

## Chapter IX

**PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS.  
CHALLENGES AND POLICY DIRECTIONS FOR THE REGION**

**A. PROGRESS TOWARDS ACHIEVEMENT OF THE MILLENNIUM DEVELOPMENT GOALS IN  
LATIN AMERICA AND THE CARIBBEAN: SUCCESSES AND CHALLENGES**

Before discussing the main challenges that the region must face and the policy directions proposed for overcoming them, this first section provides a general overview of the progress made in Latin America and the Caribbean towards achieving the Millennium Development Goals. As will become apparent, this overall evaluation differs to some degree from the assessment contained in the latest global report, which compares conditions in Latin America and the Caribbean with those in other regions (United Nations, 2010a). The differences stem from the fact that this regional review is based on an adjustment of both the minimum thresholds to be met and the indicators used to evaluate progress in the countries of Latin America and the Caribbean.<sup>1</sup>

Unlike the evaluation presented in the United Nations' global progress reports —particularly the 2010 report— the following summary is based exclusively on a review of progress towards the quantitative targets established for the Millennium Development Goals.<sup>2</sup> Moreover, in the case of some targets, indicators that set a more demanding threshold or are based on a better adapted measure have been used, consistent with the approach of adjusting to regional realities. For the extreme poverty target, national lines were used that are comparable among the countries of Latin America but are higher than the official value of “income less than one dollar per day” and therefore indicate higher levels of extreme poverty for the region.<sup>3</sup> For the target related to completion of a full course of primary schooling (Goal 2), progress was assessed by measuring completion of primary education as reported on household surveys.<sup>4</sup>

Before presenting the findings of this evaluation, it should be noted that much of the progress towards the targets —particularly the poverty target— was achieved over the last decade, especially during the six years leading up to the global crisis that ended “the longest and most vigorous phase of economic growth seen in Latin America and the Caribbean since the 1970s” (ECLAC, 2010a). The global economic and financial crisis (preceded by the food and energy crises) raises a question as to whether the region's countries will be able to maintain the pace at which they had been advancing towards the targets since the early 1990s, especially the countries hit hardest by the crisis, such as Mexico and the Central American countries.

Although there is no conclusive evidence that the positive trends derived from the economic growth seen between 2003 and 2007-2008 have reversed as a result of the crisis,<sup>5</sup> the outlook for the region will undoubtedly be less favourable over the next five years, and a number of factors will very likely slow the pace of progress towards the targets. These factors include the decline in foreign remittances and the poor prospects for a return to pre-crisis levels, less international liquidity and fewer resources for official development assistance (ODA) and rising protectionist pressures in the developed countries, as well as falling demand in most of them. Accordingly, the pre-crisis pace of

<sup>1</sup> This adjustment, expressly stated in the Millennium Declaration, is intended to make review of the targets more relevant to the relative development of the individual countries comprising each region of the world.

<sup>2</sup> The global report assesses not only the quantitative targets, but also those indicating progress towards achievement of the respective Millennium Development Goal, but not as a percentage with respect to the level observed in the base year. For example, in its evaluation of progress towards target 1.B (achieve full and productive employment and decent work for all, including women and young people), the report indicates that the region has made insufficient progress towards meeting the target, characterizing the current situation as “moderate deficit in decent work.”

<sup>3</sup> See Chapter II.

<sup>4</sup> See Chapter III.

<sup>5</sup> In fact, the latest economic growth projections for 2010 indicate that regional GDP will grow at an annual average rate of 5.2%, higher than the 2003-2008 rate (4.9%), although some of this growth represents recovery from the 2009 slump.

progress towards the targets in Latin America and the Caribbean can be said to be a ceiling, rather than a floor, for what can be achieved under the current development model.

Given the above, the picture that emerges from the following table summarizing regional progress towards the targets cannot be extrapolated mechanically. Some of the countries whose progress up to 2008<sup>6</sup> indicated that they were on track to meet the 2015 target may well advance more slowly in the years to come, eventually failing to meet some targets that would have been easily achievable had it not been for the crisis. A situation in which a country that has met a target experiences some type of setback that reverses its achievement cannot be ruled out either. This could happen, for example, with the target to reduce extreme poverty, an achievement that, in order to be sustained over time, requires a relatively high economic growth rate, sufficient to create the quality jobs that will keep a growing populace permanently lifted out of poverty, as explained in Chapter II.

As in the global assessments of progress towards achieving the Millennium Development Goals that the United Nations has been preparing, the following assessment of the countries of Latin America and the Caribbean combines two measures: progress made since 1990, and the current level of the indicators used to quantify that progress. The first measure is coded in the table with different colours indicating the various levels of progress given the amount of time that has elapsed since the base year. The possible levels are as follows: the country has already met the target or is very close to meeting the target; the country is on track and will reach the target if prevailing trends persist; the country is not on track to reach the respective target; and lastly, the country has made no progress towards the target or there has been a setback during the period of observation (ideally from 1990 to the most recent year).<sup>7</sup> The procedure used for assigning the countries to each of these categories is described in the statistical annex. The second measure is the current level of the indicator, which documents the most recent situation for which there is information. Naturally, the average value for all Latin American and Caribbean countries was taken into consideration for measuring this indicator.<sup>8</sup> The assessment of both measures is what makes it possible to evaluate the countries according to their levels of relative development and the likelihood that they will be able to overcome their obstacles and meet the Millennium Development Goals.<sup>9</sup>

From a regional perspective, what kind of progress have the countries made toward the targets? Although Latin America is considered to be a middle-income region in the world, and without ignoring the important progress that has been made towards the Millennium Development Goals, the high level of inequality within and between the countries paints a not entirely auspicious picture. The reality is that progress is insufficient for four of the nine targets evaluated, which correspond to six of the eight Millennium Development Goals, inasmuch as the respective targets will not be met if prevailing trends persist (see table IX.1).<sup>10</sup> This includes the targets related to undernourishment (Goal 1), completion of primary education (Goal 2), gender parity in the national parliaments (Goal 3) as a principal indicator of gender equality and female empowerment, and maternal mortality (Goal 5). Latin America and the Caribbean is on track to reach the targets related to extreme poverty, underweight, child mortality and access to safe drinking water and basic sanitation services. However, consideration should be given to the fact that the poverty target is, so to speak, more heavily “weighted” than the others, because it encapsulates the progress made in all the other Millennium Development Goals and is also one of the causes of the problems addressed by most of the other targets. The synergies between the different targets also suggest that progress made towards the other targets will guarantee the sustainability of progress made towards the poverty target.

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<sup>6</sup> As documented in the statistical annex to this report, the available information on which the table showing progress towards the targets is based is from 2008 at best, with the exception of the data on child mortality, which is from 2009.

<sup>7</sup> A different colour was used for countries for which there was insufficient or missing information to evaluate progress, a situation that occurs more frequently in countries and territories in the Caribbean.

<sup>8</sup> Because this is a regional evaluation, it would not be useful to consider the worldwide average for each indicator. If that average were used, the vast majority of Latin American and Caribbean countries would rank higher than average, which would make it hard to assess the relative situation of the countries within the region and appreciate the considerable heterogeneity that exists between them.

<sup>9</sup> The division of the Latin American countries into four groups was based on their rankings in the Human Development Index of the United Nations Development Programme (UNDP), as the information is presented in the statistical annex to this report.

<sup>10</sup> Consideration should be given to the strong gravitational force exerted by the region’s two most populous countries, Brazil and Mexico, on this aggregate evaluation, based on a weighted average of the value of the indicators corresponding to each country.

