras to 27% in Uruguay. Comparatively, the share of teleworkable jobs is 41% in the United States.

While there is still much to be done, there are reasons to be optimistic. On one hand, the pandemic has encouraged people who already had digital access to deepen their skills and upgrade their digital tools. On the other hand, a consensus is growing around the notion that inclusive digitalization should be the responsibility of the State and, moreover, a top public priority. During the pandemic, both public and private sector actors have invested in improving digital connectivity in the region, especially for lower-middle-income populations. However, if efforts are to be successful in enabling inclusive digitalization the long-term, three factors are essential: we need to invest in the infrastructure required to connect people; we need to invest in skills for people to be able to leverage digital technologies; and we need to support governments to enact regulations that prevent all efficiency gains going to rent. Moreover, it is essential that these efforts extend beyond the end of the pandemic, enabling inclusive digitalization to serve as a long-term engine for boosting national and regional productivity.

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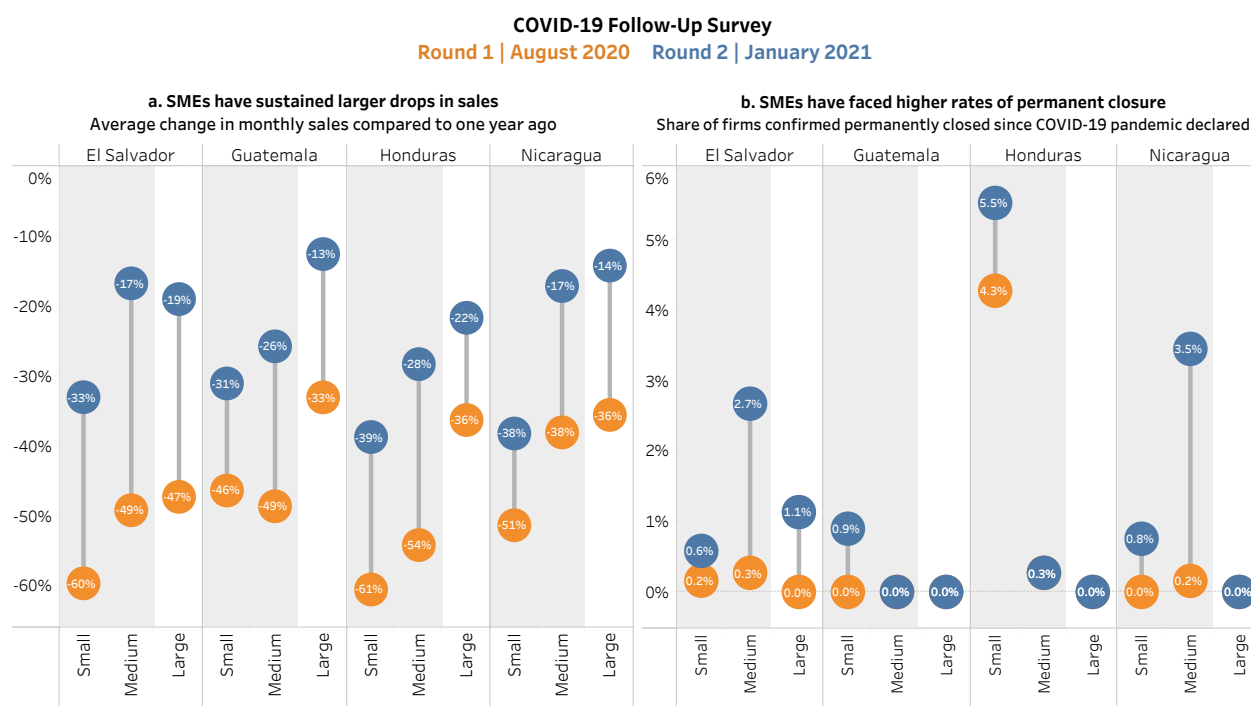
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¹⁵⁸ Dingel and Neiman (2020).

