Reconstruction and transformation with equality and sustainability in Latin America and the Caribbean

Dialogue of ministers of foreign affairs and high-level authorities of Latin America and the Caribbean on the post-pandemic economic recovery

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Introduction

The coronavirus disease (COVID-19) pandemic has had an unprecedented impact in Latin America and the Caribbean. What started as a public health crisis has become the worst economic and social crisis in a century and has exposed significant structural gaps in the region's development model.

However, the problems facing the region today did not start with the pandemic: it was already showing signs of a weak economy, environmental sustainability issues and social inequality before the COVID-19 outbreak. At end-2019, before anyone could have predicted what 2020 would bring, Latin America and the Caribbean had already experienced more than five years of economic slowdown, which was beginning to translate into rising unemployment, poverty and inequality in several countries of the region. The sluggish economy was marked by declining investment rates, stagnant export volumes, widening productivity gaps and increasing levels of domestic and external debt, all of which created a feedback loop preventing a return to more robust growth.

This calls for critical reflection on a crisis-recovery strategy, for, if the region's economic and social performance prior to the pandemic is any indication, a successful path forward cannot be achieved by reverting to the way things were. A profound transformation is necessary, eschewing the temptation to view the pandemic as an accident or a parenthesis instead of as the signal that a new direction must be taken because the world has reached what is increasingly seen as a transformative crossroads. The crisis and the marked discontent in the region must be understood as a tipping point regarding the continuation of the development model. In this context, a change of strategy is imperative for there to be an inclusive and sustainable economic recovery in Latin America and the Caribbean. The region is characterized by inequality. The current development model has obvious limitations both in terms of how it contributes to economic growth and, primarily, its capacity to meet the just and growing demands of the population and to achieve the necessary social and environmental balances that enable governance and the consolidation of democracy.

A new social contract is needed and a new global pact must be forged. Such is the scale and scope of the effort required in this change of era. In the days, months and years to come, it is imperative to strive for reconstruction and transformation with equality and sustainability.

A shift in the region's development model and in its economic and social policies is required if it is to avoid a return to the recent trend of anaemic growth, with social exclusion and environmental degradation. The shift towards an inclusive and sustainable development pattern that guarantees the conditions necessary for governance and in which there is a balance between economic growth, social inclusion and environmental sustainability, among other factors, will need to be sustained by political partnerships that place equality at the centre of development and sustainability, as the key to sustainable development.

It must be stressed that the pandemic has highlighted the fragility and its global reach has revealed the unsustainability of a development pattern marked by deepening inequalities, loss of social balance and environmental destruction, all against a backdrop of weakening multilateralism and international cooperation. It is only progressive change, with modifications to the production structure and the establishment of a new social welfare regime, that can give rise to the conditions for environmentally sustainable production, favour inclusive growth processes and improve income distribution. With 8 out of 10 people in Latin America belonging to vulnerable groups (low and lower-middle income strata), there is an urgent need to establish a universal social protection system, in line with one of the basic principles of social protection systems. To achieve this, one of the key challenges is to design ad hoc financial and fiscal sustainability policies.

The COVID-19 crisis has not simply highlighted the weakness of the production structure in Latin America and the Caribbean, the fragmentation of its health and social protection systems and the very high incidence of labour informality; it has also laid bare the futility of objections to the use of fiscal expansion as stimulus for growth. These objections were quickly abandoned in the midst of the pandemic, first by advanced economies, which promptly implemented fiscal stimulus measures to sustain economic growth and job creation and to conduct large-scale bailouts of private companies on the verge of bankruptcy. Fiscal policy has thus regained prominence in the discussions on development and growth.

It is essential to reflect on this shift through an in-depth analysis of the thinking that has so far dominated the economic landscape and especially the political economy, given the emergence of new approaches in public debate. Otherwise, the debt levels that the majority of countries will face as they finally move on from the pandemic will likely result in the return of austerity policies based on fiscal constraints at the first signs of recovery. The region needs to maintain an expansionary fiscal policy in its efforts for fiscal sustainability, adopting a strategic approach focused on public revenues in order to achieve sustainable growth and employment levels. Furthermore, a crisis-recovery strategy that promotes transformations in the production matrix through the use of industrial and technological policy instruments and that seeks to establish a new universal social welfare regime and a sustainable environmental policy necessarily involves an expansionary fiscal stance, which should be maintained throughout the economic recovery.

With each era comes specific demands on the State, reflecting, among other factors, the prevailing ideas and the economic, social and political situation therein. The transformation that the world is currently undergoing will require more and better State involvement. It will require a State that promotes a policy of inclusion and prevents the erosion of society brought about by exclusion. It will require a State that has been strengthened institutionally, with new duties and competencies, and is agile in its response to problems, with instruments that are timely and fit-for-purpose and with strong and dynamic institutions.

History has shown the complexity inherent in every change of era. It involves prolonged processes of structural transformation which disrupt the technological base, production, distribution and consumption methods and how people coexist. Epochal changes are generally lengthy and hybrid processes in which fractures, innovation and continuity, conflict and consensus combine to form new production, social and political structures. Social subjectivities and even cultural habits shift, and old policies and paradigms are often replaced by new approaches.

The current epochal change is no mere repetition of previous ones: it has some fundamental specificities. One of these is the speed and intensity of change that stems from a technological base with instant global communication and economies and societies that are deeply interconnected in the context of hyperglobalization. The most important difference is the evidence that the prevailing development pattern has driven the planet to its environmental limits, forcing a profound transformation of the relationship between the economy, society and the environment, as is starkly manifest in —but not limited to— global warming and the COVID-19 pandemic. It is this development pattern that facilitates the combination of the devastating effects of climate change and the generation of structural risks posed by animal-borne diseases. For all of these reasons, this change of era dictates that development will either be sustainable, or there will be no development.

I. The economic and social effects of COVID-19 and measures taken in Latin America and the Caribbean[1]

The COVID-19 pandemic has hit Latin America and the Caribbean in a period of economic weakness and macroeconomic vulnerability. In 2010, the region's gross domestic product (GDP) grew at an average rate of 6%, fuelled by the recovery from the financial crisis and the commodity price boom. However, between 2014 and 2019 the economy slowed down to such an extent that the average annual growth rate was the lowest since the 1950s. In 2019, the region's economic growth stood at a mere 0.2%.

The deterioration in macroeconomic conditions was reflected in the social situation in Latin America and the Caribbean, as evidenced by rising rates of poverty and extreme poverty, persistent structural inequalities and a climate of growing discontent. In that context, the crisis has had a grave impact on health and education, as well as on employment and poverty. In view of the socioeconomic inequalities in the region, the repercussions will be most severe in terms of unemployment and among the poor and vulnerable sectors of the population, including the middle-income strata.

The global economy will undergo the deepest recession since the Second World War and per capita GDP will shrink in 90% of countries, with unprecedented synchronization. Global GDP will contract by 5.2% in 2020. Developed economies are expected to shrink by 7% and emerging economies by 1.6%. The Economic Commission for Latin America and the Caribbean (ECLAC) projects a regional average decline of 9.1% in GDP in 2020, with decreases of 9.4% in South America, 8.4% in Central America and Mexico, and 7.9% in the Caribbean excluding Guyana, whose strong growth points to an overall subregional decline of 5.4% when taken into account. The decline in economic activity will mean that, by the end of 2020, per capita GDP in Latin America and the Caribbean will be similar to the level seen in 2010, effectively making the last 10 years a lost decade.

The contraction will have negative effects on the public coffers, widening deficits and increasing the pressure on debt commitments. On the revenue side, the impact will be transmitted mainly through lower tax collection and falling commodity prices. However, there has been an increase in public spending to tackle the pandemic, with more public funds directed towards strengthening the health sector and to cash transfers to the hardest-hit segments of the population. Rising debt in Latin America and the Caribbean affects not only the central government but also non-financial public enterprises, which are strategically important owing to their size, contribution to tax revenues and involvement in production and exports.

