Chapter 5

International co-operation for the recovery: Facilitating a new social contract in LAC

This chapter analyses the implications of the coronavirus (COVID-19) crisis for international co-operation, at a time when the interconnections between national discontent in Latin America and the Caribbean (LAC) countries and global dynamics have never been clearer. Under the current model of globalisation, public institutions are operating with reduced room for manoeuvre to respond to citizens' needs. In this context, LAC countries need to establish a new social contract to pave their way out of the crisis whilst pursuing a Development in Transition approach; addressing the region's multi-dimensional development traps and contributing to more coherence and synergy between national policy making and international co-operation. This chapter presents three key priorities to strengthen international co-operation's facilitating role in driving LAC's recovery, at time when governments face increasingly shared challenges and priorities, from inclusiveness and jobs, to climate change or digital transformation. LAC countries must explore mission-driven, international partnerships with a multi-dimensional approach to development; increased regional co-operation; and a balanced combination of policy tools: innovative sustainable financing, global rules and standards, technical co-operation and policy dialogues.

New partnerships to facilitate the recovery in LAC

Bold international policy actions are required to advance towards a new social contract

Most citizens understand co-operation is the way forward

70% of Latin Americans think it is essential for countries to work together to manage global trends

81% of people in advanced economies support multilateralism

Almost 50% of Latin Americans report that the Covid-19 crises convinced them that more co-operation between countries is needed

How?

Structuring international co-operation through **mission-driven partnerships**

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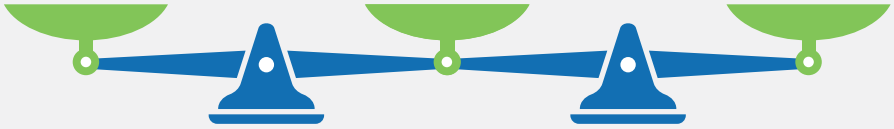
Promoting **regional co-operation as** a key building block

By fostering integrated approaches for a balanced use of tools, such as:

Sustainable financing

Global rules, standards and policy dialogue

Technical co-operation for capacity building



Introduction

The global reach of the pandemic has shown that, as governments' room for manoeuvre weakens when faced with global challenges, national responses are not enough. Meanwhile, multilateralism has been at the forefront during this crisis, showing its power for collective action but also exposing its constraints. In Latin America and the Caribbean (LAC), the crisis has stressed what previous social outbreaks had demonstrated: the increasing interconnection between national and international development challenges requires a change of mind-set with regards to international co-operation, multilaterally and within LAC.

In this context, the Development in Transition (DiT) framework presented in the *Latin American Economic Outlook 2019* gains renewed relevance and impetus (OECD et al., 2019[1]). DiT proposes to look at development from a multi-dimensional lens; it calls for going beyond gross domestic product (GDP) and using indicators that reflect countries' development levels to inform policy design, implementation, monitoring and evaluation. Moreover, DiT proposes a renewed role for international co-operation as a "facilitator" for the transformation of LAC's structural challenges into development opportunities supporting the region achieving the 2030 Agenda.

On one hand, this more targeted approach would more effectively support LAC in redefining its social contract to address the region's development traps of low productivity, social vulnerability, institutional weaknesses and environmental sustainability, all of which have been exacerbated during the pandemic.

On the other hand, LAC's exit from the crisis through a new social contract is an opportunity to put international co-operation's facilitating role into full practice, including by ensuring coherence across national, regional and global actions. The social contract, understood as an equilibrium between societal actors and those in power, reflects the distribution of power in state-society relations (Loewe, Zintl and Houdret, 2020[2]) and consists of specific pacts that attain all areas of development: environmental, social, productive and institutional (Chapter 4). A new social contract would entail moving from today's fragmented status quo to a new equilibrium, grounded on equality of opportunities for all citizens in all countries in the long run (Larrain, 2020[3]). The issues addressed in specific social pacts are directly or indirectly linked to international development dynamics (e.g. offshoring) and co-operation actions to address them (e.g. global taxation). A renewed international co-operation should better grasp these interconnections and comprise them in renewed partnerships to address the multi-dimensional nature of global development through equally multi-dimensional responses.

First, this chapter puts forward what the COVID-19 crisis has exposed: it shows how long-standing global dynamics coupled with structural domestic challenges are a perfect storm that can lead to a new rise in social protest, and the need therefore for LAC countries to engage in building a new social contract. It argues why the DiT framework is highly relevant to re-envision international co-operation with LAC to support the region's recovery. The chapter then moves on to analysing what type of international partnerships could enable a new social contract in LAC, including the innovative practices that could be explored to this end. Notably it proposes to explore the value of (1) multi-stakeholder and multi-dimensional mission-driven partnerships and (2) of enhanced regional co-operation, as well as (3) identifying a comprehensive and balanced use of three key tools to ensure policy coherence and improved results; innovative sustainable financing for development, global rules and standards, and technical co-operation. The chapter concludes by putting forward practical policy proposals for post-COVID-19 partnerships.

What the COVID-19 crisis has revealed: Long-standing global dynamics and the emergence of new challenges require adapting international co-operation

The COVID-19 crisis has put a strain on LAC's structural development vulnerabilities. The pandemic hit LAC when the region was already under a declining process of low potential growth, persistent inequalities, increasing poverty and social tensions, all coupled with an increasing environmental decline. The health-related needs created by the pandemic revealed the insufficient and unequal coverage of national health systems, while the economic shock affected poor and vulnerable workers, particularly informal ones who worryingly represent 58% of the Latin American labour force (with 65% of total workers receiving no form of social protection) (OECD et al., 2019[1]).

Meanwhile, the international community's efforts to put solidarity at the forefront of its response to the global sanitary and economic crisis have been limited. Innovative thinking and action to offset international co-operation's lack of flexibility and ability to adapt to the pandemic are underway, but more efforts are needed to explore innovative practices to transform international co-operation such as bringing in citizens' voices, involving a broader range of key stakeholders and giving room to innovative policy thinking for the recovery.

COVID-19 has made clear that countries cannot face global challenges alone and that an increasing number of shared global challenges influence national discontent in LAC countries. Even before the COVID-19 outbreak, growing social discontent had resulted in protests in several Latin American countries. Chile, Colombia and Ecuador saw a rise in protests. National expressions of discontent in LAC are mostly linked with national governments' responses to structural vulnerabilities, and with international financial markets, global inequality and environmental challenges. Public institutions, for example, have failed to respond fully to citizens' increasing demands, creating distrust and low satisfaction with public services. From 2006 to 2020, the share of the LAC population satisfied with the quality of healthcare services fell from 57% to 47%, well below the Organisation for Economic Co-operation and Development (OECD) average of around 70%. Likewise, only 38% of the population has confidence in the national government (Nieto Parra and Da Costa, 2021[4]).

Alongside domestic challenges, in 2019, worldwide protests emerged as a common movement against "the system"; one that weakened the role of the state, international institutions and the participation of social movements. The globalisation process since the fall of the Berlin Wall has been fixated on market forces as key to a peaceful and co-operative world order, having the twin effects of weakening the capacity of states to regulate the global economy and of frustrating social forces. Social unrest is therefore the result of the decoupling of the global economy from its socio-political context and of the lack of horizontal inter-social linkages in the inter-state system (Badie, 2020[5]).