Table IX.1  
**LATIN AMERICA AND THE CARIBBEAN: OVERVIEW OF PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS**

Country or territory	Goal 1		Goal 2	Goal 3	Goal 4	Goal 5	Goal 7
	Target 1.A	Target 1.C	Target 2.A	Target 3.A	Target 4.A	Target 5.A	Target 7.C
Latin America and the Caribbean <sup>a</sup>	Extreme poverty	Underweight	Completion of primary education	Women in national parliaments	Child mortality	Maternal mortality	Access to safe drinking water
	moderate	moderate	high	moderate	moderate	high	low
Latin America <sup>a</sup>	moderate	moderate	high	moderate	moderate	high	low
	moderate	moderate	high	moderate	moderate	high	low
Countries with low and medium-low levels of human development	very high	very high	...	very low	very high	...	very low
	very high	very high	low	low	moderate	high	low
	very high	high	low	very low	high	...	moderate
	very high	very high	very high	very low	very high	...	very low
	very high	high	low	moderate	high	...	low
Countries with medium levels of human development	high	moderate	low	low	moderate	...	low
	very high	high	very high	very low	high	very high	low
	high	very high	moderate	low	high	high	low
	moderate	high	very high	moderate	moderate	...	low
	moderate	high	very high	moderate	moderate	...	moderate
Countries with medium-high levels of human development	moderate	high	high	moderate	moderate	...	low
	high	moderate	high	very low	moderate	high	low
	moderate	moderate	high	very low	moderate	high	low
	moderate	high	high	very low	moderate	...	low
	moderate	moderate	high	low	moderate	moderate	low
Countries with high levels of human development	low	very low	high	high	very low	low	very high
	moderate	very low	very high	moderate	moderate	moderate	moderate
	...	very low	...	high	very low	moderate	very high
	low	moderate	very high	very low	low	...	very high
	low	very low	very high	high	low	moderate	high
The Caribbean <sup>a</sup>	low	very low	very high	very low	very low	low	high
	moderate	very low	very high	moderate	moderate	moderate	moderate
	...	very low	...	high	very low	moderate	very high
	low	moderate	very high	very low	low	...	very high
	low	low	very high	high	low	moderate	high
Anguilla	low	very low	very high	very low	very low	low	high
	moderate	moderate	moderate	moderate	moderate	moderate	moderate
	...	...	...	...	...	...	...
	...	very low	...	very low	...	high	very high
	...	very low	...	very low	...	high	high
Antigua and Barbuda	...	very high	...	...	...	high	moderate
	...	...	high	...	...	...	very high
	...	very high	...	very low	...	high	very high
	...	...	...	...	...	high	high
	...	...	...	...	...	high	high

Table IX.1 (concluded)

Country or territory	Goal 1		Goal 2 Target 2.A Completion of primary education	Goal 3 Target 3.A Women in national parliaments	Goal 4 Target 4.A Child mortality	Goal 5 Target 5.A Maternal mortality	Goal 7	
	Target 1.A Extreme poverty	Underweight					Target 7.C Access to safe drinking water	Target 7.C Access to sanitation
	Target 1.C Undernourishment							
Netherlands Antilles	...	...	low	...	low	...	...	...
Aruba	...	...	moderate	...	moderate	...	very high	...
Bahamas	...	...	low	very low	very low	...	high	very high
Barbados	...	...	high	very low	very low	low	very high	very high
Belize	...	moderate	moderate	very low	moderate	...	high	very low
Dominica	...	...	moderate	low	...	...	high	moderate
Grenada	...	...	low	very low	low	low	high	very high
Guadeloupe	...	...	...	...	very low	...	very high	low
French Guyana	...	...	...	...	low	...	low	low
Guyana	high	very high	low	moderate	very high	very high	high	moderate
Cayman Islands	...	...	low	...	...	...	...	...
Turks and Caicos Islands	...	...	...	...	...	...	very high	very high
United States Virgin Islands	...	...	...	...	...	...	very high	very high
British Virgin Islands	...	...	...	...	...	low	...	...
Jamaica	low	low	moderate	very low	very low	very high	high	moderate
Martinique	...	...	...	...	very low	low	...	...
Montserrat	...	...	...	...	...	...	very high	very high
Puerto Rico	...	...	...	...	...	...	...	...
Saint Kitts and Nevis	...	...	low	very low	...	...	very high	very high
Saint Vincent and the Grenadines	...	...	low	low	moderate	...	...	...
Saint Lucia	...	...	very high	very low	low	...	very high	moderate
Suriname	...	...	low	moderate	moderate	very high	high	moderate
Trinidad and Tobago	...	moderate	low	moderate	high	...	high	high

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the statistical annex.

<sup>a</sup> Weighted average.

■ The country has already met the target or is very close to meeting the target.

■ The country is on track and will reach the target if prevailing trends persist.

■ The country is not on track and will not reach the target if prevailing trends persist.

■ The country has made no progress towards the target or there has been a setback.

■ Missing or insufficient data.

In many countries, efforts to halve extreme poverty have been insufficient and progress in the area of total poverty has been slight, with the result that the region as a whole is not on track to halve it by 2015. Moreover, even if the extreme poverty target were met in the countries that are not track to do so, the rate would still be very high—this is the case in the countries with medium and low levels of development (see table IX.1). With respect to child mortality, despite the fact that the region is on track to reach the target—and indeed it is the region of the world with the most countries contributing to reduce it by two thirds—several of the region’s countries have a very high rate of mortality among children under one year of age, which indicates that ongoing efforts are needed to reduce the number of preventable deaths, which are mostly due to external causes.<sup>11</sup> Lastly, although coverage of basic services is high and the region as a whole is on track to reach the target of halving the percentage of the population that does not have access to safe drinking water and basic sanitation services, many countries have low or very low coverage of basic sanitation services, and achievement of this target will not ensure that the majority of the population in those countries gains access to these services, which have a decisive effect on the likelihood of reaching other targets, such as reducing child mortality.

The table very clearly shows the contrast between countries with lesser and greater per capita income and human development in the region. The countries in Latin America with lower levels of human development (Plurinational State of Bolivia, Guatemala, Haiti, Honduras, and Nicaragua) are not only the ones with the highest rates of extreme poverty, but also the ones that have failed to reduce those rates at a pace that would put them on track to reach the target, Colombia. El Salvador and Paraguay also have high rates of extreme poverty. Meanwhile, the countries with high levels of human development have made better progress towards the target (Chile, Costa Rica, and Mexico), and in the case of Uruguay and Argentina, where progress has been insufficient or nonexistent, extreme poverty rates are low. In the group of countries with medium-high levels of human development, Brazil and Chile are the only ones that have reached the target; Peru is very close to meeting it.

Lastly, the scarcity of data on extreme poverty in the Caribbean only allows for an assessment in this regard of Jamaica, which in addition to having reached the target, has a low rate of extreme poverty.<sup>12</sup> With respect to access to water and basic sanitation services in the Caribbean, the high rates of coverage that have been achieved could explain why little or no progress has been made in relation to target 7.C. This may reflect the more resource-intensive efforts that are required to deliver water, and particularly basic sanitation services, to relatively small percentages of the population, in order to reach the target. This is a very clear case in which progress towards the target cannot be assessed without also considering the indicator levels.

Another aspect highlighted by the evaluation of progress towards the targets for the Millennium Development Goals is that among the countries with high human development levels, not only did they make progress towards and even reach the targets, but also that progress built on already high indicator levels of access and satisfaction of needs for the various targets. This is cause for optimism inasmuch as it demonstrates that progress can be achieved by incorporating excluded or “hard cores” of the population that have not attained the minimum levels of well-being enjoyed by the majority. These are often indigenous communities or groups residing in areas segregated from the national territory, which require greater efforts at inclusion by the State, whether due to cultural barriers or the need for higher-cost investments to guarantee their access to goods and services.

This overall view spotlights the considerable heterogeneity that exists between the countries in terms of the principal obstacles that must be overcome to usher in more egalitarian and integrated societies. For one group of countries, the main task with respect to equality continues to be implementation of social inclusion policies that allow the entire population to reach minimum levels of well-being. As indicated, these are the very countries where exclusion is strongly linked to the marginalization of indigenous peoples and the inferior living conditions in remote areas. The problem is that also present in these countries with lower per capita income are the mechanisms for the

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<sup>11</sup> In 2009, fifteen countries had child mortality rates of more than 20 deaths per 1,000 live births, and in four of those countries, the rate exceeded 30 deaths per 1,000 live births. Meanwhile, nine countries have succeeded in bringing down the rate to less than 10 deaths per 1,000 live births.

<sup>12</sup> The poverty data for Jamaica are based on household surveys and the estimates that ECLAC calculates for Latin American countries (see table II.2).

reproduction of socioeconomic inequality (unequal access to education and job skills training, gender inequality, insufficient productive employment, lack of social protections, and unequal access to social security).

