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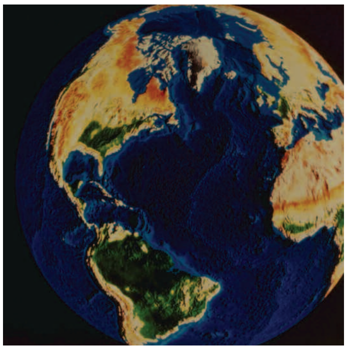
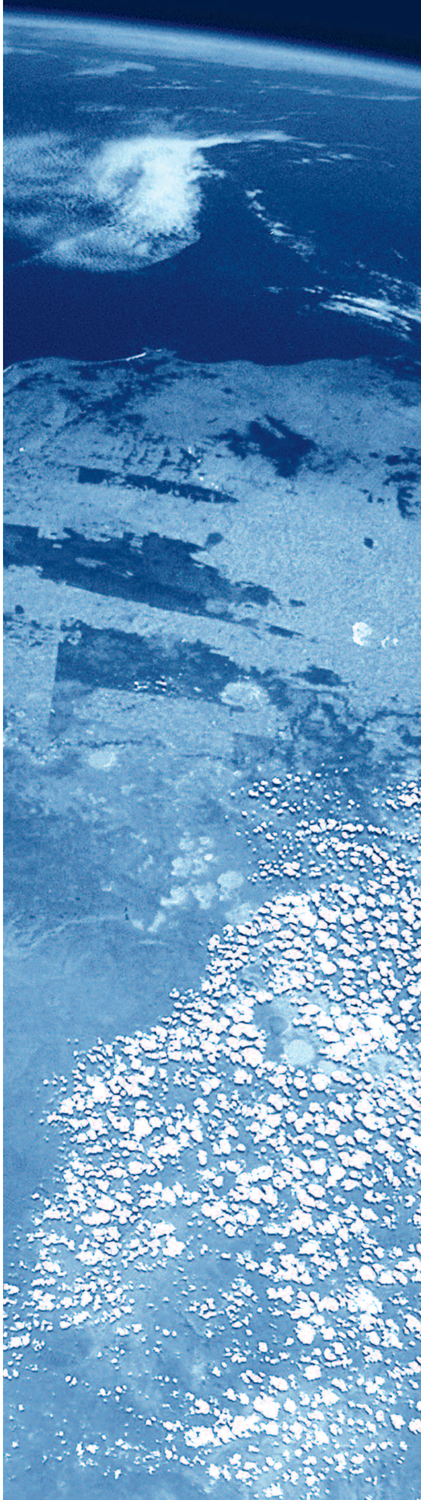
Latin America@Risk



A Global Risk
Network Briefing



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Foreword

This report has been prepared by the Global Risk Network for the World Economic Forum on Latin America (Santiago de Chile, 25-26 April 2007). It provides the latest insights into trends, potential consequences and mitigation relevant to four key risks facing the region. The risks profiled are:

1. Economic shocks – How vulnerable is the region as a whole to external economic turbulence? What exogenous crises would risk derailing Latin America's growth prospects (e.g. a US fiscal crisis or Chinese economic hard landing)?

2. Climate change, deforestation and environmental degradation – Can the region balance the complex trade-offs between the environment and growth? What are the risks and opportunities for Latin America?

3. Threats to political stability – As the power equation shifts, what is the risk of a reversion to political populism? What happens if there is a backlash or retrenchment from globalization (either from within or from major trade blocs, e.g. US or EU)? And will corruption remain resilient to reform?

4. Social inequalities within Latin America – What is the risk of the "inequality trap" perpetuating the twin disappointments of income inequality and social exclusion? With the explosion of expectations, do perceptions of inequality match the reality?

The Global Risk Network of the World Economic Forum is composed of an unparalleled network of industry, risk and regional experts who work with business leaders and policy-makers to:

- Create a framework for assessing and prioritizing existing and emerging risks to global business over the short and long term
- Alert key decision-makers to the impact these risks might have on their environments
- Assist leaders in their reflection on how risks may be mitigated at the global, regional, industry and company levels
- Transform these global risks into business opportunities

To generate a global risk, an issue must have global scope, cross-industry impact, and there must be *uncertainty* as to how the risk will manifest itself (in regard to the likelihood of occurrence and severity of impact).