Moreover, economic global asymmetries, such as economic concentration, global value chains, financial centres or digital networks are becoming harder to ignore, as they all contribute to a growing polarisation, and serve as vehicles for seizing economic advantage (Pisani-Ferry, 2021[6]). Understanding these asymmetries and how they affect national discontent will be critical in defining a new international co-operation system.

Instability in certain LAC countries has spillovers in the rest of the region and the world. An example is the refugee and migrant crisis stemming from several LAC countries and its impacts on countries unprepared to act as host countries. In addition, the lack of accountability and the weakness of public institutions, along with the lack of citizen trust, create a favourable context for the depredation of environmental public goods.

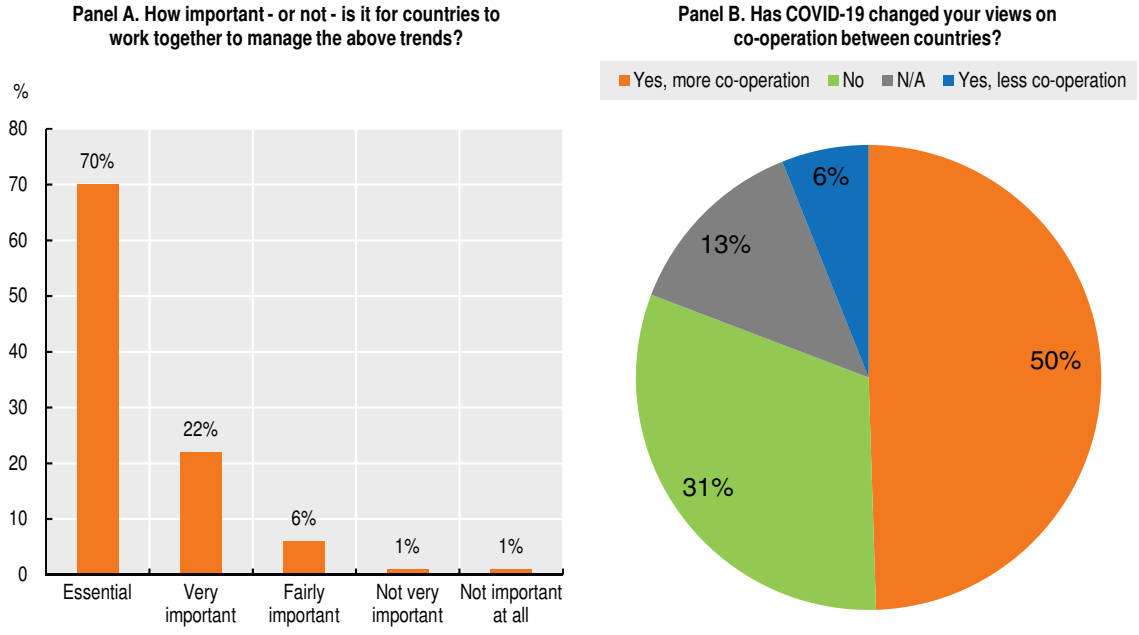
For instance, deforestation of the Amazon Rainforest rose by 17% in 2020, with 2 500 major fires across the Amazon (Amazon Conservation, 2020[7]).

Rising discontent, particularly in LAC, is likely to surge after the pandemic. Ongoing social distancing measures may have a mitigating effect on protests, but these and other responses to the pandemic may also cause scarring social effects, increasing the likelihood of social unrest, as recently seen in Chile, Paraguay (Mander, 2021[8]) and Colombia (BBC, 2021[9]). In fact, historical evidence has shown a positive cross-sectional relationship between epidemics and social unrest. Recent trends in social unrest immediately before and after the COVID-19 outbreak are consistent with these findings (Fund, 2021[10]). This hypothesis is reinforced by the rise in income inequality experienced during the pandemic in LAC, where 22 million more people became poor in 2020 (ECLAC, 2021[11]), while the fortunes of 73 billionaires swelled by USD 48.2 billion (United States dollars) (Oxfam, 2020[12]).

COVID-19 forces a collective lucidity about the depth of global interdependence, the fact that the world is only as resilient as the least resilient country and person, and the fact that the world is reaching tipping points in multiple dimensions (UN, 2020[13]). The strain on the planet mirrors that in societies, and these imbalances reinforce each other, amplifying development challenges (UNDP, 2020[14]).

Most Latin Americans consider international co-operation part of the solution. The effects of the coronavirus outbreak have raised awareness among citizens about the need for more international co-operation, making it a popular and legitimate claim for the region. Almost 50% of Latin Americans surveyed are in favour of more co-operation after COVID-19, and 70% think that it is essential to deal with current global challenges (Figure 5.1). Around the world, it has become clear that countries cannot face global challenges alone. Citizens are increasingly aware of this: 81% of people in advanced economies support multilateralism, reinforcing the idea that countries should act as part of a global community that works together to solve shared problems (Pew Research Center, 2020[15]).

Figure 5.1. **Perceptions of Latin American and Caribbean citizens towards international co-operation**



Source: (UN, 2020[16]), *UN75 2020 and beyond: Shaping our future together*, https://un75.online/es/data/.
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Recognising the increasing linkages across domestic policies and global dynamics, international co-operation appears an essential tool to realise the full potential of a new social contract in LAC. A new social contract should address domestic and global challenges, balancing the market results of global interdependent economies and their interrelation with national political agendas, guided by the Sustainable Development Goals (SDGs) of the United Nations 2030 Agenda for Sustainable Development and its pledge to leave no one behind (UN, 2020[13]). To this end, actors at various levels, including local, national, regional and international, need to reflect on how best to place an equitable, ecological and social transition at the heart of international efforts, moving beyond current models of co-operation, growth and development.

In this context, the DiT framework offers a new narrative and useful approach to initiate such a reflection. Better understanding current needs and challenges faced by LAC countries and better delineating the new social contract's interrelations with international dynamics are at the forefront of a debate on what international co-operation and partnerships are required for LAC in the post-COVID-19 world. Pursuing innovative financial approaches, transforming linear approaches to multi-dimensional ones, finding new tools and updating governance agreements become necessary to tackle a growing set of shared and interconnected challenges also affecting LAC countries.

The Development in Transition policy framework is more relevant in times of COVID-19

The dramatic effects of the COVID-19 crisis in LAC evidence the roots of the widespread social discontent in the region and the inadequacy of prevailing standards of international co-operation that focus on GDP as a unique measure of development progress. With only 8.4% of the global population, and 28 of the 33 countries in the region being middle-income countries (MICs), LAC accounts for 30% of total COVID-19 deaths (UNDP, 2020[17]), proving that decision making based on average GDP per capita overlooks structural inequalities and development challenges that go beyond income. Focusing on LAC countries' level of GDP not only contradicts the SDGs' comprehensive conception of development but is also proven limited by the exposed fragilities of these countries in dealing with the pandemic, despite their relatively higher income levels compared to low-income countries (LICs).