The COVID-19 outbreak occurred in a context of sluggish global trade that has been dragging on since the 2008–2009 financial crisis. The volume of global trade in goods fell by 17.7% in May 2020 compared with the same month in 2019, with Latin America and the Caribbean being the most affected developing region. The initial supply shock on global trade was gradually compounded by a demand shock, the result of measures to limit the spread of COVID-19 adopted in Europe and later in North America and the rest of the world.

ECLAC projects a 23% contraction in the value of the region's goods exports in 2020, while the value of imports is expected to fall by 25%. The largest contractions in exports in 2020 are expected in those to the United States (-32%) and to the region itself (-28%), while shipments to China are projected to fall by just 4%.

1 The background for this section has been taken from the *COVID-19 Special Reports* published by the Economic Commission for Latin America and the Caribbean (ECLAC) on the evolution and impacts of the COVID-19 pandemic in Latin America and the Caribbean.

The downward revision of growth prospects and the resulting increase in unemployment will have a worse impact than expected on poverty and extreme poverty. The loss of income is primarily affecting the broad strata of the population that are living in or vulnerable to poverty, and people working in activities that are more unstable and those in precarious employment.

The different socioeconomic impacts reflect the social inequality matrix in the region. The crisis precipitated by the pandemic is having a disproportionate impact on women, apparent, for example, in an excessive burden of unpaid work, increased poverty and job insecurity, limited access to public services and insufficient financing for gender equality policies. Moreover, women are now on the front line in the response to the health crisis and are more exposed to infection, as they account for 72.6% of those employed in the region's health sector.

Based on the trends observed to date, ECLAC estimates that the number of people living in poverty will grow by 45.4 million in 2020, bringing the total number living in poverty from 185.5 million in 2019 to 230.9 million in 2020, representing 37.3% of the Latin American population. Within this group, the number of people living in extreme poverty is expected to increase by 28.5 million, from 67.7 million in 2019 to 96.2 million in 2020, equivalent to 15.5% of the total population.

In response to the global crisis, the countries of the region have announced major fiscal packages to address the health emergency and mitigate its social and economic repercussions. On average, they represent 4.1% of Latin America's GDP. In addition, many countries have extended government credit guarantees to the private sector (ECLAC, 2020b).

With regard to the eventual phasing out of lockdown measures, some countries have announced that they are designing additional plans for the economic recovery phase. The fiscal effort that has already been made and that will be needed over the coming months must take into account the strengthening of medium-term fiscal sustainability. New fiscal and social pacts must therefore be pursued, to build fairer and more inclusive, egalitarian and efficient societies.

Inflation is historically low in the region, leaving room for expansionary monetary policies, both conventional and non-conventional. One of the first reactions of central banks was to cut monetary policy rates considerably: in some countries they are close to zero. In addition, measures have been taken to protect macrofinancial stability from the crisis, with macroprudential policy supervisors using all available tools to that end.

Some of the main social protection measures implemented in the region to help households facing the greatest poverty, vulnerability and insecurity to weather the pandemic include the provision of food and the establishment of new cash transfers. The next most common measures are the suspension of payments for basic services such as water, electricity, telephone and Internet and increases in the amounts allocated under existing cash transfers, early disbursement of existing programmes and the expansion of population coverage.

Two types of social protection measures for formal workers have been adopted: the first aims to reduce workers' exposure to the virus and ensure business continuity, the second is intended to protect income and employment. There are also indirect measures to protect formal employment, including support for enterprises in the form of rescheduled debt and tax payments or special loans, for example.

Cash transfers have also been set up to compensate for dwindling incomes of informal workers and other vulnerable workers such as the self-employed. This is an innovative social protection mechanism.

In the area of pensions, some countries have implemented payment of exceptional bonuses to retirees who receive the lowest pensions in the pension system, sometimes supplemented with smaller amounts for those with higher pensions, or have opted for advance pension payments for a certain number of months. Others have authorized the withdrawal of funds from individual capitalization accounts given the pressing needs in the face of the pandemic.

II. Strategic discussions in times of pandemic

A. The pandemic and the validity of the sustainable development model

The severe social and economic blows inflicted by the COVID-19 pandemic in 2020, which ECLAC has described in detail in the *COVID-19 Reports* and the COVID-19 Observatory in Latin America and the Caribbean, are of unprecedented scale and speed.

While the global health crisis may not have been foreseen, it comes as no surprise that the societies in the region are structurally fragile, evidently vulnerable and provide a breeding ground for the fatal disease to spread.

For more than ten years now, ECLAC has placed inequality at the centre of its analytical reflections on development, making it the focus of its interpretation and proposals. The last decade has been more than a time of change, it has been a real change of the times. In this context, it has been argued that it is imperative to advance with progressive structural change within the framework of the environmental big push.

Since 2009, ECLAC has advocated an agenda that places equality at the centre of sustainable development and makes technological change a driver of shifts in the production matrix. It was considered that the time had come for equality in Latin America and the Caribbean, the time of growth for equality, and equality for growth. This proposal has since evolved and has been enhanced to go beyond the notion of equity as a better distribution of income, instead focusing on the principle of equal economic, social and political rights (ECLAC, 2020, 2012 and 2014).

During the decade, approaches were developed around policy pillars such as macroeconomics for development, fiscal frameworks and public institutions, diversification, productivity and industrialization, technological innovation, work with rights, universal social protection and the environmental big push, which can only be achieved through political and social pacts and partnerships that call for a new State-market-society equation (ECLAC, 2016).

ECLAC broadened this concept, upholding that inequality is inefficient and unsustainable because it creates institutions that fail to foster productivity and that reward social class, ethnicity, gender, or political connections. The culture of privilege thus forged reinforces inequalities, normalizing them in social relations and increasing social mistrust, and reproduces them over time. Equality, however, strengthens democracy, which in turn is associated with the provision of more and better public goods, with positive effects on productivity, sustainability, and social cooperation and solidarity. The notion that equality, democracy and development are complementary rather than contradictory paths for the region must be taken further.

Exclusive institutions and the culture of privilege come at too high a cost. They provoke significant losses of potential productivity resulting from unequal access to education, a situation that is perpetuated from one generation to the next given the high correlation between the educational level of parents and that of their children. That synchronism is much less pronounced in developed economies. This is particularly problematic in light of the fact that skills and their dissemination are crucial for economies to be competitive and to create productive jobs against the backdrop of the technological revolution.

Inequality and poverty cause avoidable social damage. They result in differences in life expectancy and years of healthy life, and hinder the development of the capacities and talents of large segments of the population. All of this translates into a loss of the development potential embodied in the millions of life projects of women and men who seek to overcome rigid social stratification that has highly impenetrable barriers and is inclined to perpetuate traditional roles and to preserve a highly stratified social structure.

Discrimination reduces the opportunities to pursue paths in learning and innovation that enhance productivity and reinforces the pattern of wasting resources and skills mentioned previously.

This is compounded by an analysis of the current context through the lens of factors that include the global recessionary bias and climate change, the world's greatest market failure, which can impede the implementation of the 2030 Agenda for Sustainable Development and its 17 Goals.

ECLAC has always held the firm conviction that if the obstacles that have eroded the foundations of social coexistence are not resolved, left to widen gaps in income and access to public goods, restrict States' response capacity, reduce the fiscal space and relegate the satisfaction of basic needs to supply and demand, the region's development project will remain unsalvageable.

The need for growth is undeniable, but failure to strengthen production capabilities, the industrial base, and people's skills and education will undermine any efforts for the future. The production and consumption pattern that has prevailed for decades is socially, economically and environmentally unsustainable. When growth contributes to the hyperconcentration of wealth and markets, when it is driven by a rentier and extractive culture with little or no added value and to the detriment of the fixed —and diminishing— reserves of natural resources, when it is sustained by indulgent tax regimes or discretionary concessions and privileges, when society does not see the wealth created being channelled towards the collective well-being but rather a model that privatizes the profits and socializes the losses, that growth is no longer viable and loses legitimacy.

