

DEVELOPMENT IN TRANSITION

Dialogues to chart new paths for
LATIN AMERICA AND THE CARIBBEAN



Side event in the framework of the United Nations High-level Political Forum on Sustainable Development (HLPF) 2021

Thursday, 15 July 2021, 7.30–9 a.m. (EST)

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Working together for an inclusive and sustainable future

The COVID-19 crisis is radically transforming our economies and societies. The pandemic hit Latin America and the Caribbean (LAC) at a time when the region already faced deep structural challenges. The COVID-19 crisis posed new challenges to the structural development traps already highlighted in the *Latin American Economic Outlook 2019 "Development in Transition"*. The four traps of low productivity, inequalities and social vulnerability, institutional weaknesses and threatened environmental sustainability exacerbate the socio-economic consequences of the crisis and reduce the countries' ability to design and implement medium and long-term responses. The COVID-19 crisis underscored the need to adopt a multi-dimensional approach to development to overcome the interlinked challenges posed by the development traps. Moreover, the pandemic has shed light on the pressing need to redefine national policies by building consensus across citizens. Further regional integration and international cooperation that includes LAC countries on an equal footing regardless of their development level should contribute to the region's economic and social recovery.

In this context, the recovery must be seen as an opportunity to develop a strategy with inclusiveness, resilience and sustainability at the core of the region's future development model that promotes the achievement of the 2030 Agenda in the context of the decade of action. LAC countries are facing an extraordinary challenge: tackling the pandemic impacts while transforming the development traps into virtuous circles that set LAC on a path towards sustainable development and higher well-being for all. There is strong heterogeneity across the region, and the impact of the pandemic and the ability to react to its challenges and spur an inclusive recovery will vary from country to country depending on their starting position and individual characteristics.

The recovery is also an opportunity to rethink the role and potential of international cooperation, in line with the narrative developed in LEO 2019. International cooperation will remain essential in



bringing together the expertise, resources and value from multiple actors, by defining actions/initiatives that can structurally strengthen the region's response to the pandemic and put the region back on track to achieve the SDGs by 2030. In this context, a particular focus will be placed on the potential of strengthening the EU –LAC different partnerships in the context of the shared goal across several actors to overcome the pandemic. Better institutions, social cohesion and the fight against inequalities, supporting a green transition and the digital transformation are key ingredients for the dialogue across regions to promote an inclusive, sustainable and strong recovery.

Towards a sustainable and inclusive recovery strategy for the post-Covid era

The *Latin American Economic Outlook 2021 (LEO 2021)* aims to identify and analyse the key foundations for a sustainable and inclusive recovery in the region and provide tailored policy recommendations to help relevant stakeholders take action and build forward better. The report will show how the crisis can be used as a trigger for bringing forward the framework of Development in Transition and partnerships to foster regional integration while promoting new and more ambitious co-operation.

The report will focus on 5 main areas:

- **Understanding the structural macro impact of the Covid-19 crisis and the role of a reinvigorated regional integration to foster inclusive development:** Although with differences across countries, the region entered the crisis with limited fiscal space and weak productive capacities. Recovering the pre-crisis level of economic activity will take several years and, because of the structural limitation of the LAC development model, will be slower than in more resilient economies. An inclusive and sustainable recovery to the crisis demands mobilising an extensive amount of resources in a context of increasing public indebtedness and economic vulnerability. This chapter will analyse the impact of the crisis in LAC countries, taking into account the heterogeneity across the region, and the need to emphasise the regional dimension for a sustainable and resilient recovery strategy. At the same time, taking into consideration the sequencing and consensus needed at the fiscal side, it will analyse the need to move towards progressive and sustainable fiscal frameworks, further financing for development and addressing the management of public debt in the region.
- **Social effects of the COVID-19 pandemic. Lessons, policy instruments and new challenges:** The pandemic hit an extremely vulnerable social structure, resulting in a significant increase in poverty and inequalities, evoking the urgency to adopt policies to overcome the social vulnerability trap. Several countries in the region have expanded their social protection systems through targeted temporary measures. However, the sustainability of these measures in the medium-term, as well as the level of effective and sustainable protection offered to the most vulnerable groups are issues that still need to be addressed. The COVID-19 crisis has revealed that the current mechanisms for social protection in LAC are insufficient; indeed, close to 40% of workers are not protected by any kind of safety net. This is largely due to the prevalence of labour informality in the region, which affects almost 60% of workers. This chapter will explore the need to move towards universal social protection systems, promote innovative options to formalisation, especially for women, and reduce