At the core of the DiT framework is the call for going beyond GDP as a measure of development, adopting multi-dimensional development approaches and making international co-operation a facilitator to transform development traps into development opportunities. It identifies four main development traps hindering LAC's development transition, which reinforce each other, and have been exposed and deepened by the current crisis (OECD et al., 2019[1]). The productivity trap explains why the most vulnerable companies, mainly micro, small and medium-sized enterprises, have been the most affected during the pandemic, with 2.7 million companies closing in 2020 (ECLAC, 2021[11]). At the same time, the persistent heterogeneity in the region's productive structure increases its reliance on resource-intensive sectors, deepening the environmental trap. The social vulnerability trap is behind the pandemic's unequal socio-economic impact, which left 22 million more people living below the poverty line and affected the living conditions of the 40% of workers and their families who are not protected by any form of social security. Last, the institutional trap has been widened by the low capacity of public services to respond to people's needs during the pandemic, heightening social discontent.

The recovery process presents a unique chance for LAC to put international co-operation's facilitating role into full practice and transform the vicious cycle of development traps into opportunities for more inclusive and sustainable development

models. A comparison of various recovery scenarios indicates that an exit strategy that includes a big boost for environmental sustainability, in the context of an international co-operation agreement, would have a significant positive impact on LAC's carbon dioxide emissions (-23% by 2030). It would also have an impact on GDP growth (approximately 2.5% more than in COVID-19 scenario), inequality (approximately 0.5% less than in COVID-19 scenario) and employment (approximately 0.75% more than in COVID-19 scenario) (ECLAC, 2020[18]).

International co-operation is therefore essential, but not any co-operation. The DiT framework calls for international co-operation to act as a facilitator to help build stronger capacities in LAC countries by promoting nationally driven processes based on national development plans, aligning national and global priorities, and promoting LAC's active participation in the global agenda (OECD et al., 2019[1]). A facilitating role can also bolster the use of diverse co-operation tools, such as increased technical co-operation based on knowledge, South-South and triangular co-operation, and whole-of-government approaches. Last, through equal-footing policy partnerships and multi-stakeholder co-operation, a facilitating role would foster a more inclusive way of working (Table 5.1).

Table 5.1. **Key dimensions for rethinking international co-operation as a facilitator for sustainable development in LAC**

Dimensions	Description
Working inclusively	Engaging countries at all development levels on an equal footing as peers, to build and participate in multilateral and multi-stakeholder partnerships to tackle shared multi-dimensional development challenges with multi-dimensional responses.
Building domestic capacities	Strengthening countries' capacities to design, implement and evaluate their development policy priorities and plans, encouraging alignment between domestic and international priorities and ensuring integrated approaches to more complex and interlinked challenges.
Operating with more tools and actors	Expanding instruments for greater international co-operation, such as knowledge sharing, policy dialogues, capacity building, technology transfers, and including more actors, such as public actors, in a whole-of-government approach.

Source: (OECD et al., 2019[1]), *Latin American Economic Outlook 2019: Development in Transition*, https://doi.org/10.1787/g2g9ff18-en.

To transform the development paradigm in the region, international co-operation must help countries tackle the effects of globalisation on national political agendas. There are many shared challenges for which domestic policies are insufficient: pandemic prevention and control, climate change, digital transformation and – very important in the case of LAC – debt management. This is not only legitimate from the standpoint of citizens and beneficial for LAC's development transition but also necessary for the provision of global public goods.

The urgent need to adapt multilateralism

The outbreak of COVID-19 as a global health emergency and the resulting socio-economic crisis have given rise to new forms of transnational solidarity and partnerships. However, the international community also acknowledges that the initiatives and responses have not been enough and are, in many cases, thwarted by established international rules and governance that impede facing a crisis of global dimensions.

This is the case with Special Drawing Rights (SDR) allocations. Despite the emergence of the need to improve co-operation in relation to debt sustainability, international rules and governance structure impede comprehensive support to the region through this mechanism. This is especially important for LAC since all countries in the region have increased their levels of indebtedness owing to the pressure on fiscal systems. In the current context, it is expected that indebtedness will have increased from an already high 68.9% to 79.3% of GDP between 2019 and 2020 at the regional level, making LAC the

most indebted region of the developing world and the one with the highest external debt service in relation to exports of goods and services (57%) (ECLAC, 2021[19]).

Notwithstanding the relief and immediate liquidity provided by the Debt Service Suspension Initiative (DSSI), this is not enough for the current needs of the region. Global rules do not foresee an egalitarian distribution of SDRs, nor a distribution based on the needs of each country, but in proportion to their existing quotas in the International Monetary Fund (IMF). This can be problematic in the face of a global crisis like the current one. In fact, the region was granted 6.7% of the new allocation of SDRs amounting close to USD 50 billion in additional international reserves for LAC economies (CGD, 2021[20]). This has benefited several LAC economies, including highly indebted ones, but the new SDR allocation would have more impact if complemented with a reallocation of existing SDRs to MICs in LAC. In addition, multi-stakeholder international co-operation is of utmost importance, since many MICs' debt is mostly owed to private creditors.

With a crisis of global dimensions, international rules and global governance can play a significant role in enabling international co-operation for a fast, inclusive and resilient recovery. Integrated responses are therefore essential when facing challenges that are multi-dimensional, interconnected and globally shared. Unregulated global megatrends, a weakened global governance and asymmetric and top-down decision making in international co-operation are still some of the barriers preventing multilateralism from effectively helping countries facing today's global challenges.

Accelerated change has become the *leitmotif* of our times. In the international sphere, this is evidenced by growing unregulated megatrends, such as climate change, offshoring, financialisation and digitalisation of the economy, and their challenges for international taxation. Despite efforts through the current global governance architecture, these phenomena are still largely unregulated and steered mainly by factual powers and market dynamics, undermining the achievement of the SDGs and current efforts to end the pandemic. A clear example in the context of COVID-19 is that of the financialisation of private pharma. Main pharma companies have been reducing research investment while increasing spending in share buybacks, a strategy used to boost stock price that undermines necessary scientific findings to ensure global health (Mazzucato, 2018[21]).

The exponential growth of these global dynamics weakens global governance. The development and roll out of COVID-19 vaccines globally offers the sharpest example of this. While the international vaccine purchase and distribution platform COVID-19 Vaccines Global Access (COVAX) represents a momentous step forward, its impact has been offset by massive bilateral advance-purchase agreements by rich countries that could afford to bet on multiple vaccines (Mazzucato et al., 2020[22]). In addition, the refusal of most developed countries of requests by many developing countries to allow for a Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver for COVID-19 vaccines in the World Trade Organization (WTO), is hindering opportunities to scale up production and address emerging variants (Johns Hopkins, 2020[23]). As a result, COVID-19 vaccine contracts are unequally distributed across the globe.

These dynamics are sustained by asymmetric and top-down decision making at the international level. Developing countries have found their voice in the Bretton Woods organisations to be limited, even as their number grew substantially in the years following the end of the Second World War (OECD, 2021[25]). As argued by the Group of 24, MICs – a category to which most LAC countries belong – have not received sufficient allocations, and their voices have not yet been heard in the context of these institutions, which have been accused of operating on a one dollar-one vote basis (Singer, 1995[26]). The refusal by developed countries to the TRIPS waiver is only one example. Another case in the context of the current crisis is the IMF's SDR allocations. In many ways, discontent is a

global phenomenon that underlines the need for fairer, more inclusive and more effective systems of international co-operation (Pezzini and Pick, 2021[27]).

Effectiveness and legitimacy are intertwined: as the successful co-operation of the international scientific community on COVID-19 demonstrates, it is not possible to devise solutions to global challenges without the inputs and expertise of countries around the world. Multilateral institutions need to further promote a process of experimentalism to empower a broader variety of actors, employ a broader set of modalities and be guided by a wider range of voices, including those of the discontented themselves (Pezzini and Pick, 2021[27]).