The pandemic has left in its wake reduced States with fragmented health and social protection systems, no regional capacity for endogenous production related to health, empty public coffers and that are incapable of providing quality public goods to millions of citizens, who are then required to be confined to their homes, unable to work or move around.

The pandemic affecting the region today not only increases poverty but also heightens inequality. Although the infection risk was initially distributed relatively evenly across social and economic status, an analysis of the differences in the capacity to respond to the disease and in the resources available to comply with lockdowns in a secure environment shows that its impact is highly regressive. Overcrowding in urban areas, coupled with lack of access to safe water and sanitation and to healthy nutrition in line with daily needs, renders the recommended physical distancing virtually impossible.

This underscores the position adopted by ECLAC regarding the need for a big push for sustainability and equality, towards a new development model based on economic growth, environmental sustainability and social inclusion. It also strengthens the conviction, consistent with the reflections of the past decade, that post-pandemic reconstruction must be a transformative process grounded in equality and sustainability.

B. Fiscal policy at the centre of discussions on development and growth

Like the 2008–2009 financial crisis, the COVID-19 pandemic has illustrated the importance of fiscal policy not only in managing the economic cycle but also in the dynamics of the recovery. Since the sub-prime mortgage crisis, and after more than a decade of near-zero interest rates in the developed world, the effectiveness of conventional monetary policy in managing aggregate demand has been limited. As a result, fiscal policy has been increasingly used in parallel with non-conventional monetary policy instruments in an effort to boost aggregate demand. Fiscal policy has thus become a central part of the management and sustainability of aggregate demand, which is not only important in the short term but also vital to economic recovery and long-term growth.

The outbreak of the COVID-19 pandemic has led to the reformulation of fiscal policy objectives in Latin America and the Caribbean. Given the magnitude of the crisis, and despite the sombre macroeconomic conditions, countries have reacted quickly by adopting large-scale fiscal policy packages to mitigate the impact of the pandemic on the health sector, families and businesses.

The countries of the region have announced major fiscal packages to deal with the crisis arising from the COVID-19 pandemic. The scale and scope of these measures depend on the specific situation in each country in terms of the progress of the pandemic, the capacities of health systems and social safety nets, the fiscal position and the structure of the economy. Although these packages vary across countries, the fiscal effort they represent is estimated at 4.1% of GDP on average for Latin America (ECLAC, 2020b). These efforts include both new expenditures and budget restructuring. The policy response has been to use public spending as the key tool for mitigating the economic and social effects of the pandemic. Countries have also announced tax relief and government-backed liquidity measures, including the provision of credit guarantees, loans to the private sector and the capitalization of funds and public financial institutions.

The fiscal efforts made by the countries to address the crisis will drive up average public spending. Public spending is projected to reach 25.4% of GDP for 2020, up from 21.7% of GDP in 2019. At the same time, total revenues have shrunk from 18.5% of GDP in 2019 to an estimated 17.0% of GDP for 2020 due to the drop in tax revenues as a result of the economic slowdown and the adoption of tax relief measures. The overall balance is projected to post the largest deficit in almost a century, -8.4% of GDP, while the primary deficit, which had been reduced in recent years in Latin America, is expected to rise again in 2020, widening to -5.5% of GDP. As a result, the greater financing needs are expected to push central governments' gross public debt for the Latin American countries up by an estimated 9.3 percentage points to reach 55.3% of GDP in 2020 (ECLAC, 2020b).

Most of the fiscal efforts have been aimed at bolstering health system capacity by hiring more staff, purchasing medical supplies, and expanding health infrastructure, among other actions. In view of the substantial repercussions of the lockdown measures on household employment and income, many countries have introduced exceptional grants or transfers for households. Fiscal response measures in the region have also focused on protecting productive capacity through financial instruments to provide companies with liquidity. Numerous credit lines have been made available, mainly for micro-, small and medium-sized enterprises (MSMEs), with preferential rates and in some cases a grace period for repayment of principal.

Increased public spending has been complemented by tax relief measures focusing on tax on income and earnings, social contributions and VAT. These measures generally provide for later deadlines for tax returns and exemptions for the duration of the state of health emergency. In addition, some countries have fast-tracked income tax refunds for the tax year.

The expansionary fiscal policies adopted by the countries of the region to tackle COVID-19 have been successful and should be sustained over time with a view to fiscal sustainability, focusing in particular on public revenue trends, making the tax structure more progressive and tax collection capacity more effective, and improving the efficiency and quality of public spending. Thus, expansionary fiscal policy efforts will need to be maintained to foster economic recovery and to build more inclusive and egalitarian societies.

The main fiscal policy challenges in the post-pandemic period will be to build welfare states, strengthen productive development and implement policies that foster environmental sustainability. Fiscal austerity is therefore not an adequate response to the fiscal challenges they face. The region needs to seize this opportunity to move its development path into line with the Sustainable Development Goals (SDGs) of the 2030 Agenda.

C. Financial and monetary measures to address the crisis

The effects of the pandemic have strained government accounts in the region to an extent not seen since the debt crisis of the 1980s. In 2020, both the overall and the primary fiscal position are projected to widen to the highest deficit in the last 70 years.

To counter the severe hit to public accounts, countries have sought to open up more room for manoeuvre through the use of various internal and external financing instruments.

Given the high fiscal deficits, many have had to turn to external support. Some countries have sovereign wealth funds and have used their savings to close fiscal gaps to some extent. In addition, between March and June 2020, 11 countries in the region placed sovereign bonds, together totalling US$ 24.8 billion, at low interest rates in international markets (ECLAC, 2020b). Furthermore, most countries in the region —16 in Latin America and 9 in the Caribbean— supplemented their financing needs with emergency funds from international financial institutions (Central American Bank for Economic Integration (CABEI), Inter-American Development Bank (IDB), World Bank, Andean Development Corporation (CAF) and International Monetary Fund (IMF)) amounting to US$ 22.587 billion.[2]

The countries of the region are facing different fiscal and economic conditions as they tackle the crisis. In this regard, the Caribbean small island developing States stand out given their high level of indebtedness that limits their development capacity and their high vulnerability to natural disasters. Against this backdrop, ECLAC has advocated the need for progress on debt relief mechanisms (reducing debt by at least 12%) and the with the creation of a Caribbean resilience fund to finance investment in climate change adaptation and mitigation. ECLAC has also proposed that these countries should have effective access to concessional financing. Meanwhile, the countries of Central America face a limited fiscal space, as significant fiscal deficits restrict the effective payment of debt servicing costs (which average 2.7% of GDP). The international community should therefore give special consideration to debt service relief, at least until 2021.

Pursuing expansionary fiscal policy within a fiscal sustainability framework for the medium term requires strategies to expand fiscal space by mobilizing both domestic and external resources. At the national level, there is room to enhance the State's revenue-raising capacity —which is low and skewed towards regressive indirect taxes— by bolstering income tax, property taxes and taxation of the digital economy, along with corrective taxes relating to the environment and public health. There is, likewise, room to reduce revenue losses caused, for instance, by tax evasion and avoidance and tax expenditures. At the same time, given the importance of expenditure policy as a development tool, it is important to enhance the efficiency, effectiveness and equity of public measures in order to guarantee that the resources mobilized are channelled toward public policies that reduce inequality and foster growth.

All these efforts will have to be accompanied by greater mobilization of external resources, an area in which international cooperation plays a fundamental role. If it is to bolster fiscal sustainability, as required by many countries, the international community will need to implement systemic and structured sovereign debt renegotiation mechanisms, and this has been one of the major weaknesses of global financial institutions.

Active international cooperation is needed to boost the efforts by countries in the region to confront the pandemic and reactivate their economies. This requires liquidity to be expanded for middle- and low-income countries and an inclusive worldwide financial structure focusing on promoting sustainable development.