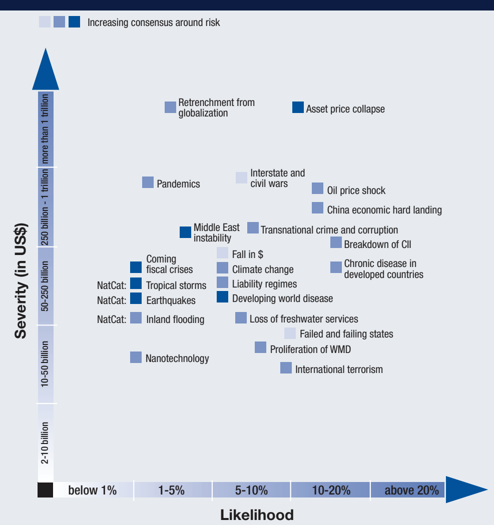
Over the last three years, the Global Risk Network has engaged a wide range of experts in the economic, geopolitical, environmental and societal fields to explore the nature of the risk landscape facing governments, societies and businesses. In conjunction with its partners, the Global Risk Network has identified 23 **core global risks** to the international community over the next ten years.

These core global risks have been assessed in terms of likelihood and severity (see Figure below). In addressing likelihood, actuarial principles were applied in the few cases where sufficient data existed; in most cases only qualitative assessments, based on expert opinion, were possible. Although some risks are inherently long term (such as climate change), and others (such as an oil-price shock) could occur in the near term, all risks were evaluated within a ten-year time frame.

A more detailed description of the core global risks can be found in the *Global Risks 2007* report, published for the World Economic Forum Annual Meeting in Davos (and available at www.weforum.org/en/initiatives/globalrisk).

The World Economic Forum Global Risk Network has identified 23 core global risks over a ten-year time frame:

The 23 Core Global Risks: 10-year Horizon



Note: Likelihood was based on actuarial principles where possible. For most risks, however, qualitative assessment was used.

Source: World Economic Forum *Global Risks 2007*

What are Global Risks?

Our definition: non-business risks that affect business (i.e. not operational, project or financial risk)

- that can be strategic, exogenous and systemic
- that are highly interdependent (i.e. do not manifest in isolation)
- that are characterized by uncertainty, sharp discontinuities, non-linearity (power law distributions) and lack of proportionality
- that can't be predicted (but can be managed)

It is a central tenet of work conducted by the Global Risk Network that global risks do not manifest themselves in isolation. This was apparent when the domino effects of Hurricane Katrina briefly shook the global system. More recently, the connections between two of the major issues for public policy and private enterprise – energy security and climate change – have reinforced the sense that global risks share a common lineage.

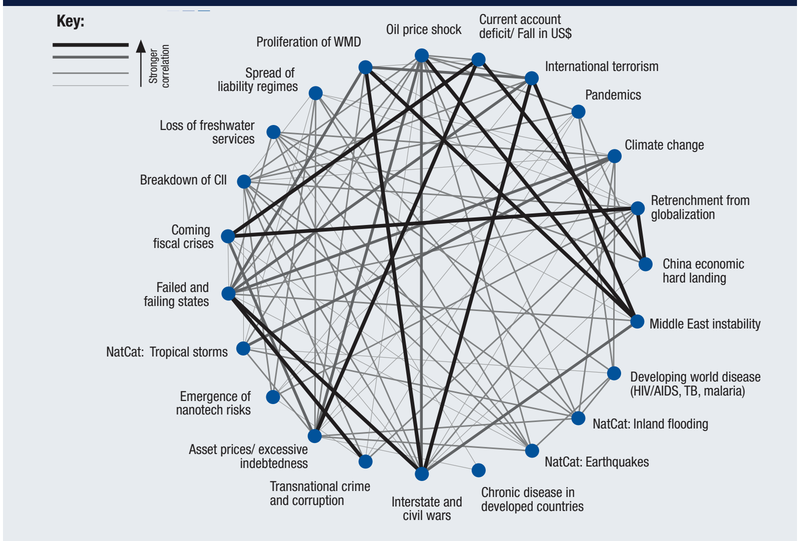
One approach to thinking about interconnectedness is to assess correlation – the matrix portrays the strength of the macro correlations perceived by experts to exist between the global risk issues assessed above.

Within the framework of these 23 interconnected global risks tracked by the Global Risk Network, four risks were identified by Latin American participants at the World Economic Forum Annual Meeting in Davos as being critical to the future of the region (in terms of their likelihood and/or the severity of their impact). Risks to Latin America were identified, assessed and ranked with each of the following risk families being represented: Societal, Geopolitical, Economic and Environmental. Risk correlation was accommodated in the assessment, with the selected risks being framed to highlight the potential for regional contagion.

This is not to suggest that other issues facing Latin America are any less serious or less potent; this report does not propose to rank or prioritize the risks. Rather, the study is intended to analyse some of the critical issues facing the region and distil expert insight in a concise and meaningful way.