To make a difference, reforms pushed by international co-operation should go beyond reconstruction and recovery. Rather, they should focus on transforming globalisation to maximise its contribution to inclusive, resilient and sustainable development in LAC (Nieto Parra and Da Costa, 2021[4]).

Moreover, a recovery process will need a transformative consensus not only at the national and subnational levels but also in the regional and multilateral spheres. The broad multi-stakeholder mobilisation that a new social contract in LAC will entail should be bottom up, to enrich international development with the participation of representative collective groups of civil society (Figure 5.2). This should enable overcoming development traps and social discontent in LAC and allow the region to achieve a new social contract that puts people first and provides public goods at the global level.

Figure 5.2. **A vicious circle between global and national development dynamics in LAC**

Source: Own elaboration.

It is time to rethink systems, not just fix them. International efforts triggered during the COVID-19 pandemic, analysed next, reflect some changes in this direction, as well as pending issues. A lot can be learned from both to build forward better in the frame of a new social contract.

The international response to the crisis has not been enough

Overcoming LAC's vulnerability traps and offsetting the negative impacts of global megatrends in the region as countries in LAC prepare for the recovery demand an international co-operation system and a dynamic multilateralism that react swiftly,

efficiently and with a long-term multi-dimensional perspective (OECD et al., 2019[1]). Seizing this window of opportunity will require assessing what worked and did not work during the pandemic. This section summarises the main findings on financial and non-financial co-operation, co-operation with the private sector and regional co-operation, including by shedding some light on innovative practices taking place during the pandemic.

International financial assistance during the pandemic

International financial assistance has been multiplied since the beginning of the COVID-19 outbreak, even when the crisis affected developed economies. Multilateral institutions, development banks, bilateral co-operation donors and the private sector have made outstanding efforts in tackling the pandemic and speeding up economic recovery. An analysis of total funding announcements responding to the pandemic and its impacts between 1 January 2020 and 28 February 2021 shows that more than USD 20.7 trillion have been pledged (DEVEX, 2021[28]). Funding levels and focus areas are unclear and difficult to track and determine, including how much was actually disbursed and how much is extra-budgetary or reallocated from existing programmes (OECD, 2020[29]).

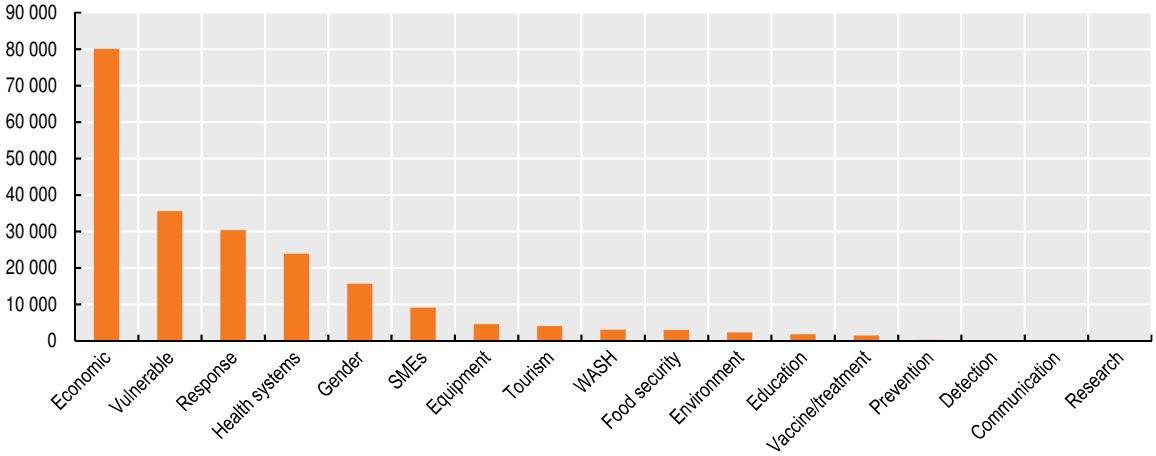
Despite the fact that LAC has worsened its already critical fiscal deficit, becoming the most indebted region in the world, the region benefits from a relatively small share of global development co-operation efforts. Within the developing world, the LAC region faced the worst crisis on historical record and the sharpest contraction (close to -7% and -20% in GDP and investment growth, respectively, in 2020) (ECLAC, 2021[30]). Total fiscal expenditure rose in order to face the impacts of the COVID-19 crisis on poor households and other vulnerable populations, as well as the private sector, while fiscal revenues fell, resulting in an increase in the overall fiscal deficit from -3.0% of GDP in 2019 to slightly below -7% of GDP in 2020 (ECLAC, 2021[31]).

An analysis of co-operation flows shows that LAC's recovery relies more on support from regional development banks and receives relatively less support from traditional partners and non-traditional ones like the private sector (DEVEX, 2021[28]). For instance, the Inter-American Development Bank (IADB) is the second largest contributor in LAC, while it is 12th in the world. Furthermore, while the European Union and the European Investment Bank are the third and fourth largest contributors in the world, they hold 13th and 11th place in LAC, respectively. The private sector is the seventh largest contributor worldwide, although it is only 24th in LAC.

A look at the focus areas shows that, as in the rest of the world, co-operation and other sources of financing with LAC has prioritised the economic recovery and the immediate response, but has also given greater consideration for vulnerable populations compared to the rest of the world, although other key issues for the social pact are unclear. The economic response takes 60% of worldwide international efforts and 37% of that directed towards LAC. In the region, funding aimed to vulnerable populations holds second place (17%), followed by immediate response (14%), health systems (11%) and gender (7%) (Figure 5.3).

Figure 5.3. **Total funding by policy area in LAC**

1 January 2020 to 7 March 2021 (USD million)



Note: SMEs = small and medium-sized enterprises. WASH = water, sanitation and hygiene.

Source: (DEVEX, 2021[28]), *Funding the response to COVID-19: Analysis of funding opportunities*, www.devex.com/news/interactive-who-s-funding-the-covid-19-response-and-what-are-the-priorities-96833.

StatLink https://doi.org/10.1787/888934286996

Official development assistance (ODA) reached an all-time high in 2020, and the Group of Twenty (G20) has put in place important measures to increase financing for developing countries in the context of Bretton Woods institutions. Foreign aid from the Development Assistance Committee (DAC) donors rose to USD 161.2 billion in 2020, up 3.5% in real terms from 2019, boosted by additional spending mobilised to help developing countries grappling with the COVID-19 crisis (OECD, 2021[32]). ODA contributions to multilateral organisations, which represent about a third of total ODA, increased by 9% globally in 2020 compared with 2019 (OECD, 2020[29]). Nevertheless, these levels include a rise in the proportion of loans and equity investment versus grants by some donor countries (OECD, 2021[33]). ODA plays an essential and unique role in supporting developing countries to face and cope with challenges, focusing on people's welfare, going where other (private) finance does not, and has been a relatively stable and predictable resource in times of crisis. Yet, ODA cannot respond to the COVID-19 crisis alone.