Given the demographic transition that these countries are experiencing (which translates into a higher rate of economic dependency) and the urgency and magnitude of the primary gaps that must be reduced, public policy should place greater emphasis on closing the gaps that arise in the first stages of life. These are the countries in which child poverty rates are the highest.<sup>13</sup>

In another group of countries, even though there is still unequal access to well-being among different segments of the population and minimum levels of social protection and social security have not yet been universalized, real progress has been made in closing the principal gaps, particularly in the job market, the main forum in which these gaps are produced and also reproduced.

This heterogeneity between countries is mirrored in various ways in their profiles of progress towards the targets for the Millennium Development Goals. Guatemala, Brazil and Chile are countries that illustrate these different profiles. In the case of Guatemala, progress towards meeting the targets has been much slower than in the other two countries. The gains it has made in reducing the incidence of underweight (but not undernourishment) and child mortality rates and expanding access to safe drinking water and basic sanitation services at a pace consistent with meeting the corresponding targets would probably indicate that although it has achieved more in terms of access to the most basic conditions of well-being, this has been accompanied by insufficient progress in terms of completion of primary education and reduction of extreme poverty, areas in which inequalities continue to persist throughout the life cycle. Low economic growth and highly unequal income distribution<sup>14</sup> are the main barriers to development with equality. Resources, technical assistance and South-South cooperation are critical to advancing that agenda.

In the case of Brazil, progress towards the various targets has been more even. Unlike Guatemala, it has reached the extreme poverty target, made important gains with respect to total poverty (see figure II.9), and is on track to meet the other targets, with the exception of those in which most of the region's countries have not made sufficient progress (gender parity in national parliaments and reduction in maternal mortality).<sup>15</sup> Brazil has been making advances in terms of both closing gaps and giving the entire population access to minimum levels of well-being. Its ability to move forward in both of these aspects of inequality stems from its economic prowess, which is expressed in GDP growth as well as in greater availability of resources for social programmes and policies.<sup>16</sup> Notably, Brazil has the highest tax burden in the region (see table IX.2).

Like Brazil, Chile had made very even progress towards meeting the targets. Where Chile differs from Brazil is in the indicator levels it has achieved, which would suggest that in comparison with relatively less developed countries, it has managed to provide a very large portion of the population with access to minimum levels of well-being. Moreover, it is the only country that succeeded in halving total poverty in 2006.<sup>17</sup> Nonetheless, as in all other countries in the region, there are still groups in Chile that have not been given access to the minimum levels of well-being enjoyed by the majority. This third case illustrates the situation of Latin America's higher-income countries, in which inequality is mainly characterized by the persistence of gaps in real achievements. These gaps are clearly evident in the labour market in the form of income disparities, particularly in the very high wages paid to

<sup>13</sup> Higher relative poverty rates among children and adolescents is a widespread phenomenon that also occurs in countries with high per capita income. As extreme poverty rates have fallen in the region, children have become disproportionately affected owing to, among other factors, the persistence of fertility rate differences between upper and lower social strata.

<sup>14</sup> Guatemala is the country that experienced the largest increase in the Gini coefficient of concentration in the six-year period from 2003 to 2008. See table I.1.

<sup>15</sup> Progress at a pace inconsistent with meeting the basic sanitation target may reflect problems associated with providing these services in large countries in which significant percentages of the population live in remote areas.

<sup>16</sup> Brazil, along with Mexico, is the country that has the largest conditional cash transfer programme in Latin America, in terms of coverage and volume of resources as a percentage of GDP. See León (2008).

<sup>17</sup> The latest data on the magnitude of poverty in Chile are from 2009 and were only just released, so the poverty figures in this report are from 2006. The new poverty estimate for Chile indicates that there was a slight deterioration with respect to 2006, which partly reflects the adverse effects of the global crisis. According to the new data, the poverty rate is 15.4%, which would not reverse Chile's achievement of halving poverty, using 1990 as the base year.

skilled workers compared to unskilled workers, who receive very low wages that are insufficient to lift them out of poverty. In this same area of inequality, differences in health, education, employment and social protection tend to manifest less as a problem of access and more as a problem of clear discrepancies in quality. In this case, these are the differences that reproduce social inequalities. However, as discussed later, unlike in Brazil, Chile's potential tax burden provides a much wider margin for raising taxes and making them more progressive, in order to provide the State with more revenue for redistribution policies aimed at smoothing inequalities.

The variety of situations illustrated by the cases of Guatemala, Brazil, and Chile highlights the different ways in which inequality is expressed and reproduced in the region and provides the basis for making general statements on the different areas of emphasis of public policy directions, against the backdrop of a development agenda that pivots on equality and social inclusion while also taking into consideration the specific situation in each country. A key item on this agenda for equality is each country's capacity to generate and distribute the resources it needs to advance the agenda and fulfil the Millennium Development Goals, which depends on the possibility of building a fiscal covenant. At the end of this chapter, information is provided in this regard.

## B. MAIN CHALLENGES AND POLICY DIRECTIONS

This section discusses some of the main challenges and policy directions suggested by the assessment of trends outlined in this report, which are closely tied to the structural problems confronting Latin America and the Caribbean in creating more integrated and egalitarian societies. These challenges first entail full enforcement—that is, enforcement for all citizens—of the rights set out in the various Millennium Development Goals. Second, they suppose—as stated at the beginning of this report—progress towards bridging the main gaps and setbacks in order to achieve real equality between the different population strata and groups. And all of this falls within the scope of an agenda for development with equality for the region's countries, in which it is essential to promote a proactive State that seeks the support of key political and social actors to coordinate a social covenant for distributive equity, not only to even out opportunities, but also to “reduce inequality of outcomes over the life cycle of individuals as well as within and across generations” (ECLAC, 2010a).

Accordingly, six main pillars corresponding to these challenges and policy directions are proposed, which are closely inter-related **strategic areas** for meeting the Millennium Development Goals with equality in the region. The six pillars are:

- The region-specific considerations and challenges imposed by Goal 8, which proposes a global partnership for development and, according to the perspective adopted in this report, is a problem that affects and is of concern to all countries, not just the least developed ones. This is even more critical given the problems that have emerged since the start of the global crisis.
- The pressing challenges imposed today by the incorporation of sustainable development principles into the policies and new overall directions that development in the region should take.
- The principal well-being gaps and the factors that determine inequities, which not only prevent the full observance of rights, but also perpetuate the inter-generational transmission of inequality.
- The need to achieve full and productive employment and decent work for all, which is itself a core pillar given its close links to the other Millennium Development Goals, especially those associated with poverty reduction, the challenges associated with expanding and improving educational and health care systems, and the creation of social safety nets that guarantee minimum levels of security and protection for the populace.

- The policies and measures needed to expedite progress towards achieving the principal targets of the Millennium Development Goals over the next five years, which should be geared towards comprehensively addressing situations of extreme poverty and hunger.
- The minimum conditions required to establish a social covenant that provides the State with greater capacity to redistribute resources and play a more proactive role in advancing equality in the region, thus enabling the deployment of strategies and policies for overcoming the setbacks and gaps that impede fulfilment of the Millennium Development Goals with equality.

The **first pillar** suggests that the Millennium Development Goals can be achieved only if there is cooperation between the developed and less developed countries and, in the case of Latin America in particular, South-South cooperation. This requires rapid progress towards fulfilment of the ODA commitments assumed by the developed countries and towards an open trading system based on predictable and non-discriminatory rules through fair and balanced access to markets (Goal 8).