As for global risks, it is clear that the four threats to Latin America's future profiled herein are not separate, isolated issues on the risk landscape; their drivers, triggers and consequences are highly interconnected. For a region characterized by increasing interdependence, the imperative is for collective action to mitigate these shared risks. Ring-fencing is no longer an option.

The Correlation Matrix



Source: World Economic Forum *Global Risks 2007*

WORLD ECONOMIC FORUM

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Executive Summary:
Economic Shocks

How vulnerable is the region as a whole to external economic turbulence? What exogenous crises would risk derailing Latin America's growth prospects (e.g. a US fiscal crisis or Chinese economic hard landing)?

Risk

- The mood is upbeat; the consensus is for a repeat of a Goldilocks year of growth in 2007/8. With this favourable economic outlook, a population of around 550 million and GDP of US$ 2.26 trillion (just less than China), Latin America as a whole is far better placed to withstand an economic downturn than it was in the 1980s and 1990s.
- Yet three ugly bears are threatening the Goldilocks scenario: a US housing recession and the beginning of a credit crunch; a possible China-slowdown; and/or a global reappreciation of risks (which could occur in either an orderly or disorderly manner).
- Given Latin America's export growth and leverage to commodity prices, the region is particularly vulnerable to the risk of a hard economic landing. For instance, any slowdown in industrial production in the US or a deceleration of China's growth will hit the economies of Mexico and Brazil (which account for two-thirds of regional GDP).

Important Trends

- Recent economic growth rates in the region exceeded 5%, more than double the region's long-run average of 2.5%.
- This average region-wide performance masks large differences between and within countries. In particular, the international environment has benefited exporters of high-demand commodities and resources, especially in South America and the six petroleum net-exporting countries.
- Growth in national income (7.2%) again exceeded GDP expansion. In addition, other factors, such as growing investor and consumer confidence after several years of sustained growth, low real interest rates, a stronger boost to public spending and an expansion in total wages, have helped to make domestic demand an additional engine for growth.
- Economic expansion is expected to slow slightly in 2007, with the regional GDP growth rate forecast at around 4.7%. If these projections are borne out, the region's per capita output will show a cumulative gain of some 15%, or 2.8% per year, in the 2003-2007 period.
- At the beginning of the 1990s, growth in Latin America was fuelled by capital inflows; now it is led by exports and many countries have capital account surpluses. Thus the region is less vulnerable to external shocks.
- In contrast to previous cycles, governments appear to have avoided expansionary fiscal policies, opting to build up primary surpluses and pay down debt. The current phase is noteworthy for the decreasing dependence on external savings and the reduction of sovereign debt – both of which provide a "margin of safety" in the event of external disturbances.
- While there are some storm clouds on the horizon, an attitude of "cautious optimism" reigns (though it should be noted that recent growth needs to extend before a sustained growth trend can be confirmed).

Consequences

- While the consensus economic outlook is upbeat, many Latin American countries remain vulnerable to the vagaries of world commodity and financial markets. A global economic slowdown would seriously affect the region's growth and the well-being of its population.
- In a number of cases – Mexico, Venezuela, Ecuador and Colombia in particular – world oil and commodity prices are inextricably linked to social, political and economic realities (e.g. in the early 1980s, Venezuela experienced a deep economic crisis and widespread civil unrest when the oil price fell dramatically, exacerbated by excessive state spending on unproductive industries).
- A key danger for Latin America lies in the so-called "regressivity" of financial crises; in simple terms, crises are socio-economically regressive due to the massive (and often wasteful and inequitable) diversion of fiscal resources to resolution mechanisms and have a disproportionate affect on the poorest members of society who lack a safety net.