LAC countries have turned to development banks and benefited from the rapid credit and financing lines put in place to respond to the pandemic that impose no conditions on borrowing countries. Among the positive news from the G20's communiqué of 7 April 2021, it is important to mention the agreement to issue USD 650 billion in SDRs, the global reserve asset of the IMF. In addition, extensions of the DSSI and the G20's Common Framework for Debt Treatments and the Catastrophe Containment and Relief Trust provide grants to particularly hard-hit low-income countries (LICs) (Ocampo, 2021[34]).

Despite these efforts, the amount of co-operation has been insufficient (Kharas and Dooley, 2020[35]; OECD, 2021[32]; Ocampo, 2020[36]). The financing lines granted by the IMF to LAC countries to cope with the effects of the pandemic have covered, on average, only between 23.1% and 32.3% of the financing needs of the countries requesting support (ECLAC, 2021[31]). Meanwhile, the financing committed by the World Bank and the IADB, equivalent to USD 8 billion and USD 7.7 billion, respectively, has been less than that granted by the subregional development banks, namely the Development Bank of Latin America (CAF), the Central American Bank for Economic Integration (CABEI) and the Caribbean Development Bank (CDB), estimated at USD 12.3 billion (Bárcena, 2021[38]; ECLAC, 2021[30]).

Financial co-operation has been particularly insufficient in responding to the needs of MICs. Unlike the effects of COVID-19, the architecture of international co-operation distinguishes between income levels, prioritising low-income countries. Therefore, most countries in LAC are ineligible for the G20's DSSI, for instance. The multi-dimensional impact of COVID-19 on the lives of Latin Americans and the efforts towards building back better requires funding, and LAC partners need to reflect on what innovative funding mechanisms could spur a sustainable, just and resilient recovery.

Beyond financing, international co-operation with, within and from LAC presents diverse examples and innovations

The COVID-19 crisis has shown some interesting and positive examples of co-operation. A deeper look at the quality of the response also shows that international co-operation deployed a wide range of modalities and mechanisms. Indeed, there are relevant experiences involving multilateral institutions, development banks and developed and developing countries in terms of technical co-operation, whole-of-government-approach co-operation, multi-stakeholder co-operation, knowledge transfer and capacity building.

Regarding technical co-operation, LAC has tapped into its experience with South-South co-operation. For instance, Argentina and Mexico exchanged non-financial co-operation to speed up administrative processes to approve and administer the Sputnik-V vaccine (El País, 2021[40]) and collaborated to co-produce and distribute the AstraZeneca vaccine in LAC. Venezuela donated 136 000 litres of oxygen to the state of Amazonas in Brazil when it faced a shortage treating a spike in COVID-19 patients (Reuters, 2021[41]). Argentina and Chile are working together to strengthen their small and medium-sized enterprise (SME) sectors by supporting their digitalisation process and improving their participation in the public procurement market.

Beyond LAC, Southern partners have also displayed innovative examples of solidarity. For example, Morocco supported El Salvador with financial support to build a national network of medical oxygen within its national health system.

The region has also seized opportunities to adapt triangular co-operation initiatives to the pandemic context. Triangular co-operation offers an opportunity to jointly address the global pandemic, by learning from different regions' experience of addressing COVID-19's impacts. For instance, Uruguay is preparing and adapting a triangular co-operation initiative with Spain to provide technical assistance to Bolivia to assess their situation in relation to telemedicine software. The German Regional Fund for Triangular Co-operation with LAC has also refocused programmes in light of the pandemic. The EU, through its Triangular Co-operation Facility for LAC, has given priority to the initiatives presented to the ADELANTE Window 2021 that aimed to respond to development challenges related to circumstances arising from the COVID-19 pandemic crisis.

Regional development banks and traditional development co-operation partners have also provided strategic support for capacity building. The Inter-American Bank (IADB) provided financial assistance to develop mechanical ventilator prototypes in Colombia at low cost and with easily available materials and supplies. In El Salvador, Luxembourg supported the creation of the first university hospital within the national hospital. The CAF strengthened capabilities in Dominican Republic to improve the Emergency Operations Centre, and the IADB provided assistance to build Costa Rica's Accountability Platform, where citizens can access the details of public investments in response to the pandemic.

Innovative examples of co-operation and transformational proposals for multilateral co-operation have also stemmed from LAC during the pandemic. For instance, Cuban doctors assisted Italy and South Africa through the country's international medical programme (Bhattacharya and Sabin Kahn, 2020[42]). Costa Rica launched two ambitious

co-operation initiatives at the multilateral level. First, the COVID-19 Technology Access Pool (C-TAP) in the context of the World Health Organization (WHO) facilitates timely, equitable and affordable access to COVID-19 health products by sharing intellectual property and know-how of COVID-19 therapeutics, diagnostics, vaccines and other health products. Second, the Fund to Alleviate COVID-19 Economics (FACE) – an alternative to current co-operation frameworks. This initiative seeks to provide developing countries with the funds to cope with the socio-economic effects of COVID-19 on the economy and on people, on concessional and solidarity-based terms (Box 5.1).

Some partners have also promoted a whole-of-government-approach to co-operation to tackle the first stages of the recovery phase effectively. CAF is working with Paraguay on a multi-dimensional programme directed towards funding the *Ñapu'ã* Paraguay Plan for Economic Recovery. This plan includes a countercyclical agenda with three guidelines: i) social protection; ii) public investment for employment and credits for development; and iii) reforms for the transformation of public institutions (CAF, 2021[43]). A whole-of-government-approach has also been adopted by Team Europe, kick-started by the Mesas COVID-19 initiative.

Box 5.1. **Fund to Alleviate COVID-19 Economics**

The Fund to Alleviate COVID-19 Economics (FACE) was first proposed by the government of Costa Rica in the framework of the 75th United Nations General Assembly as a vehicle for international solidarity in view of the economic recession caused by the pandemic and as an instrument to drive a sustainable recovery (ECLAC, 2020[44]).

The fund of USD 500 million for one-off support is financed with 0.7% of the GDP of the world's largest and strongest economies – those that account for 80% of global GDP – to be intermediated by one or several multilateral development banks as concessional loans to developing countries.

Funds will be lent under favourable conditions and on solidarity-based terms. A 50-year repayment period, a 5-year grace period and a 0% fixed interest rate. To contribute to these special circumstances, financial organisations would not charge any fees for the intermediation and administration of FACE resources. Allocation of FACE resources would not be subject to traditional monetary or structural conditions but would consider norms of good governance and a committed fight against corruption.

The fund would be equivalent to 3% of the GDP of beneficiary countries, a figure representative of the drop in tax income plus the extra budgetary costs of addressing the pandemic. The funds would be lent for a long term and at fixed rates, to provide financing to developing countries that have limited policy tools for responding to the crisis.

Outlays of the resources would be fully aligned with the fulfilment of the 2030 Agenda and the SDGs in order to build resilience and achieve the goals of multilateral environmental agreements, such as the Nationally Determined Contributions, to accelerate progress towards sustainable development in this Decade of Action.

Incipient international collaboration with the private sector has been strengthened

As COVID-19 spread and its global impact on health and the economy became more evident, some multinational companies sought to complement government efforts to fight the pandemic. Information and communications technology companies, such as AT&T and Telefónica, worked in collaboration with LAC governments to support distance education initiatives during school closures. Efforts towards greater financial inclusion

through innovative digital finance initiatives meant providers could move swiftly to facilitate digital payments, including in support of social protection programmes, which research indicates reduced the unbanked population throughout Latin America by 25% (Americas Market Intelligence, 2020[45]). Many companies embraced a responsibility to act, exemplified by private-sector initiatives across the region (OECD, 2021[46]), ranging from pivoting supply chains to producing essential products, maintaining supply of essential services and offering free or flexible payments.