- The first challenge continues to be the necessary **diversification of production and exports in Latin American and Caribbean economies** to allow them to integrate into a world of global value chains—this process is referred to as the “decommoditization” of exports. Although the region has seen great improvements in access to third markets, commodities and low-tech manufactured products still make up the bulk of its exports. Progress is essential in this area, particularly among small and open economies, not only to ensure higher export earnings but also to lessen volatility in earnings when there are abrupt cyclical fluctuations in prices or external demand. This presents a number of challenges: (i) increasing the intangible component in exports (patentability, traceability, corporate social responsibility, and so forth); (ii) raising the knowledge content of exports, including natural-resource exports, investing in research and the use of technological advances (e.g. in biotechnology); (iii) creating new niches in knowledge-intensive services; and (iv) improving infrastructure, connectivity and trade facilitation.
- Meeting the first challenge will be highly problematic unless **industrialized countries take decisive steps to reduce agricultural subsidies**. For this, utmost joint efforts are needed to promote and ensure the prompt **conclusion of the Doha Round**. This is even more important today because the crisis has caused protectionist pressures to re-emerge in developed countries. Concluding the Doha Round would bring important benefits to developing countries in the form of lower tariffs on farm, textile and clothing products and fewer trade-distorting agricultural subsidies, giving these countries fair and balanced access to the international markets (United Nations, 2010a).
- Trade integration in the region requires many countries to make greater efforts to build closer partnerships with **China, and Asia in general**, recognizing that over the next few years those countries will drive higher demand for exports. Although closer ties have been forged in recent years, some countries continue to maintain relatively weak trade relations with China—especially as a key export market—despite its undeniable importance as a trading partner. It should be noted that along with India, China was one of the few large economies that grew during the recent global crisis, and it could displace the European Union as the region’s second largest trading partner in the next decade. Accordingly, more comprehensive trade strategies must be pursued that maintain current import levels from Asian economies while also increasing and diversifying Latin American and Caribbean exports to Asia, in recognition of Asia’s vigorous growth and its strategic role on the world’s economic stage (ECLAC, 2010b).
- As far as resources are concerned, the region should aim to secure a greater share of those provided under the **Aid for Trade initiative** that began in 2005. This means enhancing capacity to submit attractive, and ideally plurinational, projects that have an impact on trade facilitation. The economic crisis must not impede fulfilment of the commitments made to substantially increase technical, financial, and political assistance for trade, as this is crucial to helping the developing countries to strengthen their trade and production capacities (United Nations, 2010a).

- Although the basic responsibility for financing for development lies with the developing countries themselves—in accordance with the principle of common but differentiated responsibilities—developed countries should also take concrete steps to **fulfil the agreements adopted at Monterrey** with respect to official assistance and achieve the target of 0.7% of gross national income. Efforts must be made to prevent the constraints that have emerged in the wake of the crisis from continuing to cause cuts in ODA. At the same time, the Latin American and Caribbean region should regain its previous share in ODA flows and even increase it on the basis of new criteria.
- It is also essential to **review the operational definition of middle-income countries as a criterion for allocating ODA**, since most of the region's high-middle-income and low-middle-income countries are excluded from ODA even though they have high levels of poverty and inequity. The Millennium Development Goals Gap Task Force has proposed that, in addition to fulfilling the agreements adopted concerning ODA levels, there is a need to evaluate what has been labeled the “needs gap,” that is, the gap between the actual delivery on global commitments and the “estimated needs for support” of developing countries. Thus, establishing new criteria for allocating ODA resources in a way that meaningfully addresses the various needs of the developing countries should be considered a crucial task to building a global partnership for development (United Nations, 2009).
- Efforts must also be made to shift the allocation of ODA resources so that they go not only to social assistance but also to properly evaluated economic projects. This would help to strengthen not only social sectors but also those sectors that have a greater multiplier effect, reducing the volume of resources needed over the medium and long term.
- With respect to external debt relief, the conditionality criteria must be balanced with the needs of low-income countries, and relief programmes must be built around shared responsibility, addressing the role of credit providers in the countries' debt overhang problem. In addition, debt relief mechanisms should explicitly take into account the ability to pay and the financing needs of the countries, while allowing more room for public policy so they can work towards their development objectives. Moreover, a new framework should be established to help the countries solve their debt restructuring problems. This should be a comprehensive, integrative process arbitrated by transparent, independent institutions to help lower transaction costs and explicitly protect social gains from becoming “adjustment variables” and turning into social losses, which would significantly impede fulfilment of the Millennium Development Goals.
- Lastly, some general recommendations made in the 2005 regional report continue to be valid, including the proposal that **innovative sources of additional financing for development should be identified**, such as taxes on financial transactions and on the inbound and outbound transactions of tax havens, corporate social responsibility contributions, and so forth. Given the present international drive to institute more effective regulation of the global financial system, the time is now ripe for bringing many of these initiatives to fruition.

**The second pillar** points up the need for the region to incorporate **sustainable development principles** in its national policies and programmes and stem the loss of environmental resources. This means taking steps that, ultimately, call for changes in production and consumption patterns so as to transition gradually to a green economy. Although the issue of climate change is extremely important in such policies, especially in Latin America and the Caribbean, the core factor in the environmental sustainability of development is the loss of biodiversity, as it underpins the region's major economic activities.

At least five elements that should contribute to the objective of guaranteeing environmental sustainability can clearly be identified:

- Acknowledgement by the State and civil society that this challenge is an urgent one and that its solution calls for far-reaching changes in **the region's production and consumption patterns**. This

cannot be achieved without reducing the pressure currently exerted on energy resources, water, forests, protected areas and endangered species, by imposing appropriate taxes and regulations that take into account the negative externalities of this pressure, especially on non-renewable resources.

- There can be no progress towards environmental sustainability unless efforts are made to internalize the costs of biodiversity loss, the destruction of ecosystems, deforestation, and emissions of carbon dioxide and ozone-depleting substances. Achieving this objective will require, ultimately, a State that is pro-active and is able to incorporate sustainable development principles into its legislation and its national policies and programmes so as to prevent the loss of environmental resources.
- This depends, in turn, on the awareness and determination of public and private actors, which requires social covenants that allow more resources—both human and financial—to be used to improve management practices and to guarantee unfettered compliance with the international commitments assumed by the countries.
- A central and necessary component in any positive changes towards environmental sustainability with the participation of civil society is **education**. Five years on from the declaration of the United Nations Decade of Education for Sustainable Development, most Latin American and some Caribbean countries have adopted national policies or strategies on environmental education. According to a recent study by the United Nations Educational, Scientific and Cultural Organization (UNESCO, 2009), the remaining challenges to the effectiveness of these policies include lack of sufficient and sustained economic support, deficiencies in teacher training, absence of evaluation mechanisms and the lack of programme continuity. These obstacles have generated institutional weaknesses and made it harder to achieve significant progress (PNUMA, 2003). As in other public-policy domains, the success of **environmental education** as a tool to consolidate the principles of sustainable development in society requires it to be integrated into education policy at all levels and all forms of schooling, in formal and informal education alike. It also requires the formulation and strengthening of regulatory frameworks, accompanied by procedures, tools of implementation and resources that encourage the emergence and consolidation of initiatives in organizations and among citizens. Lastly, access to new information and communication technologies, which are crucial for improving education overall, needs to be democratized to enable social networks and the media to fulfil their roles as strategic vehicles for raising public awareness on environmental and sustainable development issues (United Nations, 2010b).
- Lastly, better mechanisms are needed for monitoring and evaluating environmental management practices, and efforts to upgrade information systems are essential to guaranteeing environmental sustainability.

**The third pillar** alludes to the urgent need **to close the principal well-being gaps and to move towards more egalitarian societies** because rapid progress in achieving the Millennium Development Goals will provide the conditions for democracy with effective participation by citizens and economic and social development with equality. This can only be achieved through gender equality, integration based on respect for ethnic and racial diversity and public policies that are specifically aimed at guaranteeing rights and preventing the inter-generational transmission of socio-economic inequality. With this in mind, the Millennium Development Goals must be aligned with human rights by ensuring that the targets and indicators reflect economic, social, and cultural rights, that gender equality is incorporated into all activities and that efforts target marginalized and disadvantaged groups and provide for their meaningful participation.

This means that policies must be formulated in at least the following areas:

### **Education challenges**

- Expand access to pre-school education and reinforce early-years learning as a necessary condition for moving up to subsequent levels of education. The abundant evidence on the positive effect of school

readiness and pre-primary schooling points up the need to continue to expand the coverage and quality of early childhood education (ECLAC/UNICEF/SECIB, 2001).