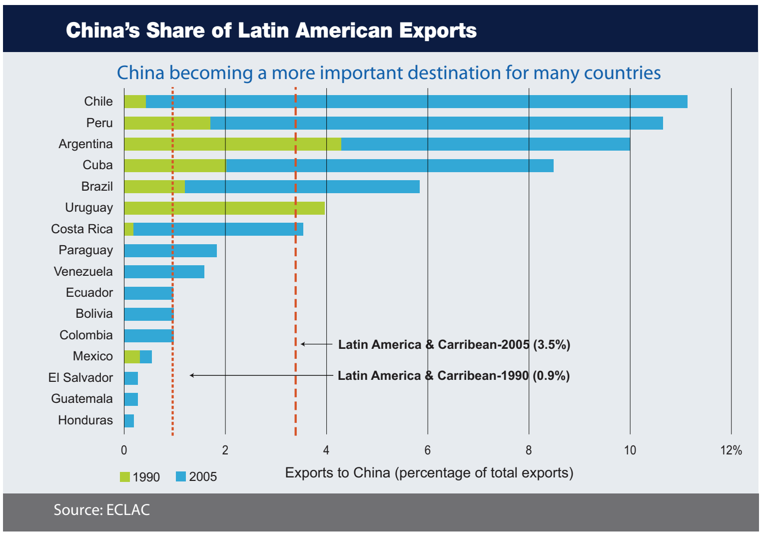
Mitigation

- Continued fiscal restraint will help Latin American countries weather future turbulence and the inevitable downturns (e.g. via increasing public sector savings and paying down or restructuring foreign debt), as will adopting countercyclical fiscal policies, having more flexible exchange rate regimes and reducing the "dollarization" of the financial system.
- As crises cannot be prevented entirely, equitable and efficient crisis resolution mechanisms should be in place, along with safety nets to protect the most disadvantaged members of society.
- Achieving better regional integration and sustainable internal growth will also improve resilience to exogenous shocks. In particular, Latin American countries should aim to exploit their comparative advantages in established niches such as biofuels and renewable energy.
- Businesses in the region should play a more active role in helping to build economic resilience by attacking shortcomings such as labour and capital inefficiencies, poor quality education and low levels of research and development.
- Public-private partnerships (PPPs) should be established to focus on building necessary infrastructure over the long term, particularly in rural areas and underdeveloped regions. A public-private agency should be created to concentrate national efforts on attracting investors and promoting innovation by offering tax credits for R&D spending.
- Improved access to financial services (i.e. "bancarizatión", credit and insurance) will help buffer the small to medium-sized enterprise sector against external shocks. This would require better creditor rights, credit bureaus, prudential regulation and the innovation of financial products.

Resources

- United Nations Economic Commission for Latin America and the Caribbean (http://www.eclac.cl/)
- World Bank – Latin America (www.worldbank.org/lac)
- Inter-American Development Bank (http://www.iadb.org)
- Inter-American Dialogue (http://www.thedialogue.org)
- Organization of American States (http://www.oas.org/)
- Latin American Studies Association (http://lasa.international.pitt.edu/)
- Washington Office on Latin America (www.wola.org)
- Latin America Working Group (www.lawg.org)

> "The new year will begin with the greatest divergence for a generation between the general view of global risks and risks as priced in financial markets."
>
> **Lawrence Summers, Charles W. Eliot University Professor, Harvard University, USA**



Executive Summary:

Climate Change, Deforestation and Environmental Degradation

Can the region balance the complex trade-offs between the environment and growth? What are the risks and opportunities for Latin America?

Risk

- While Latin America has always experienced great climatic diversity, research confirms that largely regular and predictable temperature and rainfall patterns are changing, becoming less predictable and often more extreme.
- The potential direct impacts of anthropogenic climate change include increased frequency and severity of extreme weather events, drought, increasing food insecurity, disease and population displacement.
- Indirect impacts of global climate change could have dramatic effects on demand and investment patterns, as well as interrupting business operations and supply chains.
- At the same time, opportunities will be created by the need for new investments, for example in biofuels, alternative energies and carbon storage.

Important Trends

- Trends in Latin America's climate change risk depend on global drivers: global hydrocarbon consumption and deforestation. Both are systemic and entrenched.
- Current scientific literature argues convincingly that warming and its effects are taking place more rapidly than previously believed. In particular, the report entitled "Up in Smoke? Latin America and the Caribbean," the third report from the Working Group on Climate Change and Development, has provided the following significant evidence for impacts of regional climate change:
- **Evidence of likely glacier melt and impact on water availability:** around 35% of the world's freshwater is found in Latin America. Glacial retreat and melting in the Andes (due to warming) will change river flows and threaten water supplies for people, industry, agriculture and nature. Disputes over access to water resources may increase as a consequence of climate change. One can no longer speak of "eternal ice," particularly in the Venezuelan, Colombian and Peruvian Andes.
- **Evidence of the impact of illegal logging and deforestation:** a substantial contributor to carbon build-up stems from deforestation – about 25% of net emissions – and the Amazon Basin is a prime source. The total area of forest is 400 million hectares which could be absorbing 2 billion tons of carbon per year. Moreover, forests act as natural watersheds and development can worsen the impact of flooding (e.g. flooding during Hurricane Stan in El Salvador, 2005). Ironically additional stress is coming from the rising demand for biofuels which, if not properly managed, could become an increasing cause of rainforest conversion in countries like Brazil (biofuels are already being dubbed "deforestation diesel").
- **Hurricanes and tropical storms are likely to increase in intensity:** with 26 tropical storms and 14 hurricanes, the 2005 hurricane season is rated as one of the most active and destructive in history. While the long-term trend remains unclear, the risk is that global warming exacerbates El Niño and La Niña effects.