Vignette 29

SMALL BUSINESSES, BIG IMPACTS: SUPPORTING PRODUCTIVE SMES AS AN ENGINE OF RECOVERY

While enterprises of all sizes have faced economic hardships during COVID-19 in LAC, small and medium firms have been harder hit than large firms.



Source: World Bank Enterprise Follow Up Surveys.

Note: Data refers to formal firms in the private sector in manufacturing or services with > 5 workers. Small or medium sized firms are defined as having less than <100 workers and large sized firms as having 100+ workers.

Many businesses across the world shut their doors for prolonged periods of time this past year, as societies entered COVID-19 lockdowns and people were encouraged to stay at home. Some of those businesses will not reopen. Where businesses were unable to cover accumulating costs in the face of falling sales, they were pushed beyond their survival thresholds. Notably, not all firms have been affected by COVID-19 equally. Of course, which sector the firm is in matters very much—for example, in the Caribbean the tourism sector has been hit particularly hard by COVID-19.¹⁵⁹ Beyond the firm's sector, however, its size matters too. Often larger firms may have a greater ability to weather a shock like COVID-19, for instance if their size

159 López-Calva (2020).

enabled them to build a larger stock of cash reserves, gain easier access to finance, invest in teleworking infrastructure, adapt to providing home delivery services, or diversify their business across multiple locations.

This vignette focuses on how the pandemic has impacted Small and Medium Enterprises (SMEs) in LAC. For countries in the LAC region, as in many middle-income and low-income countries, SMEs are a primary source of employment and key supplier of goods and services to a large share of the population. Estimates¹⁶⁰ suggest that SMEs comprise as much as 99.5% of all businesses in the region, 60% of the employed population, and 25% of GDP.

In order to understand the impacts of the pandemic on SMEs, this graph uses data from the World Bank's Enterprise Surveys¹⁶¹—as they conducted follow-up surveys with businesses during the pandemic. Unfortunately, this database only includes a subsection of SMEs in the region—those that are registered in the manufacturing or services sectors with 5 employees or more. As informal employment and self-employment in micro-enterprises are widespread in the region, it is important to remember that the survey data used here only tell one part of the story. Based on this data, we see that on average, these SMEs (defined as enterprises with fewer than 100 workers, in contrast to “large” firms with 100 workers or more) comprise 55% of formal employment in the private sector in LAC countries. In some countries, this share reaches over 80%—with the highest shares found in Belize, St. Vincent and the Grenadines, St Kitts and Nevis, and Dominica. On the other end of the spectrum, these SMEs comprise just 17% of formal employment in the private sector in Mexico and Chile.

How have these businesses fared in the wake of the pandemic in comparison to large firms? While data is scarce and imperfect, the Enterprise Surveys team conducted two COVID-19 “follow-up” surveys for four countries in the region (El Salvador, Guatemala, Honduras, and Nicaragua) which help offer a better understanding of how things are changing. The first round of survey data was collected in August 2020 (shown in orange) and the second round was collected in January 2021 (shown in blue).

As the graph illustrates—at the aggregate level, firms of all sizes have been negatively affected by the pandemic in all countries. However, SMEs (highlighted in grey)—and in particular, small enterprises—have seen larger sustained drops in sales as well as faced higher rates of permanent closures than large firms. As of the first survey round, small enterprises in El Salvador and Honduras saw drops in sales of as much as 60%. Between the first and second survey rounds, however, sales were beginning to recover for firms of all sizes in all countries (though, they still remained far below pre-pandemic levels). In terms of permanent closures, while very few firms of any size had closed as of the first round of data collection—by the second round, many more firms had shuttered, with worse outcomes for SMEs. As of January 2021, as many as 5.5% of small firms in Honduras had permanently closed and 3.5% of medium firms in Nicaragua had permanently closed.