At the international level, the private sector is working with the International Trade Centre, the IADB, the United Nations Development Programme and others to support the economic recovery by implementing the Trade Facilitation Agreement (TFA). The TFA is a driver for growth, based on best practices agreed by WTO members. National trade facilitation committees have proven to be a key driver for growth in developing economies, increasing the dialogue with governments. In addition, several donors and organisations, such as the Global Alliance for Trade Facilitation, are actively looking for partners to pilot reform projects in LAC.

Current recovery initiatives are an important opportunity to realise pending reforms and invest in strategic sectors, such as public health, as future growth drivers. In that vein, in collaboration with governments, many companies have sought to identify and support initiatives that have an immediate impact and are in line with longer-term growth strategies. During the COVID-19 crisis, many countries openly engaged with regional and international institutions and mitigated the negative effects through dialogue with the private sector (e.g. facilitating trade of essential products). There is an opportunity to build on this foundation to design longer-term plans for modernisation, digitalisation and regulatory reform in the region. Examples in the promotion of digitalisation encompass the digital expedited digitalised customs procedures, labour policies allowing for remote working, reduced reporting requirements and additional spectrum availability (OECD, 2021[39]).

Regional policy partnerships in and beyond LAC in the face of COVID-19

Co-operation networks, platforms and integration institutions in LAC have activated response strategies to face the immediate impacts of the pandemic. One of the most salient is the General Secretariat of the Central American Integration System (SICA). Its member countries agreed on a Regional Contingency Plan to face COVID-19 (with 85% completed in the first nine months of execution) and launched a Regional COVID-19 Observatory. SICA also receives support from the European Union to implement its Recovery, Social Reconstruction and Resilience Plan for Central America and the Dominican Republic (Box 5.2).

Box 5.2. **Plan 3R: Recovery, Social Reconstruction and Resilience Plan for Central America and the Dominican Republic**

Given the huge economic and social impact of the COVID-19 crisis in Central America and the Dominican Republic, the Council for Central American Social Integration (CIS) approved the Second Special Declaration in April 2020, "United for the recovery and social reconstruction of the SICA region". It identifies the urgent need to design mechanisms to mitigate the damage and establish the foundations for a sustainable social recovery and reconstruction, addressing factors that have undermined the region's resilience.

The CIS instructed the Secretariat for Central American Social Integration to develop an articulated response and prepare a Recovery, Social Reconstruction and Resilience Plan for Central America and the Dominican Republic, with the support of the EU EUROsociAL+ programme in alliance with specialised UN agencies (EUROsociAL, 2021[47]).

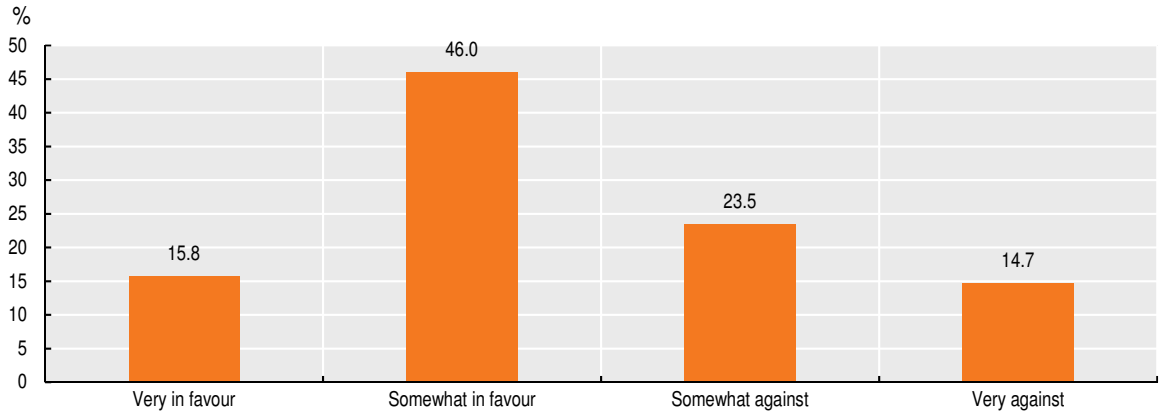
Box 5.2. **Plan 3R: Recovery, Social Reconstruction and Resilience Plan for Central America and the Dominican Republic** *(cont.)*

The plan includes a set of strategic projects under three areas of intervention: i) social protection; ii) employment; and iii) informal settlements and sustainable urban development. Each involves strategic and transformative actions to provide wide-ranging responses to problems that have been prioritised by Central American countries, hence promoting their reactivation and recovery. The projects seek to create the conditions for more resilient, socially just and environmentally sustainable societies.

The experience of the plan shows the relevance of regional frameworks and policies to support resilience and to guide national recovery plans, strengthening and renewing the social pacts necessary for their implementation.

Nevertheless, the pandemic has not yet turned into an opportunity for LAC as a whole to take broader regional solidarity actions, speak as one voice in the multilateral sphere and push forward a transformative regional co-operation strategy towards inclusive and sustainable development pathways. Nor have all LAC countries been able to align support around the more transformative proposals that originated in the region during the pandemic, such as Costa Rica's FACE and C-TAP. The insufficient political alignment of LAC governments to boost a regional response contrasts with citizens' will, given that 61.8% of people declare being somewhat or very in favour of the political integration of their country with others in the region (Figure 5.4).

Figure 5.4. **Perceptions of political integration in Latin America (in favour or against)**



Source: (Nieto Parra and Da Costa, 2021[4]), "Desarrollo en Transición en América Latina en tiempos de la COVID-19", *Documentos de Trabajo Fundación Carolina*.

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LAC countries should react to expressions of social discontent and seek citizens' support for further regional co-operation. The region could develop a regional development agenda with ambitious political and operational agreements that include multi-stakeholder dialogues. Regional co-operation would increase the magnitude of policy responses towards the recovery. On one hand, it would help positioning the region's needs and specificities in the global context in negotiation and governance frameworks. On the other hand, it would contribute to align country efforts towards increased regional

integration that could help countries better respond to the recovery agendas. Regional co-operation that adequately underpins the negotiations of the social contract would allow for the creation of fairer social protection systems, the mitigation of climate change impacts, and the promotion of regional value chains to boost productivity and innovation, which are the focus of the forthcoming section.

An encouraging sign in the context of the recovery, is the approval of a regional Sanitary Self-Sufficiency Plan by the 33 LAC countries gathered in the recent IV Summit of Heads of State and Government of the Community of Latin American and Caribbean States (UN, 2021[48]). This plan, which counts with the support of ECLAC, will address research, development and production capabilities for vaccines and medicines at the regional level. This will strengthen the region's scientific and sanitary sovereignty and address key drivers of the region's structural vulnerabilities through regional integration and co-operation.

What kind of international partnerships could facilitate efforts towards a new social contract in LAC?