Consequences

- In the "baseline" global scenario of doubled atmospheric carbon concentration, regional temperature rises of 2-5° C exacerbate food, water and weather insecurity. Effects are disproportionately borne by the poor (e.g. leading to more poverty and disease). While growth may slow, the largest consequences may be distributional and humanitarian and may lead to a social backlash and political instability.
- The effects of climate change on global demand and investment patterns will only become clear over the next 15-50 years.
- The impact of climate change in Latin America could have serious consequences for the rest of the world (e.g. if global warming leads to a long-term drying out and die-off of the Amazon rainforest, which could alter the global carbon balance).

Mitigation

- Latin America is well positioned to become the global leader in biofuels and renewable energy, especially in countries like Brazil (e.g. with the refining of sugarcane) and Argentina (e.g. soybeans), although the long-term effects on water availability need to be understood. Wealthy countries could finance production projects in poor countries and open up their markets to their products as an alternative to providing aid. Mexico also has the opportunity to become a research and development hub for new technology relating to renewable energy.

- Latin America needs to be freed from a one-size-fits-all approach, as effective responses to climate change will differ depending on local circumstances. The greatest challenge is to build climate resilience, and to secure livelihoods at the local level as suggested by the UN Working Group on Climate Change and Development:

- **Cut greenhouse gas emissions**. Developed countries need to meet their commitments for reducing greenhouse gas emissions, with milestones put in place such that industrialized countries can reach cuts of up to 80% by 2050.

- **Eliminate illegal logging and deforestation**. With the assistance of the developed world, Latin American countries should also implement sustainable development policies that prioritize both energy efficiency and renewable energy. To help mitigate climate change and maintain valuable ecosystems, illegal logging should be eliminated (e.g. using satellite imagery) and deforestation prevented (e.g. by way of innovative programmes such as Family Forest Guard in Colombia). Natural forests have enormous value left standing, a value which will become realizable as the carbon market expands.

- **Map regional vulnerabilities**. There is an clear need to develop detailed maps of the complex impacts of global warming, integrating climate-change-related risks with other threats. All policies and programmes should face the test of whether they will leave people in Latin America more or less vulnerable to the effects of global warming.

- **Support community-based coping strategies and disaster risk reduction**. Many donors prioritize “technological fixes”. But promoting disaster reduction at the local level by supporting community-coping strategies is far more effective and yields immediate benefits that stretch beyond just tackling climate-driven disasters. “Good adaptation” also makes for “good development”.

- **Apply appropriate standards to business**. Corporate involvement in Latin America in such sectors as energy, logging, mining, water and the construction of infrastructure, such as pipelines and transport links, should adopt rigorous sustainable development principles.

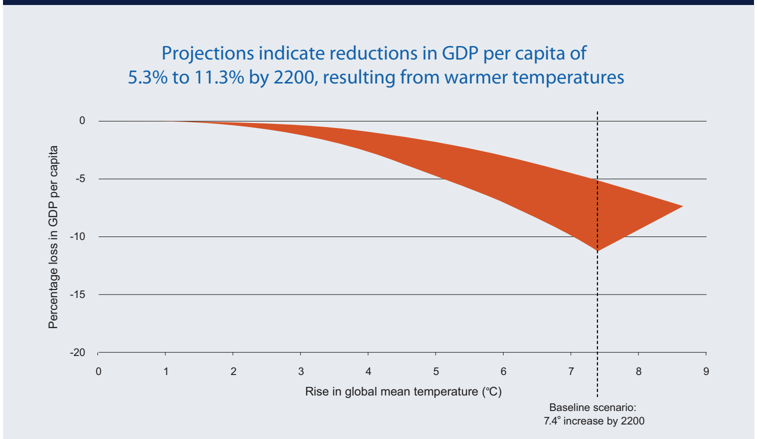
- From a global perspective, the World Economic Forum and the World Business Council for Sustainable Development are spearheading efforts by a unique group of global companies to contribute a business voice to the G8+5 Gleneagles dialogue on climate change, clean energy and sustainable development.

Resources

- International Institute for Environment and Development (http://www.iied.org)
- Intergovernmental Panel on Climate Change (http://www.ipcc.ch/)
- Hadley Centre for Climate Prediction and Research (http://www.metoffice.com/research/hadleycentre/)
- National Center for Atmospheric Research, USA (http://www.ncar.ucar.edu)
- Pew Climate Center (http://www.pewclimate.org)
- The Carbon Trust (http://www.thecarbontrust.co.uk)
- Centro de Previsão de Tempo e Estudos Climáticos (http://www.cptec.inpe.br/)

> “There are three choices: mitigation, adaptation and suffering. We will do some of each. But we can still choose the mix.”
>
> **John P. Holdren, Director, Woods Hole Research Center, USA**

The Economic Impact of Global Climate Change



Source: Stern Review on the Economics of Climate Change

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Executive Summary:

Threats to Political Stability

As the power equation shifts, what is the risk of a reversion to political populism? What happens if there is a backlash or retrenchment from globalization (either from within or from major trade blocs, e.g. US or EU)? And will corruption remain resilient to reform?