Of course, this type of survey data is limited in what it can tell us—both given limited coverage of countries in the region and limited coverage of different types of firms (excluding, for example, informal firms as previously discussed). However, other sources of data that are able to capture more information point to a similar directional impact of COVID-19 on SMEs in LAC—and suggest that the size of impact may potentially be much larger than shown in the Enterprise Survey data here. For example, based on data from a study on the demography of businesses in Mexico, in March 2021 INEGI reported¹⁶² that a staggering 20.8% of micro, small, and medium enterprises (MSMEs) had closed permanently between May 2019 and September 2020 (approximately 1 million firms).

¹⁶⁰ Herrera (2020).

¹⁶¹ World Bank (2022).

¹⁶² INEGI (2021).

Support to struggling businesses (and their workers) has been a central part of governments' economic relief strategies throughout the pandemic. These measures have taken a wide range of forms—including deferring payments, facilitating access to credit, and offering grants or subsidies. However, up against the reality of a constrained fiscal space, many LAC countries have faced challenges in providing adequate support to SMEs. As a critical source of employment and a lifeline of economic prosperity for so many communities across the region, it is essential that we work to support SMEs on the path to recovery. This requires investments in both resilience and productivity. On the one hand, the pandemic has shown the fundamental importance of strengthening the resilience of individual SMEs to shocks. On the other hand, it has also provided an opportunity reflect on the lost productive potential of SMEs. SMEs in LAC face chronically low levels of productivity¹⁶³—with SMEs in LAC generating just half the amount of wealth that SMEs do in Europe. If countries were to act now to address some of the structural barriers that SMEs face, such as access to finance, investments in digitalization and innovation, regulatory burdens, or broader challenges in the enabling environment—SME growth could become a strong engine of sustained economic recovery in the region.

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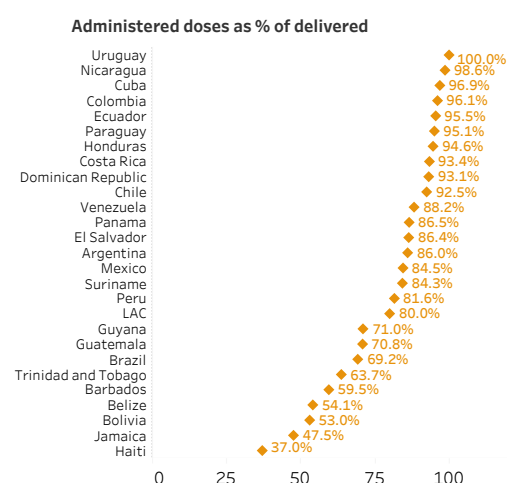
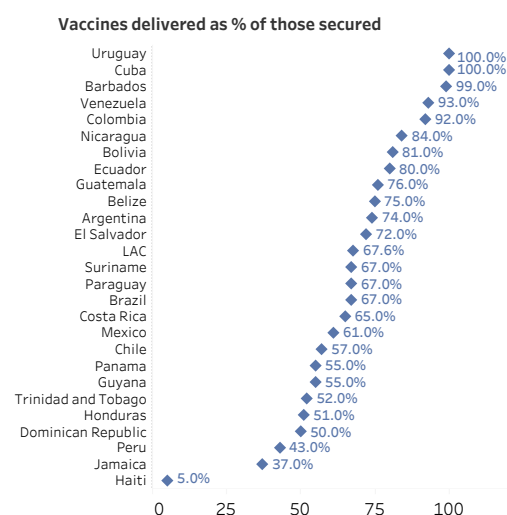
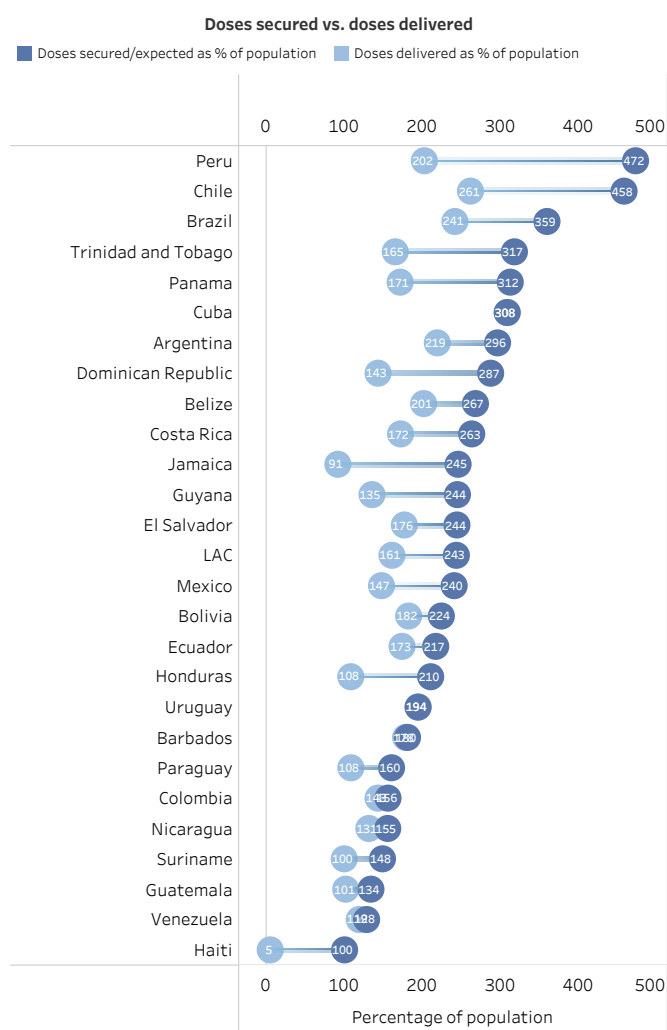
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Vignette 30