A primary objective should be to promote implementation of measures geared to expanding the liquidity available to meet the financing needs of middle- and low-income countries. The issuing of Special Drawing Rights (SDRs) by IMF would help to expand global liquidity and bolster countries' international reserves. Moreover, a special-purpose fund or vehicle should be set up to enable countries that do not make use of the additional SDRs to, voluntarily or temporarily, commit part of their allocation to strengthening the financial capacity of regional financial arrangements and other institutions such as the regional development banks.

[2] Information updated to 18 August 2020.

Also needed is a commitment by the international financial community and, specifically, by the Group of 20 (G20), to capitalize multilateral financial organizations to enable them to meet the demand for financing.

Another necessary measure is relief of the debt and debt-servicing burden for highly-indebted low- and middle-income countries, where that burden limits their capacity to respond to the pandemic and reactivate their economy. Accordingly, the Debt Service Suspension Initiative should be expanded to include middle-income countries.

Complementing the above, international cooperation partners should adjust the criteria for granting official development assistance and concessional financing on favourable terms taking into account the obstacles to development that countries face because of structural gaps, and not only on the basis of per capita income.

D. The productive structure limits productivity growth

Over the past 20 years, employment has accounted for 80.5% of the region's GDP growth, while productivity growth has accounted for only 19.5%. These figures are in stark contrast not only with those of countries or groups of countries that have seen robust growth over the same period (China, India, the United States, the European Union and the Organisation for Economic Co-operation and Development (OECD)), but also with the global average, with 62.4% of global GDP growth attributable to increases in productivity and 37.6% to increased employment.

Slow productivity growth poses serious challenges to the ability to improve workers' wages, the international positioning of countries in higher value added product markets and, more generally, the welfare of their populations.

This is related to the characteristics of the region's productive and business structure, which has developed weaknesses over the decades. It reflects structural problems stemming from the fact that the economy is based on limited natural resource production and processing activities and some capital-intensive services (electricity, telecommunications and banking) with high levels of productivity but which account for a very low share of employment (just 8%). The remaining sectors (including manufacturing) are characterized by low or very low levels of productivity.

Given the productive structure in the region, consisting primarily of a small number of large companies specializing in natural-resource-intensive sectors and some capital-intensive services, there are no incentives for MSMEs to engage in higher value added activities in these sectors. These firms cannot participate in such activities because of their high capital intensity; the same is true for the region's knowledge-intensive industries, which, at best, are poorly coordinated with the rest of the economy.

Against the backdrop of this pandemic and the work that countries will have to do to reactivate and build their economies, there is a window of opportunity to reflect on a transformation of the productive and business structure in Latin America and the Caribbean The current crisis has revealed the weaknesses of the region's industries, insofar as it has affected knowledge-intensive sectors that are more competitive internationally.

It is possible to advance towards inclusive and sustainable economies by taking advantage of the opportunities that come with disruptive changes in a new technological cycle, in areas such as new manufacturing, transport and logistics, energy efficiency, digital services and social innovation. In the absence of an industrial policy, and as the fourth industrial revolution and post-globalization pick up pace, technological gaps will likely become wider. In the economic emergency phase, preserving existing productive capabilities is paramount. However, as mentioned above, policies for the medium term must not be geared solely towards rebuilding the economy as it was before the crisis.

E. The importance of regional integration and multilateralism

Historically, the region of Latin America and the Caribbean has striven to maintain a regional voice in response to global challenges. The region thus came to share a set of values, chief among them being democracy as a form of government, the market as a space for growth, and the duty of the State to improve the lives of its citizens.

However, that is no longer the regional reality. Increasingly complex economic, social and political circumstances are putting greater pressure on governments at the national level, and also on multilateralism, as the effects of COVID-19 heighten inequalities within and between countries. The pandemic has shed light on and magnified the constant challenges facing the economies of Latin America and the Caribbean.

Thus, in a context of great uncertainty in the world economy and weak international trade, the region would do well to deepen intraregional cooperation and actively promote political and economic agreements so that it will have a united voice on the world stage. This will ensure that solutions to overcome the crisis and advance towards sustainable development can be better implemented. Strengthening regional integration and cooperation is not merely one of several options; it is the only enabling condition for Latin America and the Caribbean to play a significant role in the process of redefining global governance and to adapt to the new economic landscape that is on the horizon.

Despite the differences and specific needs of each country, the current crisis makes it more necessary than ever to coordinate multilateral actions, investment, cooperation, best practices and solidarity between countries. Multilateralism has been proven to be one of the most effective vehicles for reducing poverty and inequality, as well as promoting development. In recent times, multilateralism has been the driver of new development paradigms, such as the 2030 Agenda for Sustainable Development, the Paris Agreement, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the SIDS Accelerated Modalities of Action (SAMOA) Pathway. It was thanks to multilateralism that the region was declared a zone of peace (2014), in one of the most symbolic agreements adopted by the Community of Latin American and Caribbean States (CELAC), at a time when several countries were engaged in border disputes.

Latin America and the Caribbean can work to find regional responses to expedite the improvement of the health, economic and social situation, taking example on the two initiatives led by the region which are highlighted below. On 20 April 2020, the United Nations General Assembly adopted resolution 74/274, on the basis of a draft resolution put forward by Mexico aiming to prevent speculation on medical equipment amid the COVID-19 pandemic. The resolution requests the Secretary-General, in close collaboration with the World Health Organization and other relevant agencies of the United Nations system, including the international financial institutions, to identify and recommend options, including approaches to rapidly scaling manufacturing and strengthening supply chains that promote and ensure fair, transparent, equitable, efficient and timely access to and distribution of preventive tools, laboratory testing, reagents and supporting materials, essential medical supplies, new diagnostics, drugs and future COVID-19 vaccines, with a view to making them available to all those in need, in particular in developing countries.

On 17 August 2020, CELAC held a virtual ministerial meeting on access to the Astra-Zeneca COVID-19 vaccine, convened by Mexico in its capacity as pro tempore Chair. At that meeting, Argentina and Mexico presented a project for bilateral collaboration in the production of a COVID-19 vaccine. Nineteen countries were represented at the meeting (Argentina, Bolivarian Republic of Venezuela, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Jamaica, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay) and confirmed they would participate in the initiative to receive the vaccine.

The region could strengthen dialogue and the search for political understanding around common interests, putting into practice its values and principles, which include respect for international law, self-determination and sovereignty, territorial integrity, the peaceful settlement of disputes, non-interference in domestic affairs of each country, and the protection and promotion of all human rights and democracy.

As ECLAC has said, an integrated market of 650 million people would act as major insurance against supply or demand shocks from outside the region and, at the same time, would help achieve the scale required to make new industries viable, and to foster shared production and research networks among the various countries and subregions.

Latin America and the Caribbean has the opportunity and the capacity to lead the drive for a transformative development agenda towards a post-pandemic recovery that takes into account recent economic, social and political progress. It must be able to reduce the risks associated with future crises and hasten inclusive and sustainable development, meeting the goals of the 2030 Agenda and international agreements.

The economic recession and the continued dwindling of resources brought about by the COVID-19 crisis means that there is a risk that governments will prioritize emergency issues and abandon progress towards sustainable development, postponing or setting aside important agendas for future well-being. This is the case with the postponement of the twenty-sixth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, the International Union for Conservation of Nature and Natural Resources (IUCN) World Conservation Congress, the United Nations Ocean Conference, the negotiations regarding an agreement on the conservation and sustainable use of marine biological diversity of areas beyond national jurisdiction, and the consideration of an alternative date for the summit of the Convention on Biological Diversity.

The pandemic brought to light the need to review and rethink development and international development cooperation strategies and concepts. Global and local challenges demand increased international cooperation that is redirected towards overcoming the severe economic and social impacts of COVID-19. Thus, international development cooperation must shift towards a multidimensional approach in order to meet the specific challenges faced by countries.