Risk

- While Latin America has benefited from the spread of democracy, external perceptions of instability are exacerbated by anxieties about political volatility, corruption and an emerging wave of populism in some countries.
- There is a growing political divide between countries that want greater participation in the world economy and those that reject economic liberalization and free trade, threatening regional harmony and trade integration.
- Increased interdependence means the risk of contagion from pockets of regional political instability is high. Opinion polls in the region show a worryingly low approval rating for vital institutions – while Chile, Brazil and Mexico have largely managed to differentiate themselves, many other countries in the region have failed to avoid the tar brush of poor governance (and thus suffer from very low levels of legitimacy). Achieving regional political stability, a necessary precursor for economic development, is difficult in such circumstances.
- Outside perceptions of geopolitical risk are high (e.g. a leading insurer ranks four Latin American countries in the "top ten" global political hotspots). Despite the negative headlines about a "new left-wing political landscape", 2006 saw ten democratic elections in Latin America with over 58% of the people agreeing that democracy is the best system of government (Latinobarómetro). The reality of political risk in Latin America is that it is much more about stability and quality of governments than about mechanisms of democracy (OAS).

Important Trends

- The level of stability of democratic regimes in Latin America during the past two decades is unsurpassed in history. However, questions continue to be raised about the quality and inclusiveness of institutions, the impartiality and accessibility of justice systems and the efficacy of the state.
- Populism again appears to be gaining force in both the developing and developed worlds, as the diffuse benefits of globalization (no matter how great overall) remain less visible than well-publicized concentrated dislocations. N.B.: Some believe that inequalities are beginning to diminish. Other experts say they are growing. In the end, what matters are issues related to the perception of unfairness.
- After Latin America's economic emergence from its "lost decade" during the 1980s, the 2001-02 economic downturn triggered an unexpected backlash against pro-market reforms along with a movement to restore the protectionist policies of the past. Nevertheless, fiscal prudence and open borders have thus far remained in force for all but a few countries.
- Regional trade blocs or agreements include the Mercosur and the Andean Community of Nations (CAN), as well as the G3 and the Central American Free Trade Agreement (CAFTA). However, major reconfigurations are taking place along opposing approaches to integration and trade; Venezuela has withdrawn from both the CAN and G3 in lieu of the Mercosur, a bloc which nominally opposes any Free Trade Agreement (FTA) with the United States. On the other hand, Mexico is a member of NAFTA, Chile has signed a FTA with the United States, and Colombia's and Peru's legislatures have approved a FTA with the United States and are awaiting its ratification by the US Senate.
- While trading blocs such as the US and EU have long been champions (and beneficiaries) of economic liberalization, recent populist sentiments suggest a growing appetite for protectionism. The open question is: to what extent will the US/EU become more like a populist Latin America, rather than Latin America becoming more like the US/EU?
- Political corruption, illicit trade (especially in narcotics) and organized crime rank higher as risks in Latin America than elsewhere in the world. The "informal" economy accounts for a huge 38% of GDP in the region, compared with 16% for China and 26% for India (informality means tax evasion, corruption, unfair competition and organized crime).

Consequences

- While the elites have become more globally interconnected, the poor and lower middle class in Latin America are still largely disconnected and do not feel the benefits of globalization and liberalization. The mismatch of interests and/or perceptions of globalization could lead to an endogenous backlash, protectionism and social and political tensions.

- Exogenous protectionism (e.g. continued WTO/Doha Round stalling, EU agricultural subsidies) and any retrenchment from globalization by the US could trigger a global slowdown, with severe economic and political impacts (particularly in developing regions like Latin America).

- The socio-political consequences of such a backlash against globalization are not clear or consistent in the Latin American context, or indeed globally. Nevertheless, it can be assumed that any retrenchment towards populism and protectionism would significantly curtail the appetite for FDI in Latin America among foreign investors.

Mitigation

- Democratization has been a necessary but not sufficient condition to ensure political stability. The next step is to professionalize the public bureaucracy (e.g. Chile is a leader in moving along this path) and strengthen institutional capacities in order to bring about greater accountability and transparency. Gaining legitimacy is vital.

- Both bilateral and multilateral trade deals should be pursued to strengthen regional ties and gain an ever-increasing share of world trade. Despite the political volatility in some countries, the region should not allow political differences to derail integration.