EASIER SAID THAN DONE: GAPS IN THE VACCINATION PROCESS

Inequality is the dominant feature in the supply, delivery and administration of COVID-19 vaccines in LAC.



Source: Multilateral Leaders Task Force on COVID-19 www.covid19taskforce.com

Note: Vaccines secured are defined as complete doses pre-purchased from laboratories or secured by other means such as Covax, or bilateral donations or estimated according to domestic production. Delivered vaccines are defined as vaccines already delivered and available in the recipient country. Data updated as of February 1, 2022.

After a long year of loss and hardship induced by the multiple crises of the pandemic, the highly anticipated arrival of COVID-19 vaccinations promised the hope of finally being able to put an end to this difficult chapter in our history. Indeed, the incredible collaboration of scientists with both public and private sector actors has achieved the great feat of developing, testing, and approving vaccinations in record time.

However, while we surmounted this first technical hurdle, the race against the virus is far from over. Now that we have the technology to develop the vaccines, we must also ensure countries everywhere have the fiscal capacity to purchase them, the manufacturing capacity to produce them, the logistical capacity to deliver them, and the administrative capacity to administer them—and to ensure that these efforts lead to the equitable vaccination of people.

Latin America and the Caribbean has made important immunization efforts against COVID-19, saving thousands of lives in the process. Unfortunately, as of January 2022, most countries in the region were still far from fully vaccinating their populations, with vaccination rates in the region at 55% (two doses). Looking forward, especially in the context of new variants, speeding up vaccination processes will be critical for recovery.

Using data from the Multilateral Leaders Task Force on COVID-19,¹⁶⁴ the graph in this vignette examines the constraints countries are facing in vaccinating their populations. This data allows us to look at how countries are faring at different stages of the vaccination process: pre-purchasing or securing the supply of vaccines, delivery of vaccines to the recipient country, and administering vaccines to the population.

Regarding the supply or pre-acquisition of vaccines, of the 26 countries where data is available, almost two thirds (17) have secured the necessary supply to immunize their entire population with two doses (countries that reach 200% in the left-hand panel of the graph). On average, LAC has secured enough vaccines to more than fully immunize its population, but important heterogeneity exists between countries. While Peru and Chile have secured enough vaccines to fully immunize their populations 2 times over, Haiti has only secured enough vaccines for 50% of their population (two doses).