In this regard, the criteria for measuring and classifying development —including capacity-building, knowledge-sharing and technology transfers— and the stages thereof should be reconsidered. Particular emphasis is needed on countries' capacity to mobilize resources and address their specific vulnerabilities, and, in parallel, to enhance development integration agendas. More specifically, a critical assessment of the categorization and graduation of middle-income countries is needed, as this affects access to financing, trade and international cooperation, among others, and could lead to an underestimation of the depth of structural inequality gaps as a function of a given per capita income.

The nature of today's challenges forces countries to think beyond their borders. Even as the pandemic showed that global shocks can often lead to persistent social, economic and environmental vulnerabilities, it is also proof that regional or sub-regional policies can be beneficial for the development of countries. Therefore, any new strategy for international cooperation must not neglect the production and maintenance of global and regional public goods.

III. Eight proposals from ECLAC for reconstruction and transformation with equality and sustainability

Over recent months, ECLAC has suggested a number of public policy initiatives to address and mitigate the effects of the pandemic, including expansionary fiscal and monetary policies in a context of fiscal sustainability; universal, progressive and distributive social policies; an emergency basic income for the entire population living in extreme poverty, sustained over time; an anti-hunger grant for the entire population living in extreme poverty; investment in the care economy, including formalization, remuneration and social security for all workers; longer terms and grace periods for lending to micro-, small and medium-sized enterprises (MSMEs); partial co-financing of payrolls and conditional support to large companies in at-risk strategic sectors; a guarantee of a basic information and communications technology (ICT) basket for all households; cooperation for concessional financing; and further regional integration in response to an uncertain global economic outlook.[3]

In this regard, eight ECLAC proposals for the period of reconstruction and transformation with equality and sustainability are presented below.

1. Maintain expansionary fiscal policy within a fiscal sustainability framework

Fiscal policy has been expansionary to mitigate the crisis, and this stance must be maintained in the process of recovery, reconstruction and transformation in the region's societies and economies. Most countries will have higher levels of debt in the post-pandemic period and once the first signs of economic recovery appear there is likely to be renewed pressure to pursue policies based on fiscal constraints. However, the region needs to maintain an expansionary fiscal policy in its efforts for fiscal sustainability, adopting a strategic focus on public revenues and on the efficiency and quality of public expenditure.

In order to maintain expansionary fiscal policy, with a view to rebuilding and transforming, frameworks for fiscal sustainability must be created, putting equality at the centre. Measures to increase fiscal space are vital, while keeping in mind the resource mobilization challenges posed by the current situation. To be more sustainable, this fiscal impetus should be based on strengthening the fiscal capacity of States on both the revenue and expenditure sides.

Thus, it is essential to work on new fiscal covenants that include measures to increase the sufficiency, efficiency and progressiveness of the region's tax systems. Historically, tax revenue has been insufficient to cover the demands placed on public expenditure. Despite progress in the last decade, there are large gaps between the countries of the region and countries in other regions with similar levels of development, and with OECD countries. Tax revenue in Latin America and the Caribbean largely depends on indirect taxes (50%), which tend to be regressive and provide little relief to families in periods of economic stress.

3 See ECLAC (2020c, 2020d, 2020e, 2020f, 2020g, 2020h and 2020i).

There are several alternatives that would allow a progressive tax burden structure to be pursued as economic activity recovers, including cutting down on tax evasion and avoidance. ECLAC estimates that tax evasion amounted to US$ 325 billion in 2018, equivalent to 6.1% of GDP. At the country level, estimates indicate that income tax revenue is only half its potential amount. Similarly, it is important to review use of tax expenditures, whose fiscal amount averaged 3.7% of GDP in Latin America between 2015 and 2019 (ECLAC, 2020a).

In addition, there are areas in which existing taxes can be improved, or new instruments could be considered. The main tax gap between the region and OECD countries is personal income tax revenue (which averages 2.3% of GDP in the region, and 8.3% of GDP in OECD countries). Income from taxes on property such as real estate, wealth and inheritances could be another revenue source to consider. To boost collection, changes must be made to tax frameworks and new fiscal covenants need to be agreed that set down the rights and duties of States and citizens.

Countries could also consider making greater use of tax instruments that are becoming more prominent in regional discussions. Taxation of the digital economy, for example, remains a key area for consideration, and several countries have implemented related measures in recent years. Corrective taxes —including those on consumption of sugary drinks and unhealthy foods— are a means of gathering resources and pursuing public health goals. Lastly, green taxes have yet to be fully developed in the region.

The increased role for the State in the economic recovery must be accompanied by coordinated strengthening of institutions that oversee public accounts. This is a prerequisite for ensuring that public intervention is effective and sustainable over time. It is also important for identifying areas in which the efficiency and effectiveness of public spending can be improved, with an impact on the well-being of the population.

2. Conventional and unconventional monetary policies

Monetary policymakers in Latin America and the Caribbean face a variety of challenges in the wake of the crisis caused by the COVID-19 pandemic, including: formulating policies to stimulate aggregate demand and prevent the collapse of economies; controlling pressure on exchange and monetary systems from the external shock; properly managing financial flows to increase the effectiveness of fiscal and monetary policies; and addressing the external vulnerabilities of the region's economies.

These new challenges have led monetary authorities to rethink their actions, and focus on mitigating the harmful effect of the crisis on economies, to prevent a credit crunch and, ultimately, a financial crisis. These authorities have understood that to achieve this they must pursue expansionary monetary policies, so that liquidity problems do not exacerbate the difficulties faced by households and firms. They have also recognized the serious threat to the functioning of financial systems from the current macroeconomic scenario, as increased macrofinancial (exchange rate) volatility has the potential to cause a worsening of financial institutions' lending portfolios and a loss of deposits.

In addition to their traditional functions, central banks have the pressing task of contributing to expansionary fiscal action, to adopt policies to mitigate the impact of the crisis on households and businesses. Central banks must play a leading role in fostering the monetary and financial conditions needed to facilitate financing of the different economic agents (households, businesses and governments). Such actions have a short-term goal and but also one that stretches into the medium and long term: in the short term the focus is on addressing the urgent problems caused by the pandemic and on laying the foundations for a recovery, while for the medium and long term the aim is to create the right conditions for financing the process of transforming economies.

Central banks must maintain the pragmatic stance they have taken during the crisis to expand the tools at their disposal, complementing conventional tools with unconventional ones to pursue expansionary monetary policies. These expansionary monetary conditions are especially important while the space for fiscal authorities to expand public spending consolidates.

In addition to creating the right conditions for sufficient liquidity to finance a new development strategy, central banks must safeguard the macrofinancial stability of the region's economies. The accumulation of debt driven by programmes in developed economies in response to the current crisis has increased the volatility of financial flows at the international level and, in particular, the volatility of flows from and to emerging economies, including those in the region. This has triggered large fluctuations in the exchange rates of the region's currencies and put further pressure on its economies' international reserves.

Economic authorities have adapted prevailing regulations to prevent the COVID-19 crisis from being accompanied by a crisis that undermines the sustainability of the financial systems of Latin American and Caribbean economies. Based on experiences within and outside the region, financial supervision bodies have revised macroprudential regulations to prevent potential liquidity problems and stop a resulting deterioration in credit portfolios from creating a situation that undermines the sustainability of the credit system and the solvency of financial institutions. These efforts must be sustained over time to prevent a future credit crunch and to ensure proper intermediation of resources into areas that are considered key to the above-mentioned development process.

The authorities of the region must also take steps to ensure that the increasing volatility of financial flows does not weaken the sustainability of exchange-rate systems or trigger additional crises. Extensive experience from addressing previous banking, monetary and financial crises has brought in-depth knowledge of how to use instruments to prevent a build-up of financial and exchange-rate fragilities that could trigger future crises.