- Review and adapt educational curriculums, content and approaches, ensuring better life-long learning. Primary education should be free, compulsory and high quality, as established in the applicable international human rights instruments.
- Enhance the teaching profession through ongoing training for teachers, raising the status of the profession and increasing pay subject to performance evaluations.
- Adapt education programmes to incorporate multicultural and intercultural aspects and introduce into the programmes essential components such as education for democracy and peace, education for active citizenship, education for responsible sexuality and healthy lifestyle habits, particularly with regard to nutrition.
- Introduce new information and communication technologies into schools so as rapidly to narrow the digital divide and reduce computer illiteracy, an aspect that plays an increasingly important role in inequalities between different social classes.
- Improve access to and completion of both levels of secondary education and ensure better linkages between secondary and higher education and the labour market, together with reinforcement of technical-vocational and university education.
- Strengthen conditional cash transfer programmes linked to school attendance among lower-income sectors.

### **Health challenges**

- In order to achieve Goal 4 and as part of an integrated care strategy, health and community action must lay greater emphasis on neonatal and child health, focusing more on promoting effective policies and programmes, on pursuing evidence-based interventions, and on improving monitoring systems that pay special attention to poor and marginalized sectors of the population.
- Expand the basic level of primary health care in accordance with equity criteria and by integrating vertical approaches, closer intersectoral collaboration and social participation in the area of health. These are not particularly complex, but as progress is made in health care the tasks become ever more challenging, for example, dealing with perinatal diseases or treating chronic AIDS sufferers.
- Ensure the availability of health care systems that function and are accessible to all population groups, fighting obstacles such as discrimination.
- Even though pneumonia is not one of the principal causes of child mortality in the region, initiatives such as the World Health Organization (WHO) and United Nations Children's Fund (UNICEF) vaccination programme against pneumococcal disease can prevent a large number of deaths. These are relatively inexpensive programmes, especially in countries where the majority of the population is covered by the vaccines prescribed during a baby's first year and for young children, and this is conducive to fulfilment of the right to life, reducing the number of deaths from preventable causes.
- Ensure that supplies of iodine, vitamin A and zinc are widely available, as they reduce infant mortality or widespread serious diseases, or both.
- Experience in recent years has shown that investment in infrastructure is needed to deal with the various risks caused by natural disasters.

- Reducing maternal mortality is a condition for progressing towards fulfilment of Goal 5 and is a priority challenge. The high rates of maternal mortality due to preventable causes in the region demand immediate action to guarantee three pillars: reproductive health, skilled professional care during delivery and emergency obstetric care, and addressing the issue of unsafe abortions is particularly important. All of these interventions must be culturally relevant. Properly documenting maternal morbi-mortality represents a special challenge.
- With respect to Goal 6, investment is needed to identify individuals who are infected with HIV and treat them with anti-retroviral drugs. This is particularly important in Caribbean countries because although there is evidence that the number of new infections has been falling, this region still has the second highest incidence of infection in the world, and the infection rate among women has been rising. Sexual and reproductive education may be an efficient way of preventing this disease, inasmuch as this new phase of the epidemic is increasingly affecting young people and women (ECLAC, 2010c).
- Access to HIV tests must be expanded, especially for young people at risk, through legislative changes that enable them to receive HIV counseling and testing independently. Interventions aimed at eliminating stigmas and discrimination based on sexual diversity, sex work, drug use, serostatus, etc. must be strengthened. Investments are critical for ensuring a mainstreamed response at the level of primary care, guaranteeing equal access, sustainable care and full treatment and support for people living with HIV/AIDS (ECLAC, 2010c).
- Regarding essential (generic) medicines, government policies need to be formulated on their distribution to low-income sectors of the population, and access to them has to be properly regulated. Sustainable financing of medicines at affordable prices should cover the regulation of procurement and distribution, the definition of patents policies and the enforcement of intellectual property rights in accordance with international rules.

### Gender equity challenges

- Gender-based inequity is a major dimension of inequality. Policies in this area should be aimed at moving towards women's effective economic and physical autonomy and their empowerment in decision-making.
- Regarding **economic autonomy**, legislation should ensure non-discrimination in employment, which means not only better legislation but also strengthening of those public bodies responsible for ensuring compliance (ministries and labour departments).
- One key factor is women's **physical autonomy**, and this is closely linked to progress towards the new target 5.B of the Millennium Development Goals. Relevant policies should focus on overcoming gaps in unmet family planning needs, paying special attention in the public sphere to access to modern contraceptives; making decisive improvements in the coverage of adequate prenatal and post-natal care in order to protect maternal and child health; drawing up a comprehensive policy to reverse rising adolescent fertility rates through education campaigns; providing access to contraceptives as noted above and ensuring that adolescent maternity does not interrupt education.
- Human rights encompass the **recognition of reproductive rights**. Respect for this right entails providing universal access to sexual and reproductive health care, a key component of the physical autonomy of women. Although the countries have recognized the importance of this target to continue moving forward, the implementation gap must be overcome. Specifically, this requires the following actions: (i) consolidating access to full sexual and reproductive health care services as part of the process of overhauling the health care systems; (ii) strengthening national strategies and stepping up international financing to provide essential inputs, such as contraceptives; (iii) guaranteeing equal

access to emergency obstetric and neonatal care; (iv) anticipating and taking action to prevent the effects of unsafe abortions in accordance with the Programme of Action of the International Conference on Population and Development and the recommendations of the organizations in charge of enforcing international human rights treaties; and (v) eliminating the obstacles that make it hard for adolescents and young people to gain access to sexual education and sexual and reproductive health care services.

- Given the rising pregnancy rates among young women, a key priority is to expand their life options. A number of key actions should be considered in order to prevent adolescent pregnancy: (i) increasing knowledge about the sociocultural determinants; (ii) promoting universal, high-quality education that includes comprehensive sexual education in schools and youth centres; (iii) promoting access for adolescents to sexual and reproductive health care information and services, as well as contraceptive and HIV prevention products for sexually active adolescents; and (iv) preventing all types of sexual pressure and abuse, in addition to exploitation. Special attention should be placed on young women under the age of 15, who are not counted in surveys and whose pregnancies are often the product of abusive, violent, or forced sexual relations. Preventing second pregnancies is an area that should continue to be strengthened. It is also essential to guarantee that pregnant adolescents and adolescent mothers can remain in school with no interruption in their education.
- Progress towards physical and economic autonomy depends on women's greater **empowerment**, and this means enhancing capacity for effective participation in decision-making spheres. Quota laws should continue to be enforced as one way of increasing women's participation in national parliaments. It is also important to open up channels for participation in intermediate levels of society (political parties, neighbourhood associations, etc.), where participation is often more effective.

The **fourth area** for fulfilment of the Millennium Development Goals is related to the creation of productive employment and decent work for all. Employment is where the gaps and inequities that accumulate throughout the different stages of the life cycle take hold and where inequalities are most clearly expressed and reproduced. Progress towards this target requires policies in the area of production and technology, in order to **close productivity gaps** between different sectors and strata of the economy, and in the area of **social protection**, in order to ensure adequate levels of security and well-being in the case of unemployment, to achieve sufficient income levels for retirement, and to ensure access to health care. In short, the idea is to ensure access to the basic components of social well-being through protection against sudden fluctuations in household income due to loss of employment and other eventualities. There is also a need to **strengthen institutions through the promotion of social dialogue** and guarantee respect for workers' rights, in order to ensure the effective fulfilment of agreements signed by the countries in this regard.

- Closing productivity gaps between sectors and companies of different sizes calls for productive development policies that will improve conditions for access to credit, new technologies, capacity-building mechanisms, market information, marketing channels, partnership arrangements, among others, all of which are indispensable for improving the productivity of these units of production and hence the climate for creating jobs and improving the quality of existing jobs. Increasing the average productivity of the economies of the region is a prerequisite for generating decent, productive employment. This calls for a development strategy based on the continuous and increasing incorporation of innovations and knowledge, as well as policies for the development of small and medium-sized enterprises, particularly policies for access to credit and human resources, so these enterprises "[can] join the supply chains of large companies and form enterprise networks, which will create synergies with industrial policy" (ECLAC, 2010a).
- Experience shows that own-account work does not always imply unfavourable working conditions. Indeed, the conditions are often superior to those obtained with wage employment, especially in micro-enterprises. Therefore, policies for the creation of enterprises, including fostering individual

independent employment may be a positive instrument for advancing towards fulfilment of target 1.B of the Millennium Development Goals.