The world is rapidly approaching the end of the 2030 Agenda with few results to match its initial ambition. The COVID-19 crisis has accentuated the difficulties to meet the SDGs. International action should take a more ambitious stance if the world is to get closer to these goals. Countries in the LAC region are no different. The post-COVID-19 context demands new ways of engagement with and, very importantly, within the region. A new social contract encompassing socio-economic groups (including income, race, ethnicity and gender), sectors, territories and generations can provide the pillars for a new development pathway that binds society together and restores citizens' trust in national and international public institutions

International co-operation efforts need to address the weakened global governance institutions and asymmetric, top-down decision-making structures that lead to greater deregulation of megatrends, particularly impacting vulnerable populations worldwide and sparking social discontent. On a complementary side, the international co-operation system needs to work more inclusively among development partners, upgrade the building of domestic capacities to better connect national and international agendas, and operate with more tools and actors.

Some options appear as priorities. First, promoting mission-driven partnerships that increase citizen participation and provide equal footing governance mechanisms and frameworks while fostering policy dialogues; second, reinforcing regional co-operation; and third, implementing a balanced use of financing, regulations and standards, and technical co-operation for capacity building.

This section presents practical policy considerations and options for a continued update of international co-operation schemes with and within LAC to build forward better.

Mission-driven international partnerships

Mission-driven international partnerships entail thinking beyond currently defined areas and institutions to encompass all relevant resources, tools and actors in issue-based coalitions that achieve measurable development results. First, in terms of purpose or objectives, international partnerships can be driven by multi-dimensional missions or development objectives, rather than structured according to sectors or institutions, therefore allowing for policy coherence across efforts. Second, in terms of

tools, all relevant resources, for instance financing, knowledge and technology, should be deployed, ensuring a whole-of-government approach as proposed in the DiT framework. Third, in terms of participation, led by clear political will and bottom-up endorsement, and supported by relevant research and accountability mechanisms, new partnerships will be a key driver of the virtuous cycle at the multilateral level to ensure the attainment of the SDGs and, particularly relevant in the case of LAC, the effective implementation of a new social contract. Innovative experiences have multiplied during the pandemic, reflecting this vision (Box 5.3).

Box 5.3. **Team Europe: A mission-driven initiative created in the context of COVID-19**

Team Europe was born out of the extraordinary conditions created in 2020 by the COVID-19 pandemic as a united European response to the major needs emerging in partner countries. Team Europe strengthens the European Union's contribution through improved co-ordination and coherence. It combines the collective development resources of the European Union, EU member states, the European Investment Bank and the European Bank for Reconstruction and Development. Members of Team Europe work together in an inclusive and co-ordinated manner to support partners.

The Team Europe COVID-19 response for LAC included a redirection of existing programmes and funds where possible and an acceleration of payments at both the country and multi-country levels. The initial Team Europe scheme concerned around EUR 900 million (Euros) for LAC.

From April 2020 onwards, the European Union launched a pilot exercise of Team Europe country roundtables in Argentina, Costa Rica and Ecuador. Under the co-leadership of the EU Delegation and the partner government, these meetings gather a wide range of national stakeholders and representatives of the EU member states active in the country, European Commission-supported programmes and the local administration to discuss how better to join forces and provide coherent EU support to COVID-19 management and recovery in the country. In this way, Team Europe acts in line with partner countries' development needs and priorities and facilitates the transition to inclusive and sustainable economies and societies, promoting digitalisation for development, boosting resilience and reducing the risk of future crises.

The so-called "Team Europe Initiatives" will be integrated into the 2021-27 EU Multi-annual Indicative Programme. Underpinned by strategic policy dialogue, they will aim to support transformational change by delivering concrete results for partner countries. They will draw on the best mix of support modalities and will be grounded at the most appropriate level. The purpose is to maximise the impact and the transformational effect of European funds by merging the capacities of EU member states, the European Commission and their various institutions. Doors are also open to other partners or development institutions to join in.

Structuring international co-operation through mission-driven partnerships can help grasp the multi-dimensionality of development and promote greater policy coherence (SDG 17). Focusing efforts on solving wicked development issues can be a catalyst for the international architecture to adopt more flexible approaches focused on results. It is essential to promote cross-sectoral approaches and a better understanding of the many dimensions of development to create synergies between policies across sectors and levels and as many win-win scenarios as possible. These synergies we refer to are horizontal

(e.g. the different pillars of the social contract) as well as vertical (between global, regional, national and subnational levels of governance) (Knoll, 2014[49]).

Focusing on a specific mission can also drive a more flexible use of more tools and help create new ones. LAC needs a broader set of tools beyond traditional ones, including a more technical conversation amongst partners based on knowledge sharing, policy dialogue, capacity building exchanges, technology transfers and South-South and triangular co-operation (OECD et al., 2019[1]). Further, new tools from other forms of partnerships, for example public-private ones, could be embedded in new international partnerships, by way of the whole-of-society platforms that should structure these international policy making processes. Enabling and steering multi-level and multi-stakeholder participation is therefore key.

Mission-driven partnerships could be at the heart of experimenting new ways of involving citizens in international co-operation efforts. Several strategic considerations should be examined to put these mission-driven partnerships into practice more broadly. Key questions include: What benefits does this new approach bring compared to current mechanisms? Who should participate in the policy-making process and define the mission that will lead international partnerships forward? When and how should the various stakeholders be included?

Whole-of-government approaches are still needed, but the current context calls for whole-of-society approaches to international co-operation. A combination of political will at the highest level and opening the floor in the policy-making process of international co-operation to non-state and subnational actors is complex. Still, there is a lot to be gained if LAC countries harness the opportunities of the broad negotiations that new social contracts entail and successfully scale them up in international arenas. The active participation of representative groups of civil society, the private sector, subnational governments and the academy in the agenda-setting process of international co-operation would positively politicise and increase the legitimacy of its mission, turning it into an opportunity to connect global governance more closely to citizens' daily concerns. These actors have on-the-ground projects that provide them with street-level information and implementation insights that could be useful to multilateral policy makers (Chatham House, 2021[50]). Furthermore, they are generally more effective implementers than traditional co-operation actors. This co-operation architecture would foster much-needed horizontal inter-social linkages (Badie, 2020[5]).

A reflection needs to take place on what the new mechanisms of participation would look like, and how they could guarantee inclusive and effective policy dialogue. Multi-stakeholder platforms should be organised with a clear objective and should undertake efforts to ensure the participation of under-represented groups. This is especially important in LAC, given its high and multiple inequalities, which create varying capabilities for representation across various types of actors. Renewed platforms should avoid clustering constituencies, including in the private sector, without considering power imbalances. For instance, SMEs represent 99% of businesses and micro enterprises concentrate most enterprise closures and job losses during COVID-19 (ECLAC, 2021[51]).

Renewed international partnerships should create the appropriate institutional mechanisms to continue improving the transparency of decision making, increasing national and international policy coherence and facilitating implementation. Transparency and accountability would promote greater policy coherence. Some lessons indicate that bottom-up processes work best when structured with an empowered referee, built-in accountability mechanisms and key powerbrokers committed to the process and willing to implement its decisions (Chatham House, 2021[50]).

The post-COVID-19 development narrative needs to cast away old top-down practices and incorporate Southern perspectives and non-state actors that endow international co-operation with local level context and knowledge (Bhattacharya and Sabin Kahn, 2020[42]). More participatory international partnerships are especially important for frontier policy issues such as the ones posed by global megatrends. Effective governance of climate change, international migration, the digitalisation of the economy and other issues on a pressing implementation track requires significant social change, a dialogue on equal footing and bottom-up collaboration that provides multilateral policy makers with early and relevant insights (Chatham House, 2021[50]).