- Deeper regional integration within Latin America is essential to help achieve the scale necessary to build better infrastructure links, and strengthen regional agreements, institutions and governance. There is much scope to boost regional cooperation in strategic sectors such as energy and tourism (just as there has been growing collaboration between the police and the military in the region in the struggle against organized crime, particularly drug trafficking). There are also opportunities for intraregional cooperation on social protection and education initiatives.

- The energy sector, particularly non-petroleum products and biofuels, could also play a leading role in enhancing regional integration (e.g. planned US$ 25 billion natural gas pipeline connecting Venezuela with Brazil, Argentina, Bolivia, Paraguay and Uruguay).

- To curb corruption, there is a need to focus on campaign finance reform; greater transparency in public bidding (e.g. using online systems); the legalization of lobbying and its regulation; greater transparency in government relations, reducing overregulation; and increasing an "absolute" anti-corruption culture inside companies. Thus far, partial reforms have yielded partial results.

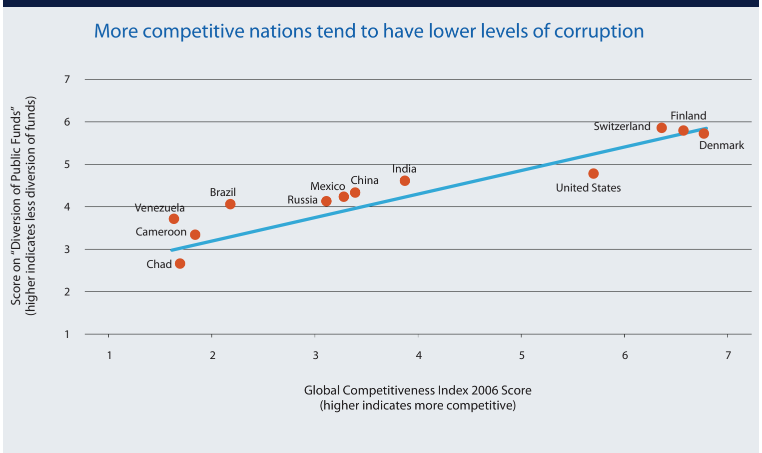
Resources

- Inter-American Dialogue (http://www.thedialogue.org)
- Organization of American States (http://www.oas.org/)
- Latin American Studies Association (http://lasa.international.pitt.edu/)
- Washington Office on Latin America (www.wola.org)
- Latin America Working Group (www.lawg.org)
- Center for the Opening and Development of Latin America (http://www.cadal.org/)
- Instituto de Ciencia Política Hernán Echavarría Olózoga (www.icpcolombia.org)

"The 800 pound gorilla in the room is protectionism."

Stephen S. Roach, Chief Economist and Director, Morgan Stanley, USA

The Link Between Corruption and Global Competitiveness



Source: Analysis of World Economic Forum, *The Global Competitiveness Report 2006*

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Executive Summary:
Social Inequalities within Latin America

What is the risk of the "inequality trap" perpetuating the twin disappointments of income inequality and social exclusion? With the explosion of expectations, do perceptions of inequality match the reality?

Risk

- Economic inequality and social marginalization are the greatest risks facing Latin America. These longstanding twin disappointments continue to hamper the region's progress – social cohesion and inclusive economic development are joined at the hip – one cannot exist without the other.
- Latin America is the most unequal region in the world (not only in terms of income distribution, but in terms of access to education and access to credit).
- While poverty is reducing overall, perceptions of rising inequality remain a lightning-rod issue: over 70% of people in Latin America perceive income distributions as either "unfair" or "very unfair" (Latinobarómetro). In addition to an acute awareness of local poverty versus local wealth, perceptual disparities regarding local poverty versus *global* wealth are heightened by the increased mobility of people, Internet access and 24-hour news flows.

Important Trends

- Over the past three years Latin America has enjoyed its strongest cycle of economic growth in three decades, with average growth rates exceeding 4% (versus an average annual growth rate of only 2.2% between 1980 and 2002). Great gains have been made in combating issues such as food insecurity (with the proportion of undernourished people falling from 13% in 1990 to a projected 6% in 2015).
- For many Latin Americans, however, conditions have not improved substantially and a large proportion still await the promised fruits of progress (on balance, poverty and inequality ratios have been stagnant, while in some countries extreme poverty worsened during the early years of this decade).
- While the region has grown, the "employment content" has been low, which has contributed to maintaining inequality.
- World Bank data reveals that inequality in the *least* unequal country in Latin America is higher than the *most* unequal country in Eastern Europe and the industrialized countries.
- Access to *quality* water and sanitation remains highly unequal, as investment in infrastructure has lagged that in other countries.
- Only 10% of the adult population have access to basic financial services such as credit and insurance (especially lacking in the rural sector), and economic development remains hampered by narrow and shallow financial markets (e.g. large proportions of lower-income population remain "unbanked" and in twelve Latin American countries "dead capital" – untitled/immobilized assets – amounts to US$ 1.2 trillion)