However, securing vaccines does not mean that those vaccines are available. There is a large gap between the vaccines that have been pre-purchased/secured and those that have been actually delivered to countries. In the region, of the total of secured doses, only 68% have been received. In other words, the main obstacle to vaccination efforts in LAC is that of delivery.

The delay is due to limited production capacity of laboratories on a global scale; however, the chances of receiving the vaccines that countries have secured is also related to the purchasing and negotiating power of the country. In high-income countries around the world the average number of secured doses represent 471% of the total population, while received vaccines are enough to fully vaccinate its population with two doses. In LAC, secured doses represent 243% of the total population, while received vaccines are enough to vaccinate only 68% of the entire population with two doses. Again, these numbers hide huge heterogeneities. Haiti, for example, has received enough vaccines to immunize with two doses only 2% of its population.

Once vaccines are delivered, countries in LAC have fared quite well in terms of administering them to their populations. 17 countries have administered 80% or more of the doses received, and 10 of those are above of 90%. In other words, the picture taken at this moment of the pandemic indicates that the logistical challenge of inoculating the population is concentrated only in a few countries.

The encouraging news is that, as time passes, the gap between the population with one dose vs two doses has been slowly closing in the region. Initially, many countries followed the strategy of having as much of

¹⁶⁴ Multilateral Leaders Task Force on COVID-19 (2022).

their population with at least one single dose before starting to inoculate with the second dose. This has been proved to be problematic, since, according to estimates published in the *British Medical Journal*¹⁶⁵ and analyzed in *El País*,¹⁶⁶ the partial protection of the first dose must be above 70% for this strategy to be successful in stopping the spread of the virus. Before mutations became dominant in many countries, only a few vaccines achieved this level of protection with a single dose, and mutations have weakened this effectiveness.

While the region has made a significant effort to acquire vaccines, there are still significant delays in these being delivered. Across the world, many of the richest countries hoarded significant amounts of vaccines, while many of the poorest countries continue to have trouble covering their most vulnerable populations. It is essential that countries with surpluses share them. It is also essential to expand vaccine production capacity, since this continues to be the main bottleneck in the vaccination process. From an equity perspective, it is problematic that the countries that have pre-purchased the fewest doses are those that suffer the greatest delays in their delivery. Greater transparency is necessary both in the cost of the vials and in the delivery criteria.

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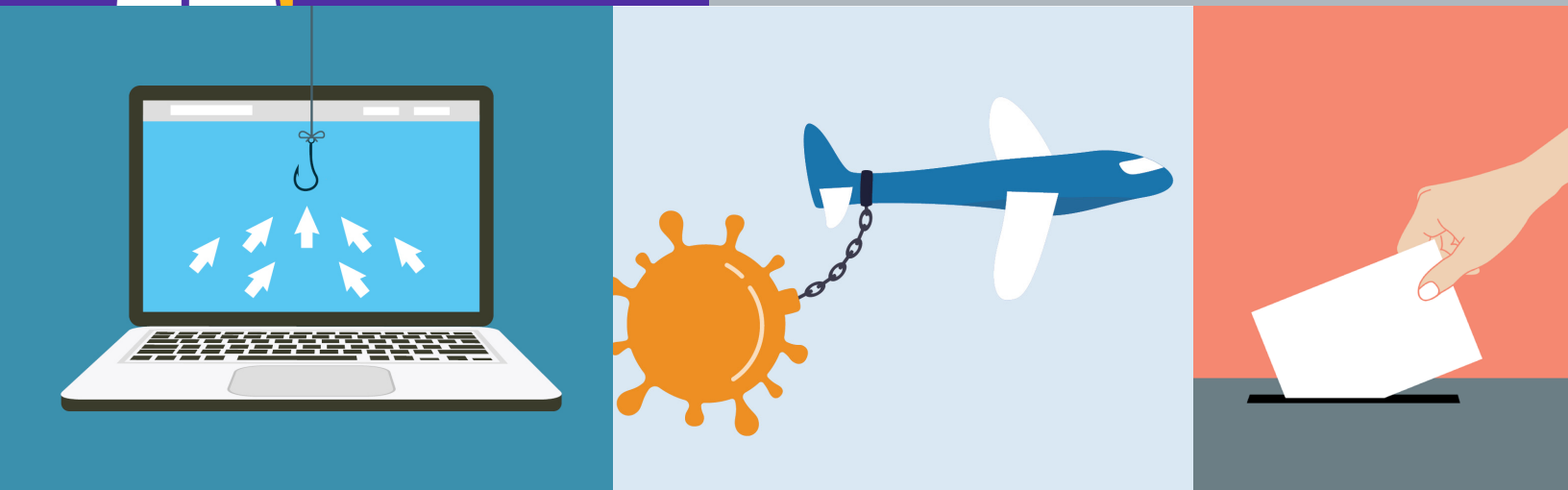
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¹⁶⁵ Romero-Brufau et al. (2021).