Given the diversity of the region's countries in terms of financial development and their changing circumstances, the issues of macroprudential regulation and capital flow management should be considered in such actions. The countries that have experience in this area should explored greater flexibility in the use of such measures, taking into account the degree of integration of their economies into the international financial market and the levels of exchange-rate volatility, as well as the specific sources of risk and the fragilities that they can fuel. Indeed, given the different characteristics of each country, a single recommendation or response would not be appropriate; each country must adapt its regulations in accordance with the challenges it faces and its needs.

International cooperation can make a particularly important contribution to national authorities' efforts to address the current crisis. Coordinated efforts between local governments and international bodies are needed to expand spending, reduce external vulnerabilities, and safeguard macrofinancial stability. At present, macroprudential regulations tend to focus on countries that receive capital flows rather than the countries of origin. Through greater international cooperation, coordination could be increased to the level needed to adapt regulations for the entire financial system and, specifically, for capital inflows and outflows.

Given the current situation, some of the region's economies have reached agreements on credit lines to strengthen their policies for foreign exchange market intervention in times of heightened uncertainty. While this is a step in the right direction, only a few countries have access to such instruments. Therefore, the international financial architecture and international cooperation must make it possible to increase how many countries benefit from this type of instrument. This would allow the countries concerned to reduce the resources allocated to accumulation of international reserves, without affecting exchange-rate stability. Capitalization of international financial institutions and the strengthening of specialized regional institutions, such as the Latin American Reserve Fund (FLAR), would undoubtedly help to increase the resilience of the economies of the region in situations such as the current one.

International cooperation is already critical to addressing the pandemic, but its importance will be even greater in financing the socioeconomic recovery in the region and in enabling the economies of Latin America and the Caribbean to reorient their development path, in line with the Sustainable Development Goals of the 2030 Agenda.

3. A new impetus in industrial policy for sustainable development

With the significant changes in international scenarios, there is a transformation under way in the organization of international production chains, which will consolidate as activity resumes and the world economy reactivates. The crisis will alter the interdependency of the world economy, leading large international companies to review issues related to ensuring a supply of critical inputs, and increasing the importance of prioritizing strategic sectors in government policies (such as health, medical research, pharmaceuticals and biotechnology).

As a result, the companies in the region that supply transnational companies will face greater pressure owing to changes in international supply networks. However, these transformations may also create opportunities for policies to enhance the value of local producers and to establish mechanisms for regional productive integration, led by the countries in the region with the greatest industrial capabilities.

In the case of the latter, this would consist of increased use of digital technologies in businesses' relations with consumers, suppliers and employees, as well as in the internal management. Digital technologies will thus be key to the new business model. The incorporation of these technologies into production processes can also be expected to accelerate, in particular introduction of digital networking devices and greater use of robotics to increase efficiency.

The new international context and trends, and the need to address structural problems in production fabric, mean that there are three major areas for intervention through industrial policy, which interact with each other.

Firstly, there must be a commitment to the sectors and production chains that will grow fastest in the world economy. These will be related to green processes, biomaterials, smart buildings, renewable energies, electromobility, health systems (pharmaceutical products and medical equipment, but also services such as telemedicine) and agrifood, based on traceable production processes, short food chains and local production systems.

Secondly, attention must be paid to the need for the countries of the region to significantly increase the density of higher-productivity enterprises. Considering the chains with the greatest growth potential, plans are needed that can effectively incorporate a critical mass of companies that will reshape national productivity dynamics.

Thirdly, existing spaces must be put to good use, to create processes that interlink countries at the productive and scientific levels. The pace of change in technology and many of the new products and services emerging from the above-mentioned chains require a scale of production and technological infrastructure that makes it difficult for countries in the region to develop sufficient capabilities on their own, or even prevents them from doing so entirely. This calls for a new organization of production at the regional level that will make it possible to develop complementarities and form cooperation agreements, rather than entering into the traditional competitive relationships that characterize many countries specializing in similar end products.

With regard to mechanisms for policy implementation, it is important to consider that the dynamics in production specialization are linked to the incentives that determine how investments are allocated. Therefore, consensus is needed (among public and private actors and, more generally, in society as a whole) on which goals are priorities, with clear and well-defined leadership from the State.

A new impetus for industrial policies in the region would expose the repercussions of approaches that greatly weakened State instrumentalities that are involved in production policies. Indeed, the impact that the characteristics of the production structure can have on macroeconomic variables is an important aspect to consider when re-examining the need for active policies to modify the structure itself.

Industrial and technology policy must be geared towards building new endogenous capacities. Structural change does not occur without industrial policies that make competitiveness of new sectors feasible at the macroeconomic level. This requires policies that deliberately favour productive and service sectors and chains, altering market signals to change the pattern of specialization of the economy.

This new sustainable development policy paradigm is built around collaborative and competition-based policy instruments, expressed in industrial policies with social objectives.

There are macroeconomic, structural and economic reasons why new industrial and technological policies must be implemented to consolidate progress in the region's productive development. The characteristics of the different sectors and chains also make it necessary to focus on those sectors that are in a position to implement learning and innovation processes with greater potential to generate and disseminate technological externalities. However, these processes require some time to mature. Creating stable and effective institutions, fostering capacities in enterprises and the productive fabric, and coordinating the plan and initiatives among the different areas involved (public, private, university and territorial) is a complex task that can be undertaken with a medium-term time horizon. However, such a time frame may be temporarily incompatible with the urgency of solving the problems relating to low growth and the external constraint, particularly in the current international context. Therefore, an industrial strategy must be pursued that combines, on one hand, a medium-term commitment to an economy that incorporates greater knowledge and innovation capacity, with, on the other, initiatives that allow the potential of certain production and service chains to be harnessed rapidly, as well as the potential of certain technological platforms.

4. Labour market policies: rebuilding with equality at the core

The lockdown forced by the COVID-19 pandemic has resulted in massive job losses for huge segments of the population in Latin America and the Caribbean, exposing the large gap in the region in terms of labour rights, decent work, adequate income and decent pensions. The decline in functional distribution of income, the weakening of collective bargaining power and the spread of old and new forms of labour casualization are perhaps the main features of the deterioration of employment as a fundamental dimension of well-being and social rights. In view of this situation, the following is proposed:

(a) **Make protection and creation of decent work a priority in plans and policies for economic development and recovery**. The quality of macroeconomic policy should be assessed in terms of its impact on a return to the highest possible employment levels, the jobs it creates and the level of employment it sustains. Indeed, the impact on employment should be one of the core indicators of macroeconomic management.

(b) **Shape national agreements to promote labour formalization**. Efforts have been made by governments to promote formalization, but the impact of these policies is insufficient and structural heterogeneity and heterogeneity in labour relations both remain very high in the region. It is crucial that a greater effort with larger scale be made in this regard.

(c) **Agree on high-impact policies and measures to combat casualization of work and employment**. The region still has considerable deficits in terms of decent work, which is to say work under a formal employment relationship, in which workers have all the rights recognized in national and international legislation. Economic stimulus policies must therefore address the issue of casualization, with governments adopting zero-tolerance policies, for example promoting standards in public employment, and public procurement policies to only accept suppliers who meet decent work standards.

(d) **Establish and implement unemployment insurance**. The pandemic has revealed the enormous cost to societies of not having unemployment insurance, or where such schemes exist, how inadequate they are. Income protection for the wage-earning population in the event of job losses is part of the basic social protection floor. An absence of such protection results in some of the greatest costs and hardships that people face upon losing their main source of daily sustenance.

(e) **Strengthen mechanisms for collective bargaining and promotion of social dialogue among workers, employers and the State**. To reduce inequalities in the labour market, social dialogue must be resumed and encouraged. The action taken by States in this respect is crucial to establishing regulatory frameworks and promoting social dialogue.