Consequences

- The forces of globalization will continue to enhance overall wealth, but will perhaps also act to magnify wealth inequalities. If perceptions of inequality and exclusion are not addressed, they will continue to manifest themselves as social unrest, rising crime, disenfranchisement and political polarization. The widespread perception that good-quality schools, jobs and medical care are reserved for the few is incompatible with the ideal of greater social cohesion (Inter-American Development Bank).
- Latin America faces the immense task of educating, employing and integrating its poorest populace (25% of the population live on less than US$ 2 per day). The management of this will determine whether the region enjoys a "demographic dividend" or faces a "demographic liability" in terms of continued unrest and underperformance.
- In the long term, socio-economic imbalances can feed a vicious circle of despair if disadvantage is transmitted across generations (UNDP); for example, if there is continued failure to provide opportunity for people to develop skills and knowledge to enter the global economy. Business cannot survive in such a failed society.

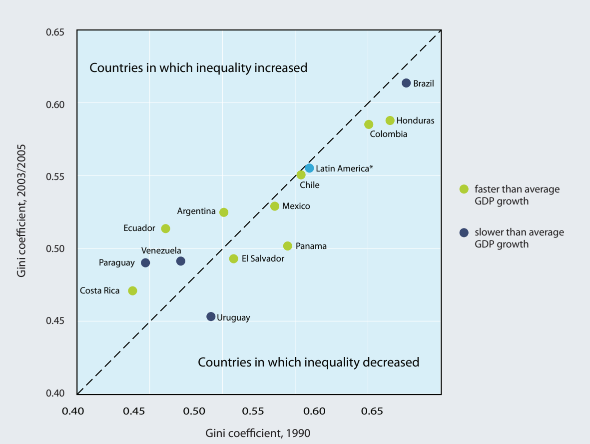
Mitigation

- While inequality is complex and has deep historical roots, it is not deterministic – there are no immovable structural features that prevent Latin America from following in the economic footprints of successful developing countries in Asia (while avoiding the missteps of failed states in Africa). Because levels and patterns of inequality vary substantially, public policies, strategies and actions will also be different in each country.
- Decisive action and political will to reform in the face of vested interests are essential. The business sector has the capacity to become a key catalyst for change. A break from history is possible.
- Government and business should not ignore the opportunity that exists in educating, integrating and mobilizing the region's poor, both as a source of labour and new markets (some 75% of consumers are in the lower middle class or low income brackets).
- Education is the only sustainable solution to social inequality; in particular a democratization of *quality* education is required, with well-trained teachers, better use of technology (e.g. for rural areas), along with reform to ensure the right incentives are in place for both teachers and students (e.g. income transfer programmes could be made conditional on children remaining at school), and targeted demand programmes such as Brazil's *Bolsa Familia*, Mexico's *Oportunidades* (formerly *Progresa*) and Colombia's *Familias en Acción*
- Leaders should promote active social policies in favour of low income households (e.g. protection of property rights), reconciled with macroeconomic stability, sound fiscal policies and efficient tax collection. An important milestone would be to enhance access to basic healthcare, good quality education from pre-school level and universal social security (i.e. "levelling the playing field" as well as "getting people onto the playing field").
- Small to medium-sized enterprises are likely to play a vital role in providing jobs, as they represent 40-60% of employment and 40-50% of regional GDP.
- Reduced regulation would encourage the banking and insurance sectors to extend affordable credit and insurance products, while institutions such as the Inter-American Development Bank aim to triple micro-credit in the region to US$ 15 billion in five years.
- To achieve the Millennium Development Goals, the proportion of people without sustainable access to safe drinking water and adequate sanitation needs to halve by 2015, which is achievable by improving the capacity and efficiency of providers; increasing investments in water and sanitation (to exceed 0.2% of GDP); introducing innovative mechanisms for commercial financing; revising tariff structures and improving collection; expanding access; and redefining the role of the private sector in service provision (e.g. by facilitating public-private partnerships).

Resources

- Latinobarómetro (www.latinobarometro.org/)
- United Nations Economic Commission for Latin America and the Caribbean (http://www.eclac.cl/)
- World Bank – Latin America (www.worldbank.org/lac)
- Inter-American Development Bank (http://www.iadb.org)
- United Nations Development Programme (http://www.undp.org/regions/latinamerica/)

Inequality across the Region Is Down Slightly Since 1990



Source: Economic Commission for Latin America and the Caribbean, World Bank

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