social coverage gaps. Moreover, it highlights the importance of protecting the most vulnerable population -in particular climate-vulnerable population, women, socio-economic disadvantaged students and people with disabilities, minorities and migrants, while improving the quality and inclusiveness of basic services, especially, healthcare and education.

- **A regional industrial strategy for the recovery:** The main challenge the region will face during the recovery will be to generate quality jobs in productive sectors while ensuring the long-term sustainability of LAC economies. It is important to reflect on how to articulate more resilient, productive and economic structures, develop a skilled labour force fit for a new digital age, use forward planning for the sustainable management of LAC's resources, and revamp regional integration and interlinks with other regions. LAC economies are generally characterised by undiversified productive structures, concentrated in the primary sector based on few resources, raw materials, agricultural production and extractive industries. Many of them are energy-intensive sectors or characterized by the predominance of informal micro and small and medium-sized enterprises which are competing in a globalised world struggling to reap its benefits due to suboptimal information and communication technologies (ICTs). These aspects are typically linked to the productivity and environmental traps.

Moreover, productive sectors are poorly integrated at the regional level, they are highly dependent on external demand for commodities and primary goods and foreign investment. The current productive structure hampers the development possibilities of the region. This chapter will address the need for ambitious policy actions to spur skills and capacity development, productive transformation, upgrade the economic structure and attract sustainable investments. Productive policies should promote innovation, technological upgrading and the diversification of the productive structure toward less resource-intensive sectors by promoting greener investments, circular economy, and the adoption of technologies to increase efficiency, reduce emission and reach higher levels of environmental sustainability while increasing the economic and environmental resilience of the economies of the region. Likewise, fostering intra-regional trade, the creation of regional value chains and increasing the region's participation in global value chains and investment flows with the EU, while connecting MSMEs with international trade are key policy objectives in the post COVID-19 context. Challenges related to energy transition and manufacturing development will be addressed as opportunities to enhance sustainable and inclusive development.

- **Towards a new social contract for development:** Advancing the needed reforms and overcoming the institutional trap will require LAC countries to build new social pacts that empower citizens at all stages of the policy-making process. More than ever the COVID-19 crisis highlights the need for co-ordination and coherence across different actors, to deliver the most effective responses, and to build consensus across citizens in a sustainable contract. Furthermore, LAC countries need strategies that empower citizens at all stages of the policy-making process. LEO 2021 will exploit several sources of data including survey data, to understand people's perceptions of political institutions and policy preferences.

- **Fostering regional and International partnerships:** National responses will not be sufficient to overcome the COVID-19 crisis and, more generally, tackle global challenges such as climate change while advancing the sustainable development goals (SDGs). The COVID-19 pandemic could be an opportunity to continue reshaping regional and international cooperation schemes. Regional



and bi-regional partnerships are fundamental to reinforce regional integration and design a common response to shared challenges. International development partnerships are very relevant to support the immediate and long-term response. International cooperation can act as a facilitator for the exchange of experiences, promoting access to knowledge and technology and fostering sustainable development. This chapter will analyse how regional efforts and international partnerships are being canalized and redesigned to tackle the challenges posed by the pandemic and how likeminded partners towards de 2030 agenda as the EU and LAC can reinforce their partnership for building back better and fostering sustainable development.

The LEO 2021 will include three cross-cutting themes: (1) Climate change and the **green recovery**; (2) the **gender dimension** and (3) the **digital transformation/new technologies**.

* The Latin American Economic Outlook - LEO is a joint annual publication produced by the OECD Development Centre, the United Nations Economic Commission for Latin America and the Caribbean (UN-ECLAC), the Development Bank of Latin America (CAF) and the European Commission (EC).