(f) **Democratize the productive fabric and support MSMEs, as well as the whole social and solidarity economy**. The vast majority of jobs in the societies of the region are found in this type of productive enterprise. Despite the innumerable programmes implemented, policies to promote this sector of the economy have not had the required scope, duration or ambition, or the instruments needed to achieve their goals. More comprehensive actions are needed aimed at MSMEs, cooperatives, social banks, savings and loan associations, community initiatives and multiple forms of production, distribution, and consumption. Without this support it will be very difficult to recover and create the jobs that an equal and employment-intensive reconstruction policy demands in the new economic and social framework that is emerging as a result of the COVID-19 pandemic.

5. Universal social protection and construction of a social welfare state

The COVID-19 crisis, which has highlighted the weaknesses and inadequacies of social protection systems in the region, is also an opportunity to pursue a new generation of social protection policies that address the challenges —both existing and new— our societies are facing, in terms of well-being.

The pandemic has exposed not only the structural limitations of the prevailing development model, but also the extent of the failures and inadequacies of social protection systems and welfare systems in general. To protect the living conditions of the whole population, it is crucial to take steps to move towards decent work, to promote co-responsibility for care among the State, the market and families, and pursue universal access to social protection, by ensuring access to instruments such as high-quality public health and pension systems.

Social protection measures to deal with the effects of the pandemic must consider the well-being of the entire population, and especially that of groups that experience multiple forms of exclusion and that suffer most acutely from the effects of the crisis. Therefore, social protection and well-being must be seen from a perspective of universalism that is sensitive to differences, taking into account the needs of specific groups and the lacks and discrimination they face.

In this context, ECLAC reiterates that it is time to implement universal, redistributive and solidarity-based social policies with a rights-based approach, to ensure that no one is left behind. Social protection responses must link the measures needed to address the most acute manifestations of the crisis to medium- and long-term measures aimed at guaranteeing people's rights, by strengthening the social welfare state and providing universal social protection. It is essential for sustainable development and political stability to define a set of universal guarantees for social well-being according to national capacities.

A core aspect of this approach is linking, on one hand, a swift and suitable response to the emergency and its major consequences, and on the other a vision of the kind of society we want to build. It is crucial to link short-term decisions with medium- and long-term aspirations, and to ensure that in all of them progress is made towards substantive gender equality, equal treatment, opportunities and rights, and non-discrimination. Within this framework, the following proposals are made:

(a) **Renew or build social compacts to accelerate compliance with the social pillar of the 2030 Agenda, reducing inequality and eradicating poverty**. Despite the additional difficulties that the pandemic poses for fulfilment of the 2030 Agenda, its relevance and urgency cannot be overstated; therefore, it is time to work even faster, channelling countries' resources and energy into achieving the Agenda.

(b) **Universalize social protection coverage, ensure effective access to health and pension systems, and further de-commercialize such systems.** There is an urgent need for a new generation of policies to safeguard health systems and ensure the sustainability of pension systems, covering matters such as adequate coverage, sufficiency of benefits and financial sustainability.

(c) **Build a guaranteed basic income pillar**. In the near term, an emergency basic income must be put in place to deal with the effects of the pandemic and as a first step towards recognizing the right to economic security for all people, with a universal basic income as an additional pillar of a renewed social welfare state.

(d) **Establish a comprehensive, public and defeminized care system**. One of the major shortcomings highlighted by the COVID-19 crisis has been the considerable weakness of the care systems in the region. Therefore, decisive and bold measures to build this pillar of social protection are a chief priority.

(e) **Adjust and improve social protection systems to address new trends and risks, in particular migration, climate change and disasters**. The social dynamics and risk structure of societies are undergoing enormous change, and social protection systems must adjust to this new reality. There is a growing need for policies to address movements from a perspective based on rights and human security, and for social protection measures to counteract both the cross-cutting effects of global warming on people's lives and the increased intensity and frequency of disasters.

6. Inclusion of the territorial dimension in policy design

Given the extent of the economic and social impact of COVID-19, it is crucial to rethink how public policies are designed to meet the targets of the Sustainable Development Goals. In this context, one step that must be taken is to incorporate the territorial dimension into the design of policies that support modelling and understanding of the deepening inequality and social exclusion in the region.

Inclusive and sustainable territorial development is a vital strategic tool when analysing the transformation of Latin American and Caribbean national spaces, characterized by a high spatial concentration of population and economic activity, and by marked inequalities in living conditions among different locations in national spaces.

Moreover, territorial structures in the region are increasingly diverse. For example, there are large urban configurations with complex systems of cities and rural areas, producing new dynamics that have created highly diverse and heterogeneous socioterritorial and environmental fabrics.

The pronounced spatial concentration and density of the population in the region's main urban areas, and high levels of inequality, are both high-risk factors that have accelerated the spread of the pandemic, particularly in population segments that experience significant vulnerabilities and shortages. In addition, large urban areas will feel the greatest economic and social impacts in absolute terms, exacerbating accumulated and persistent problems in these areas.

Another key spatial level at which inequalities are apparent in Latin America and the Caribbean is the regional scale, which are of different forms and magnitudes depending on the country (for example, north-east Brazil, south-west Mexico and Norte Grande in Argentina). Regions have specific sociocultural identities and shared problems. The regional scale allows for consideration of policy areas with greater impact, such as infrastructure, production hubs and sustainability.

The territorial challenges that Latin America and the Caribbean face must be addressed on the basis of territorial plans and policies that holistically address the different levels, the organization of the State and agents, taking into account their different dimensions and recognizing and enhancing their diversity, productive capacity and human capabilities.

In this regard, to boost synergies, territorial know-how and the impact of State action, an ecosystem of territorial development policies must be built. At the heart of this ecosystem must be efforts to overcome inequality gaps among territories and to bring about convergence of regulations, plans, policies and measures from different sectors, institutions, and levels of the State and of territories. This convergence should be reflected at the institutional level by consideration of causal relationships of public problems and strengthening of collaborative capacities among different sectors. A multiscale approach to urban and regional planning and management can contribute to construction of such an ecosystem and enables inclusion of urban and rural areas, as well as the ecosystems of which they form part.

Increasing uncertainty and risk at the global level necessitates capacity-building to increase and improve resilience of institutions. The capacities that must be built include forecasting and generating future scenarios to anticipate, prepare for and mitigate events, as well as capacities related to innovative responses to events, and the ability to learn from and adapt to new situations.

It is crucial to strengthen the territorial dimension in public policies. This policy level allows for a more holistic approach to the various sociospatial and geographical aspects of development and the interactions between them, such as urban and peri-urban dynamics, rural development, river basins, natural resource management and governance, clean energy conversion and connectivity infrastructure.

By designing and implementing public policies that incorporate the territorial dimension, the realities of the different areas and the differences between them can be better identified, and the major public investments needed can be better focused, promoting productive development hubs and establishing more sustainable relationships with the ecosystems that contain human settlements. This approach also gives a comprehensive view of inequality and social exclusion, including both the characteristics of each territory and the heterogeneity of the groups living in them, supporting effective and efficient achievement of sustainable development and inclusive growth goals.

7. Promoting sustainable investment that is intensive in job creation

The impact of investment is critical to growth. However, it carries a risk linked to future outcomes, whether in terms of productive capacity (through productivity increases or expansion of productive units) or the returns on invested capital, be it own capital or from third parties. Risk aversion restricts the domestic or foreign-origin private sector regarding what is invested in, how, and how much is invested. In general, public investment focuses on providing infrastructure or productive capacity, either through technological developments or by producing goods directly. Growth in this form of investment has been limited, at an average of 4% of GDP between 2010 and 2019. Similarly, there was almost no change in flows from foreign investors, which averaged 3.5% of GDP between 2010 and 2018.