¹⁶⁶ Galindo (2021).



FINAL THOUGHTS

In the 1980s, people took to the streets. It was a time of economic contraction, debt crisis, and the so-called lost decade for Latin America. After that, with heterogeneity across countries, the 1990s and certainly the period after 2002 were years of progress in terms of income per capita (not at the level the region should have grown, certainly, but income increased), poverty reduction, and social advancement in non-monetary indicators of welfare. However, the LAC region did not carry out the essential structural reforms needed to make its societies and economies stronger, mainly: i) eliminating microeconomic distortions that lead to low productivity; ii) establishing integrated-universal social protection systems that are fiscally sustainable and do not fuel informality; iii) addressing the low quality of public services (and the associated challenge of private services deepening the “commoditization of opportunities”), and iv) strengthening institutions for “process legitimacy” such as accountability and transparency mechanisms, political representation (including political parties), electoral systems, and equitable access to justice.

While some experts celebrated the birth of a new middle-class society in LAC, it was too soon to celebrate. In 2017, after the world economy received an important shock due to political changes in rich countries that led to trade protectionism and higher levels of uncertainty, LAC started to suffer the consequences and face an important economic slowdown. The economic contraction was smaller than that of the 1980s, but the consequences in terms of social unrest and political instability have been, arguably, deeper. Then, in 2020, COVID-19 arrived. For almost two years now, the region has been battling this unprecedented and relentless challenge. This experience has revealed how societies in the region have become even more vulnerable to shocks by not addressing their structural issues related to productivity, inclusion, resilience, and governance.

Moreover, as we look toward the future we find ourselves facing increased levels of uncertainty. Against the backdrop of the pandemic and the looming specter of climate change, many have argued that we have entered a new period in this regard. The notion of increased uncertainty could imply that there are new known events that could potentially occur (such as previously unknown zoonotic diseases) and/or that the probability we assign to previously-known events (such as the likelihood of extreme climate-related events) has increased. As we chart our path forward, it is critical that we take into account how this new context of uncertainty may impact economic decisions, political decisions and social interactions—ultimately affecting human agency (understood as the capacity of individuals to be in control of their own lives and pursue the life plans they have reasons to value).

While we are looking toward an uncertain future, there is hope on the horizon. Indeed, moments of crisis can often serve as opportunities for change. This can materialize, for example, through shifts in the underlying configuration of power among actors in society. If political coalitions can successfully be built around ideas for a better “new normal,” the aftermath of the COVID-19 pandemic could allow for positive change in ways that were not previously feasible. However, shared desire for a better world is not enough to ensure that change will actually emerge. We must understand the micro-foundations of social change and the governance dynamics that actually create a potential window for change, and act on it with intelligence and political ability.



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