- As regards labour income policies, tripartite agreements must be established for the application of minimum wage policies that set a wage floor that benefits the lowest-paid workers in both the formal and the informal sector without acting as a disincentive to job creation.
- Subsidizing the hiring of individuals belonging to population groups that have special difficulties in obtaining a job is another mechanism that can facilitate entry into the labour market. This mechanism not only has a positive distributional impact through job creation for persons who belong to low-income households, but also has beneficial effects when complemented by training programmes that improve worker productivity.
- The employability of young people can be enhanced by working out appropriate arrangements for combining work and study. These arrangements can be even more productive if the prospective employers actually take part in designing them.
- The inequalities that make it difficult for women with low levels of education to gain access to the labour market may be overcome by reinforcing the mechanisms that help to reconcile work and family life, compensating for inequalities through participation in networks that promote job access, and providing women with skills and knowledge training that may open up new employment opportunities and which effectively address cultural prejudices that are a barrier to the hiring of women for certain jobs.
- One of the prerequisites for reconciling work and family life is access to community, commercial or neighbourhood childcare facilities. Other measures include specific agreements on working hours, flexitime and distance working with the corresponding labour rights, emergency leave, the encouragement and facilitation of a larger role for men in care-giving and the inclusion of the issue in collective bargaining processes with a view to finding suitable solutions for particular sectors or businesses.
- Unemployment insurance and non-contributory systems of protection are forms of protection that are underdeveloped in the region and may be applied to national situations on the basis of the experience of other countries. Unemployment insurance must be linked with active labour-market policies and integrated with other protection mechanisms, such as compensation and non-contributory systems that provide support to low-income households. Labour-market income policies should include non-contributory protection systems (family allowances and basic household income schemes), which can have an impact on the labour market for various reasons. Apart from supplementing the income of the poorest households, such schemes can also facilitate more efficient job searches.
- Since the informal sector accounts for a high percentage of total employment, strategies are needed in order to improve the coverage of labour institutions. A policy should be developed so that small informal-sector enterprises can gradually be incorporated into the formal sector in order to improve institutional coverage and at the same time raise productivity and integrate these enterprises into broader production chains and systems, affording them access to financing, technologies and existing infrastructure for marketing their production abroad, where appropriate.
- Creating a forum for social dialogue among stakeholders in the working world is vital both from the perspective of worker protection and in terms of productivity gains. This may not be easy to achieve inasmuch as trust has to be developed gradually among the stakeholders as the basis for forging agreements that are sustainable over time and complying with international agreements concerning freedom to join a union and collective bargaining rights. Nevertheless, it is an effective mechanism for increasing labour-market efficiency without reducing social protection and, moreover, can generate benefits also for workers. In this respect, it is important for countries to adopt the basic guidelines of

the Global Jobs Pact of the International Labour Organization, which is geared to promoting an upturn in production in the post-crisis context centred on job creation, the expansion of social protection and respect for labour standards. Promoting social dialogue has a fundamental role to play in this scenario.

A **fifth pillar** points up the urgent need **to address the most extreme situations of poverty, hunger and lack of basic services as quickly as possible and in a comprehensive, effective and efficient manner**, building on successful programmatic and policy experiences. The cross-cutting nature of the goals and the synergies that exist between the targets must be a central element in the design of such policies. Moreover, in line with the **equality of rights** perspective adopted in this report, this is an unavoidable prerequisite for progressing towards more egalitarian and integrated societies.

## Poverty

- In order to address the most urgent needs of the poorest strata of society and speed up progress towards the achievement of Goal 1 of the Millennium Development Goals during the years leading up to 2015, the programmes currently applied in the countries that have gradually come to be referred to as conditional transfer programmes must be strengthened. These programmes are designed in the short term to relieve the poverty of families by providing material support (cash transfers) in order to protect basic consumption levels; and in the long term to build the human capital, assets and capacities of families in order to break the intergenerational cycle of poverty.
- Second, in the next few years, as the post-crisis unfolds, emphasis must be placed on the transfer of resources without overlooking the different types of conditionalities governing the delivery of these monetary benefits. The most successful experiments with the implementation of these programmes must be the basis for improving the programmes already existing in some countries and, possibly, for designing mechanisms for addressing the basic needs of the most underprivileged populations.
- In order for these programmes to contribute to achieving the target, the resources allocated to them must be raised significantly with the triple aim of augmenting their coverage, increasing the transfer amounts and strengthening the public institutions responsible for the implementation and on-going evaluation of these programmes.
- In order to achieve their objectives, the programmes must simultaneously cover the areas of education, health and nutrition (food). Thus, on the basis of these programmes, the following minimum goals must be attained: provide an additional source of resources to the poorest families and thereby help to reduce existing poverty levels; increase educational assistance for children in the most vulnerable sectors of the society; reduce child labour by fostering attendance during the school cycle; contribute to better control of the health of the populations with the most needs and thereby reduce their risks of disease; and serve as a social protection network to the community, so as to increase their degree of cooperation and their sense of cohesion.
- Lastly, in order to achieve **lasting reductions in poverty**, certain factors must be addressed including the type and pace of economic development, the functioning of the labour market, demographic shifts and changes in the family and public policies, particularly those related to social protection and promotion systems. With respect to the latter area, the lowest-income groups in the region currently lack a basic social safety net to protect them from external shocks, because access is based on formality, ability to pay or overly targeted programmes with low coverage. Accordingly, a **social safety net** must be built that includes at least three components: (i) a non-contributory income transfer system to supplement employment income and soften the impact of exogenous or biographical shocks; (ii) a health care system that does not depend on formality or ability to pay; and (iii) an expanded system of basic services for young children and the elderly (preschool, low-income housing for retirees and pensioners) that frees up women to participate in the workforce and guarantees basic benefits for dependants.

## Hunger

Achieving food security and eradication of child undernourishment requires specific policies that contemplate a series of short-, medium- and longer-term measures. In the short term, the following measures could help to speed up progress towards eradication of hunger:

- Promoting breastfeeding;
- Creating and/or improving emergency food protection systems;
- Boosting investment in drinking water and sanitation in marginal areas;
- Strengthening systems for evaluating and monitoring food programmes and food and nutrition security;
- Providing a food supplement to pregnant women, wet nurses, infants and preschool children;
- Strengthening health control systems to ensure food safety, and maintaining and improving programmes for strengthening these systems;
- Implementing school food programmes and expanding the coverage of existing programmes;
- Expanding the coverage of mass campaigns and educational programmes designed to promote healthy nutrition;
- Facilitating access of the most vulnerable families to productive assets such as land, equipment and financing.

In the medium and longer term, eradicating hunger in the region will entail significantly evening out income distribution in the countries. The reason for this is because the structural problem of persistent hunger and malnutrition in Latin America and the Caribbean is not caused by lack of overall availability of food, but rather by lack of access to available food among low-income households.

Lastly, **the sixth pillar** alludes to the need to establish a social covenant that leads to a fiscal covenant to support the strategy for achieving the Millennium Development Goals with equality. The challenge is to agree on an agenda for **development with equality** that provides ways to overcome situations in which certain groups are excluded or placed at a disadvantage and to close existing gaps in relation to the targets of the Millennium Development Goals, which are to be met by 2015. This requires revitalizing the State's role as architect of economic growth and social equality in the countries of Latin America and the Caribbean. The long-term strategic horizon—recently characterized by ECLAC in terms of “grow to equalize and equalize to grow”—assumes a **fiscal covenant for distributive equity** that, based on agreements between various public and private agents, will allow the State to play a more proactive role in development policies, paving the way for progress towards the complete fulfilment of the Millennium Development Goals with equality. This covenant must include at least the following components (ECLAC, 2010a):

- A commitment to gradually increase the tax burden, so as to balance improved fiscal policy with adequate incentives for productive investment;
- A clear intention by the State to improve revenue collection, through the gradual reduction and control of evasion and the progressive elimination of exemptions from direct taxes;
- A reform of the tax structure in agreed phases, chiefly increasing income taxes;
- A shared platform on which variations in the tax burden and structure are consistent with the larger role of fiscal policy within public policy;
- A clear and agreed public agenda for improving the transparency of public expenditure, the public institutions responsible for it and its efficiency and effectiveness;
- A programme of gradual reprogramming of social spending in which the reallocations within and between sectors will, according to available evidence, show a greater redistributive impact and greater externalities in terms of equity and productivity;
- A tax structure and spending policy that take into account territorial inequalities and actively attempt to eliminate them, e.g., territorial cohesion funds or mechanisms designed to introduce a progressive tax burden following a territorial approach.