Latin America and the Caribbean cannot be said to have been characterized by buoyant growth in the period before the pandemic. Therefore, the challenge of accelerating investment already existed for the countries of the region. Investment not only depends on macroeconomic variables but is also determined by microeconomic variables and the particular situation of a firm or group of firms in a given sector and context, which can be assessed by means of their balance sheets or statements of financial position. This serves not only to examine the microeconomic dimension of investment, but also to show that financial conditions are fundamental in explaining the behaviour of investment over time. In addition to these macroeconomic and microeconomic variables, there is a dimension of investment sustainability.

To encourage sustainable investments that are intensive in job creation, the following is proposed:

(a) **Direct fiscal resources towards sustainable public investment that is intensive in job creation**. The 2020 pandemic has fuelled discussion of a new investment cycle for a sustainable economic recovery, such as the United States' Green New Deal or the European Green Deal. The substantial increase in fiscal expenditure to combat the effects of the pandemic —with the resulting deficits and increases in public debt— have helped, temporarily, to maintain minimum employment and income conditions. In this regard, it has been proposed that, once the emergency situation has passed, these resources should support increases in sustainable and intensive public investments in creation of jobs, including those related to climate change mitigation and adaptation policies, and the transition to a low-carbon economy.

(b) **Promote public-private partnerships for investments**. There are multiple possible actions in this area. Firstly, increased public investment creates favourable conditions for State contractors and suppliers and their own investment processes. A second space is that of large State-owned companies with subsidiaries that have private investors, and a wide range of suppliers. Lastly, in the area of basic services (such as electricity, sanitation and gas), the State may make initial investments (research, basic engineering, development of innovative joint projects) that will ultimately translate into new private investment on a larger scale.

(c) **Include environmental and social rationales in the discussion on the sustainability of investment**. Investment should not be based solely on financial factors, such as leverage, rates of return and ratios of investment costs and cash flows (given that most companies in the region use equity to finance many of their investments), but should also take into account variables that are crucial to long-term development, which is to say the other pillars of sustainability: the environmental and social pillars. Investment has become more complex in the twenty-first century because it has to include externalities in its costs, such as impacts through use of natural resources or the level and quality of employment. Within the big push for sustainability proposed by ECLAC, investment decisions are related to: (i) technological capabilities and the composition of the production supply or structure; (ii) the growth-inducing effects of aggregate demand (internal or external), which the State can manage through fiscal and monetary policies; and (iii) if the long-term sustainability of an investment is considered, the three pillars of sustainability must be taken into account (economic feasibility, social justice and environmental sustainability). An investment has to demonstrate, in addition to financial sustainability, its impacts on the environment and employment, and how it is governed in relation to social rights.

(d) **Foster sustainable investment opportunities**. Investment decisions must take into account the impact on all three dimensions of sustainable development: social, economic and environmental. In the region, there is ample potential for sustainable investment at various levels (such as multinational companies, small and medium-sized enterprises (SMEs), communities, and local and national governments), in different sustainable practices and technologies (for example agroforestry systems, new green chemistry products, basic rural sanitation systems and development of productive linkages in the wind industry), using a multitude of measures, policies, forms of governance and sources of financing. Scaling up sustainable investments is a clear path towards reconstruction and transformation with equality and sustainability in the region.

8. The role of the State and institutional strengthening in times of pandemic

For there to be reconstruction and transformation with equality and sustainability there must be renewed discussion of the role of the State and of institutions. One of the results of the COVID-19 crisis is greater agreement on the role of institutions and the importance of the State, and therefore on the value of public policies to guarantee the supply of public goods, boost growth, encourage development of technological capacities, intervene in territorial development and promote egalitarian policies to expand rights.

In Latin America and the Caribbean, institutional strengthening and organizational development of States is key to addressing the crisis. Measures taken to mitigate the pandemic will achieve their goals depending on the resources allocated, the institutional capacity, their quality of design and the management of public programmes. It is important to build institutional capacities to act in emergency situations and with logistical difficulties. A strong State is needed, one that is equipped with human, financial and organizational resources that are up to the challenge, and which involves public bodies in policy design, and in the supervision and implementation of actions.

One of the areas that is common to all the countries of the region has been the institutional capacity of public health systems to deal with the pandemic. A pressing need has been noted for health authorities to be able to meet the high care and prevention demands by converting, reallocating and adding resources on a large scale, as well as by coordinating private capacities. This relates to the functioning of care networks, but also to laboratory capacities, execution of massive and urgent purchases, coordination with many actors, and the formulation of strategic and flexible plans, among other requirements.

The pandemic necessitates major fiscal efforts that create the right conditions for strengthening health sectors through budget increases; protect income and employment (of both formal and informal workers); support consumption of basic necessities (such as food and basic services); preserve productive capacity; and create conditions for the reactivation of economic activity (for example, with tax benefits and access to credit with state guarantees).

This effort depends primarily on the implementation of an expansionary fiscal policy, as well as on the design and management capacities of the public institutions involved. The increased capacity for public financial management provides tools and resources to deal with severe crisis situations. The existence of special funds for contingencies, greater borrowing capacity, technical powers to design policies in crisis situations and the capacity to organize (reallocate) public spending are critical to addressing and managing a pandemic such as the current one.

Facing emergencies such as COVID-19 is a huge challenge in terms of the stability of public policies and public goods and services delivered to the population. Therefore, investing in public institutional strengthening and expanding the organizational development of the State should be priorities for the countries of the region.

IV. Concluding remarks

The health crisis has exposed the structural weaknesses of the economies of Latin America and the Caribbean. Moreover, everything suggests that the recovery will be slow and the economic and social costs of this crisis could continue to accumulate during 2020 and into 2021. Therefore, a successful strategy to deal with the crisis cannot focus on a return to the pre-existing situation, but must view the crisis and the marked regional discontent as a turning point in the continuity of the development model, which requires far-reaching transformations.

A change of strategy is imperative for there to be an inclusive and sustainable economic recovery in Latin America and the Caribbean. The current development model has obvious limitations in terms of its capacity to satisfy the justified and growing demands of the population and to maintain the necessary social and environmental balances. Therefore, the region must transform its development model into one that emphasizes inclusive and sustainable development, in which governance conditions are guaranteed and a balance is achieved between economic growth, social inclusion and environmental sustainability.

Latin America and the Caribbean must move towards a sustained economic recovery that can support the construction of a social welfare state and the strengthening of the productive sector. To achieve this, active macroeconomic policies will be required, maintaining expansionary fiscal and monetary policies, within a framework of fiscal sustainability focused on strengthening public revenues.

The 2030 Agenda is more relevant today than ever before. In view of the severe impact of the crisis, efforts must be redoubled to achieve the Sustainable Development Goals and to address inequality, which is one of the main barriers to development in the region. Rising inequality has been one of the main factors behind increasing social and political tensions in recent times. Thus, the pursuit of equality, poverty reduction and the fight against discrimination form the economic and social basis of democracy.

The pandemic has brought out more clearly the rifts in Latin American and Caribbean societies and the vulnerability of the majority of their populations. In this regard, it is vital to pursue measures to support vulnerable groups, and especially women. The response to the crisis and the process of reconstruction must heal these rifts and foster more egalitarian and resilient societies. This is the magnitude and depth of the challenges faced, which require the greatest possible efforts to reconstruct and transform the region's economies with equality and sustainability.

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The coronavirus disease (COVID-19) pandemic has had an unprecedented impact in Latin America and the Caribbean. It has become the worst economic and social crisis in a century and has exposed significant structural gaps in the region's development model. A profound transformation is necessary, eschewing the temptation to view the pandemic as an accident or a parenthesis instead of as the signal that a new direction must be taken because the world has reached what is increasingly seen as a transformative crossroads. A new social contract is needed and a new global pact must be forged. The region must shift its model towards an inclusive and sustainable development pattern that guarantees the conditions necessary for governance and in which there is a balance between economic growth, social inclusion and environmental sustainability. This balance, among other factors, will need to be sustained by political partnerships that place equality at the centre of development and sustainability, as the key to sustainable development. In the days, months and years to come, it will be imperative to strive for reconstruction and transformation with equality and sustainability.

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