THE POTENTIAL FOR DEVELOPING AN EU-LAC CO-OPERATION ON SOCIAL COHESION PROMOTION

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A. Main economic reasons behind the lack of social cohesion in LAC: inequity, poverty and inadequate social protection

1. Low and volatile rate of growth

2. Level and quality of public expenditures

3. Lack of policies in the productive sector to reduce heterogeneity (geographical, size of firms)
1. Impact of low and volatile rate of growth on social cohesion

a. In the labor market
   - High rate of unemployment
   - High heterogeneity: informal sector and precariousness
Although the region grew almost 6% in 2004, growth has been low and volatile.

Source: ECLAC.
Latin America: Informal sector has grown since 1980. 7 out of 10 jobs created in informal sector between 1990 and 2003

1. Impact of low and volatile rate of growth on social cohesion

a. In the labor market
   - High rate of unemployment
   - High heterogeneity: informal sector and precariousness

b. In social protection system’s coverage
   - Greater labor market turnover has generated uncertainty and problems with social protection
Latin America (9 countries): Workers contributing to social security by categories and areas, 1990-2002
1. Impact of low and volatile rate of growth on social cohesion

a. In the labor market
   - High rate of unemployment
   - High heterogeneity: informal sector and precariousness

b. In social protection system’s coverage
   - Greater labor market turn over has generated uncertainty and problems with social protection

Employment can not be the unique access to social protection
2. Level and quality of public expenditures: impact on social protection

a. Level increased during the last years
### Latin America and the Caribbean (21 countries):


(Percentages)

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Source: ECLAC, on the basis of official information.
2. Level and quality of public expenditures: impact on social protection

   a. Level increased during the last years

   b. Impact on income distribution
Latin America (simple average of 9 countries): Impact of social spending on increase in primary income, by household per capita income quintiles

(Total primary income = 100, percentages)

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<tr>
<th>Quintile</th>
<th>Primary Income</th>
<th>Social Spending</th>
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<tr>
<td>I</td>
<td>46.2%</td>
<td>53.8%</td>
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<tr>
<td>II</td>
<td>72.2%</td>
<td>27.8%</td>
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<tr>
<td>III</td>
<td>79.5%</td>
<td>20.5%</td>
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<td>IV</td>
<td>84.3%</td>
<td>15.7%</td>
</tr>
<tr>
<td>V</td>
<td>92.0%</td>
<td>8.0%</td>
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Source: ECLAC, on the basis of national studies.
2. Level and quality of public expenditures: impact on social protection

a. Level increased during the last years

b. Impact on income distribution

c. Insufficient and pro-cyclical social expenditures
Latin America and the Caribbean (20 countries): GDP and total social spending

The graph illustrates the annual rates of variation for GDP and total social spending in Latin America and the Caribbean (20 countries) from 1991 to 2003. The data shows fluctuations in both GDP and total social spending over the period.
Tax burdens in selected countries and regions, around 2003
(Percentages of GDP)

Source: OECD, IMF, ECLAC.
Note: The numbers in parentheses refer to the number of countries in each group.
Fiscal Revenues

LOW LEVEL OF TAX REVENUES
(As % of GDP, 2004)
2. Level and quality of public expenditures: impact on social protection

a. Level increased during the last years

b. Impact on income distribution

c. Insufficient and pro-cyclical welfare state resources

d. Inadequate social institutions (including those related to social protection in pension and health)

In several countries there is insufficient solidarity in the social protection systems and a large share of the population is excluded from its benefits
3. Weak policies in the productive sector to reduce exclusion

There is a trend to increase heterogeneity, by firm size and geographical areas due to:

- Lack of policies to improve access to:
  - Technologies for competitiveness
  - Credits
  - External markets
  - Rural infrastructure

Improve regional cohesion

Capital markets are underdeveloped, and a large share of firms and regions are excluded from opportunities of investment, creating difficulties to access technology and external markets
B. Main items in the agenda

1. Increase growth rates and reduce volatility
   a. Reduce domestic vulnerability, including counter-cyclical macroeconomic policies
   b. Enhance the role of multilateral and regional institutions
   c. Increase investment (including infrastructure) and productivity
   d. Invest in human capital and in innovation
   e. Continue the process of trade openness (multilateral, subregional and bilateral)
   f. Improve financial markets in terms of domestic currencies, rates, terms and access for all economic agents
   g. Reduce heterogeneity
B. Main items in the agenda

2. Increase the level and improve the quality of social expenditures
   a. Fiscal covenant: tax reform and improvement of tax administration
   b. Greater transparency, continuity, coordination and participation of civil society
   c. Better balance between incentives and solidarity in social protection reforms
C. Implications for EU-LAC co-operation on social cohesion promotion

1. Regional public goods:
   a. Regional development banks and funds (to reduce volatility)
   b. Regional structural and social cohesion funds (to facilitate the integration process)

2. Social cohesion domestic policies
   a. Social and fiscal covenants:
      • How to do it?
      • Who are the main actors?
      • How to increase revenues considering the need to improve competitiveness (the importance of tax reform and administration)
      • How to improve social institutions
   b. Reform the social security system enhancing solidarity
C. Implications for EU-LAC co-operation on social cohesion promotion

3. Policies to support SMEs
   a. Developments of capital markets
   b. Access to technology
   c. Export promotion and productive linkages
   d. Infrastructure (specially in rural areas)

4. Policies to support the multilateral system (trade, migration, financial system, aid for development)
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