This fiscal architecture for promoting equality is an indispensable condition for redefining the State's role and its public policies in the strategic areas mentioned here, which must be addressed if progress is to be made towards the Millennium Development Goals in the three aspects of equality that are now key: equality of rights, reduction of gaps in real achievements and environmental sustainability, which requires a long-term view of equality associated with solidarity with future generations.

Clearly, a covenant such as the one mentioned here should meet two basic conditions. First, the support of the key political and social stakeholders must be enlisted, particularly those who would have to contribute a larger percentage of resources if a covenant were negotiated, in order to advance towards a progressive, efficient tax structure that generates an increasing flow of public revenue, enhancing the redistributive capacity of the State (ECLAC, 2010a). Second, the right conditions must be in place for the fiscal covenant to actually generate the resources needed to implement the agenda for equality. These conditions depend on the development level of the countries, on their actual tax burden and especially on the potential for raising revenue. This potential tax burden<sup>18</sup> alludes to the "available space" for raising taxes in a specific period of time and provides an idea of the how much additional revenue the State could collect.

Given the development level of the countries and the magnitude of the challenges they face in achieving minimum well-being levels and closing the principal gaps within a reasonable time frame, it is worth looking at the second condition that would determine the viability of a fiscal covenant.

The data provided in table IX.2 help to establish the differences that exist between the Latin American countries in terms of their capacity to generate sufficient resources internally or the need to supplement them with ODA flows.

For the purpose of highlighting the very different situations in which the Latin American countries find themselves in terms of potential resources to meet the target, which is no longer just to halve extreme poverty (target 1.A of the Millennium Development Goals) but to eradicate it and to significantly reduce total poverty, the countries were divided into four groups based on the size of their poverty gap as a percentage of gross domestic product, that is, the volume of resources that would be needed per year for all poor households to have enough income to rise above that threshold. These groupings illustrate the very different opportunities available to the countries for providing the resources needed to advance the agenda for equality by increasing their actual tax burdens through a fiscal covenant.<sup>19</sup>

Within the first group of countries in table IX.2 (the countries with the lowest per capita income and highest percentage of extreme and total poverty), there are significant differences in the size of the actual tax burden. This very fact signifies a divergence with respect to the second condition for progressing towards a fiscal covenant. For example, Nicaragua has per capita income far below that of Paraguay but a tax burden that is similar to the average tax burden of the group of countries with the highest per capita income (21.9% of GDP). Meanwhile, in Paraguay, tax revenue as a percentage of GDP is just 13.2%, which is below the average for the group of poorest countries (16.9%).

Thus, Nicaragua, along with the Plurinational State of Bolivia, exemplifies the situation of countries that do not have any room to substantially raise taxes, which is a major obstacle to forging a fiscal covenant aimed at further increasing the revenue collected by the State in the form of taxes. This does not mean that there is no room for increasing revenue collection by making the tax structure more efficient or modifying it to make it more progressive (i.e., raising the level and progressiveness of direct taxes on individuals and companies or raising taxes on net worth). Even in this case, though, the additional resources would be insufficient to close the poverty gaps within a reasonable time frame due to their size relative to the country's tax burden (see last column in table IX.2).

<sup>18</sup> The potential tax burden is the difference between the actual burden as a percentage of GDP and the burden that the country would have based on its per capita income level (Gómez Sabaini, Jiménez and Podestá, 2010).

<sup>19</sup> Although the four groups of countries in table IX.2 are different from the groupings based on the human development index value used in table IX.1, the differences are slight and reflect a classification based on size of the extreme poverty gap, which is a better criterion for examining the various possibilities for moving in the direction of a fiscal covenant.

Table IX.2  
**LATIN AMERICA (19 COUNTRIES): POVERTY GAPS, ACTUAL TAX BURDEN,  
 AND PUBLIC SOCIAL EXPENDITURE <sup>a</sup>**

Countries	GDP per capita 2000 dollars (1)	Extreme poverty gap and rate (2)	Total poverty gap and rate (3)	Actual tax burden as a percentage of GDP (4)	Social spending as a percentage of GDP (5)	Extreme poverty gap/ Actual tax burden (6) = (2) / (4)
Haiti	391.00	...	...	...	...	...
Honduras	1 452.04	6.7 (47.1)	21.0 (68.8)	16.7	11.8	0.40
Nicaragua	896.67	3.8 (33.8)	17.4 (60.6)	21.9	10.3	0.17
Bolivia (Plurinational State of)	1 173.25	3.2 (32.4)	11.6 (52.6)	20.9	18.7	0.15
Guatemala	1 698.68	2.9 (29.3)	12.4 (53.3)	12.0	6.2	0.24
Paraguay	1 521.41	2.8 (30.8)	11.6 (58.2)	13.2	7.6	0.21
<b>Average <sup>b</sup></b>	<b>1 348.41</b>	<b>3.9 (34.7)</b>	<b>14.8 (58.7)</b>	<b>16.9</b>	<b>10.9</b>	<b>0.23</b>
Dominican Republic	3 688.12	1.3 (22.6)	5.4 (44.3)	15.5	6.0	0.08
El Salvador	2 676.89	1.2 (18.2)	6.7 (43.9)	14.8	5.4	0.08
Colombia	2 983.33	1.2 (22.9)	6.1 (42.8)	15.6	12.6	0.08
Ecuador	1 744.86	0.8 (14.2)	3.9 (39.0)	15.4	6.2	0.05
<b>Average <sup>b</sup></b>	<b>2 488.32</b>	<b>1.7 (19.5)</b>	<b>7.4 (42.5)</b>	<b>15.6</b>	<b>8.2</b>	<b>0.11</b>
Venezuela (Bolivarian Republic of)	5 883.81	0.5 (9.9)	2.6 (27.6)	15.6	11.8	0.03
Panama	5 687.87	0.4 (13.5)	1.6 (27.7)	16.5	17.1	0.02
Peru	2 923.55	0.4 (12.6)	2.6 (36.2)	17.3	9.0	0.02
<b>Average <sup>b</sup></b>	<b>3 745.68</b>	<b>0.8 (12.0)</b>	<b>3.6 (30.5)</b>	<b>16.1</b>	<b>10.5</b>	<b>0.05</b>
Brazil	4 448.04	0.3 (7.3)	2.1 (25.8)	35.1	22.0	0.01
Mexico	7 092.01	0.3 (11.2)	1.9 (34.8)	9.8	10.2	0.03
Costa Rica	5 188.52	0.2 (5.5)	1.0 (16.4)	22.8	17.8	0.01
Argentina	9 884.87	0.2 (5.8)	1.0 (17.2)	29.9	19.0	0.01
Uruguay	8 161.47	0.1 (3.5)	0.7 (14.0)	23.5	17.5	0.00
Chile	6 235.18	0.1 (3.7)	0.5 (13.7)	21.1	13.4	0.00
<b>Average <sup>b</sup></b>	<b>7 312.41</b>	<b>0.2 (6.2)</b>	<b>1.0 (20.3)</b>	<b>21.4</b>	<b>15.6</b>	<b>0.01</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information and Gómez Sabaini, J.C., Jiménez, J.P. and A. Podestá (2010).

<sup>a</sup> The tax burden corresponds to tax revenue of central government, including social security contributions. In Argentina, the Plurinational State of Bolivia, Brazil, Chile, Colombia and Costa Rica, tax revenue corresponds to the government as a whole.

<sup>b</sup> Simple average. The figures corresponding to the gap in extreme poverty and total poverty in columns (2) and (3) are expressed as a percentage of GDP, while the figures in parentheses indicate the percentage of the population living in extreme poverty and poverty.

The additional public resources generated by economic growth, while maintaining the present tax burden, are also insufficient to close the poverty gaps in a reasonable time frame. In fact, the estimates presented in figure II.10 show that the growth required to achieve the first target of the Millennium Development Goals would have to be close to twice Nicaragua's annual average growth between 1990 and 2008. Furthermore, it should be noted that during the six-year period that preceded the crisis, all the countries in the first group in table IX.2 (except Honduras) grew relatively slowly, at rates below the regional average of 4.9% per year<sup>20</sup> (see table I.1).

<sup>20</sup> These rates would be even less adequate to the task of reducing extreme poverty in the coming years due to the relatively high rates of population growth in those countries.

Unlike Nicaragua, Paraguay's revenue-raising potential is relatively strong because its actual tax burden is relatively low, as is the percentage of public expenditure allocated to the social agenda, Within the group of poorest countries in Latin America. Guatemala is in a similar position. Both countries have considerable room for a fiscal covenant that would increase public social expenditure and narrow the principal social gaps. Nevertheless, a social covenant could not be expected to exert enough tax pressure to close the gap between the actual and potential tax burden, even over a relatively lengthy period. Even if that could be achieved and if most of the new resources were allocated to the social agenda, social expenditure would still be extremely low in these countries and patently insufficient to overcome the deficits in access to minimum levels of well-being.<sup>21</sup>

In short, for the poorest group of countries in the region, although it is essential to work towards building fiscal covenants (which could, in any case, raise public revenue and contribute to more efficient and effective resource use), covenants would not produce in a reasonable time frame (especially over the next five years) the internal resources needed to give the entire population access to the minimum levels of well-being that would make it possible to give full effect to rights and would provide the conditions needed to move towards closing gaps. Thus, external resources, chiefly in the form of ODA, are vitally important for these countries, which will have to attract a much larger share of ODA flows, based on a change in the aid allocation criteria, as indicated in chapter VIII. Any fiscal covenant in this case should include an agreement on the priority areas of social investment, so the additional external resources are allocated not only to social assistance programmes but also to productive and social sectors that improve the countries' ability to progress towards the Millennium Development Goals (investments in infrastructure, education and job training, technology development and institutional strengthening).

Meanwhile, in several countries in the region, internal resources are the main source of financing for the agenda for growth with equality. Unlike the countries mentioned above, these countries have significant capacity to raise revenue through a fiscal covenant. However, not every country with high per capita income and a small extreme poverty gap has a relatively wide margin for increasing tax pressure. Indeed, Argentina, Brazil and Uruguay do not. The first two already have high tax burdens and not much room for additional increases. This is not to say that a fiscal covenant in these countries would not play an important role in promoting equality. In the case of these countries, the purpose of a social covenant would be, instead, to change the tax structure to achieve greater efficiency and especially to make it more progressive by increasing the proportion of direct taxes.<sup>22</sup>

Chile and Mexico, on the other hand, are in a somewhat different position inasmuch as both have a tax burden that is lower than would be expected based on their income levels. In Mexico, this is partly explained by the low macroeconomic priority placed on social spending, which was 11.2% in 2006/2007, whereas the average for countries with similar per capita income levels is on the order of 15% (see columns (4) and (5) of table IX.2). In Chile, social spending as a percentage of GDP, which was 12.2% in 2006/2007, is also lower than the average for countries in the region with high per capita income.<sup>23</sup>

In these two countries, a fiscal covenant would not substantially modify the tax structure, but it would increase the actual tax burden, significantly expanding the flow of public resources available for efforts to close gaps. Notably, an increase of two percentage points in Chile's actual tax burden would be equivalent to twice the total poverty gap. And in the case of Mexico, an increase of four percentage points in the actual tax burden would raise revenue by roughly double the amount needed to close the poverty gap.<sup>24</sup>

In short, for the group of countries with the highest income levels in the region, eradicating total poverty is clearly within the realm of possibility, and a social covenant that achieves greater vertical equity in the tax structure

<sup>21</sup> In Guatemala and Paraguay, extreme poverty is near 30% and annual per capita social spending by the central government in 2006/2007 (US\$ 124 and US\$ 162, respectively) was far below the regional average of US\$ 552.

<sup>22</sup> Actual initiatives to increase tax burdens in the region have tended to reproduce the composition of tax revenue, largely maintaining the proportion of direct taxes at one third of total tax revenues.

<sup>23</sup> In Chile and Mexico, the low tax burden can be attributed to the larger volume of revenue that comes from non-tax sources, namely non-renewable natural resources in both cases. However, compared to tax revenue, these other sources of public financing are more volatile, which, absent a countercyclical fiscal policy, makes social spending more vulnerable to budget shortfalls.

<sup>24</sup> This amount is approximately eight times greater than the resources that Mexico allocated to Opportunidades, its main poverty reduction programme.

is a viable way of advancing the equality agenda, with an emphasis on policies designed to permanently break poverty reproduction mechanisms and provide universal access to a social safety net that guarantees minimum levels of well-being, a necessary prerequisite for greater social integration.

The other groups of countries (the two intermediate groups in table IX.2) also meet the basic criteria for raising the tax burden. The feasibility of a fiscal covenant in these countries clearly depends—as it does in the other countries—on whether the social covenant that must precede a fiscal covenant can be established.

In summary, Latin America and the Caribbean has made real progress towards fulfilling the targets of the Millennium Development Goals. A few countries have even met targets well ahead of schedule. However, progress was uneven in several respects. The achievements were greater in the 2000s than in the decade beginning in 1990, the base year that was used to set the quantitative targets. This was largely due to the boom that most of the countries experienced in the six-year period from 2003 to 2008, prior to the global economic and financial crisis that began outside the region. Despite the significant economic recovery forecast for the region in 2010, the post-crisis outlook for the next five years is not auspicious, and it will be hard to continue to match the pace of progress set in recent years.

Progress to date has been uneven. In the case of some targets, fast headway has been made, whereas for others, it has been insufficient, and these targets will likely not be met by 2015. At the aggregate level, the progress made in numerous countries towards eradicating extreme poverty and the incidence of underweight children under five years of age, lowering child mortality, and expanding access to basic services (water and sanitation) has placed the region on track to meet the respective targets. However, insufficient progress was made towards reducing hunger, making completion of primary education universal, increasing the participation of women in national parliaments, and reducing maternal mortality rates, and Latin America and the Caribbean is not on track to meet these targets if the trends observed just prior to the effects of the global crisis persist.

At the disaggregated level (between and within countries), the report reveals very troubling disparities. As a general rule, less progress was made in the region's poorest countries, especially with respect to extreme poverty, which would continue to be very high even if the countries succeeded in halving it by 2015. This lays bare the structural problems that persist in these countries and the enormous challenges they will have to face over the next few years. Compounding the disparities between the countries are the persistent inequalities in income and wealth distribution within the countries, which make this the most unequal region in the world. These inequalities, which take the form of very large differences in well-being and access to basic goods between different groups, ultimately reflect the ethnic, gender, socioeconomic, and territorial inequalities that afflict most of the countries and present an obstacle to a more robust level of environmentally sustainable and socially inclusive growth. Accordingly, the analysis in this report has pivoted on the issue of inequality and its various dimensions.

In order for the countries to make progress towards real equality and ensure minimum levels of well-being for the entire population as a guarantee of basic rights, the State requires greater capacity and more resources. Thus, it is important to create the right social conditions for negotiating a fiscal covenant that, among other functions, translates into a reform of the tax structure in previously agreed upon stages, mostly by raising income taxes to make the tax structure more progressive. Several middle- and high-income countries in the region have room to increase the tax burden and all of them could make revenue collection more efficient. Meanwhile, in the poorest countries, there is less room to increase the tax burden, or an increase would not yield, in a reasonable time frame, the internal resources needed to give the population access to minimum levels of well-being, protection and social security. For these countries, ODA flows are vitally important. In order for these countries to gain more access to these flows, the aid allocation criteria would have to be changed to include middle-income countries and external resources would have to be used more intensively for social and economic development projects.

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