Regional co-operation to leverage the voice of the region in the world

Regional initiatives have a significant role to play to support national efforts towards a new development model, embrace megatrends like digital transformation as tools for recovery and create resilience in the face of future crises. Regional collaboration is a unique space within which states facing similar challenges can share best practices and guidance on how to design policies and compare results and outcomes.

LAC governments should leverage their structural development traps exposed by COVID-19 as a catalyst to overcome the causes of the current "Latin American vacuum". This vacuum refers to the deliberate absence of collective action by the region, which could exacerbate its present weak international influence (Gonzalez et al., 2021[52]). LAC has been losing its capacity to co-operate and act collectively at the regional and global level, having dismantled part of its regional organisations because of political polarisation and fragmentation (Sanahuja, 2020[53]). This is evidenced in the case of the four-year impasse of the Community of Latin American and Caribbean States (CELAC), which hosted its latest Meeting of Heads of State in September 2021. This polarisation has hindered a united voice in the multilateral sphere, as well as the sustainability of ongoing regional and sub-regional endeavours.

Some examples from outside the region could help envisage the type of endeavours that lie ahead for LAC governments in the regional sphere. In 2020, the European Union approved the largest stimulus package in its history. The European Union's long-term budget, coupled with Next Generation EU fund (the temporary instrument designed to boost the recovery), will be the largest stimulus package ever financed through the EU budget (EU, 2020[54]). A total of EUR 1.8 trillion will help rebuild a post-COVID-19 Europe with the mission of making it greener, more digital and more resilient. More than 50% of the amount will support modernisation through: i) research and innovation (Horizon Europe); ii) fair climate and digital transitions (Just Transition Fund and Digital Europe Programme); and iii) preparedness, recovery and resilience (Recovery and Resilience Facility, rescEU and EU4Health). In addition, the package pays attention to modernising traditional policies, such as the cohesion and common agricultural policies, fighting climate change (30% of EU funds), biodiversity protection and gender equality.

The African Union has mobilised its recovery strategy around its continental development framework, the Agenda 2063 (African Union, 2021[55]). This framework aims to deliver inclusive and sustainable development and is a concrete manifestation of the pan-African drive for unity, self-determination, freedom, progress and pursuit of collective prosperity. The agenda is a 50-year vision that encapsulates Africa's Aspirations for the Future and identifies key flagship programmes that can boost Africa's economic growth and development. The agenda identifies key activities to be undertaken through its ten-year implementation plans, which will ensure that it delivers both quantitative and qualitative Transformational Outcomes for Africans.

The Association of South East Asian Nations (ASEAN) launched a rapid assessment of COVID-19 impact on livelihoods across the region and an ASEAN Comprehensive Recovery Framework (ACRF). The ASEAN recognised that addressing the crisis requires both co-ordinated actions within the region and co-operation with its partners. The ACRF serves as the consolidated exit strategy from the COVID-19 crisis. It articulates the ASEAN response through the stages of recovery, focusing on key sectors and segments of society most affected by the pandemic, setting broad strategies and identifying measures for recovery in line with sectoral and regional priorities. Its approach to recovery is proactive, all-encompassing (whole-of-community), flexible and agile. An implementation plan has also been developed (ASEAN, 2020[56]).

Regional co-ordination is critical to strengthening the voice of LAC countries in the international arena, as well as its capacities to deal with the region's structural vulnerabilities in an interconnected world. "Minilateral agreements"[1] have helped blocks of like-minded parties bolster their diplomatic leverage within complex governance negotiations (Chatham House, 2021[50]). This has been the case with the Alliance of Small Island States during multilateral climate negotiations. LAC countries should emulate this strategy on issues where further support from the international community would be desirable, such as debt sustainability, tax evasion and international migration. Moreover, more integration and co-ordination would also help to align international efforts towards key strategic priorities and shared challenges for the region, such as investments at the regional level that promote regional integration. This might be the time for the international community to innovate regarding foreign debt instruments, especially given the investments needed to pursue the SDGs and the 2030 Agenda (Chapter 1).

LAC could be a fertile ground to leverage renewed regional partnerships. The region can learn from past regional and subregional experiences and co-ordinate current processes accordingly. LAC has a wide range of co-operation mechanisms and integration processes, with diverse memberships, capacities and mandates. However, regional partnerships in LAC should avoid overlapping by making current mechanisms and processes converge through the "*3M governance approach*", multilevel, multilateral and multi-stakeholder (Bianchi and Lara, 2021[57]). This regional convergence should innovate purposefully in integrating LAC's non-state actors, subnational governments and development banks from the start in tailored co-operation schemes that are functional for each partnership's mission. Regional institutions with financial and knowledge capacities will be critical in leading these processes.

Social participation experiences at the subregional level in LAC can provide useful lessons on strategies to involve under-resourced and under-represented groups. From the Southern Common Market MERCOSUR's Social Summits and Youth Parliaments to SICA's Regional Forum and Youth Meetings, the region has different approaches to participatory regional policy making that can be harnessed in a regional recovery strategy that puts people first. The results attained by the current flagship participatory instrument of the region, the Escazú Agreement on human rights and the environment (Box 5.4), should be closely monitored to ensure ongoing learning for participatory regional co-operation. Further, regional co-operation with civil society organisations can help protect human rights and strengthen civil society organisations, as is the case of the joint plan between OXFAM and the Inter-American Commission on Human Rights signed in 2019 (Oxfam International, 2020[58]).

Box 5.4. **The participatory experience of the Escazú Agreement**

The Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean, better known as the Escazú Agreement, stands out for civil society's broad participation in both its promotion and its negotiation process (Naser, Williner and Sandoval, 2021[59]). Adopted in Escazú, Costa Rica in March 2018 after a four-year negotiation process with the technical support of ECLAC, the agreement has been signed by 24 LAC countries and ratified by 12, entering into force on 22 April 2021.

During the preparatory stage of the negotiation process (2012-14), member countries agreed on the Modalities for the participation of the public in the Negotiation Committee. The mechanism comprised three participation tiers (attendance, reporting and making statements) and formally ensured public participation through two representatives who had four substitutes. These were elected according to an agreed voting system.

Participation is also deeply entrenched in the text of the agreement, as public participation is one of the three rights regulated by it. Through its articles, the document establishes the principles, subjects and characteristics of participation, imposing high standards on countries that adopt it. This regional agreement follows Principle 10 of the Rio Declaration on Environment and Development (1992), which established that "the best way to deal with environmental issues is with the participation of all interested citizens".

Enabling a new social contract through a balanced use of tools: Sustainable financing, global rules and standards, and technical co-operation for capacity building

As proposed by the DiT framework, international co-operation as a facilitator implies, among others, using diverse co-operation tools (OECD et al., 2019[1]). Concretely, in the scenario of an exit from the COVID-19 crisis through a new social contract, development partners need to encourage international partnerships that provide the best combination of tools to ensure coherence across national and international policies.

Strengthened political and policy dialogues should underpin mission-driven partnerships with and within the region to ensure a comprehensive and integrated approach that includes the following main tools (Table 5.2): i) sustainable financing; ii) global rules and standards; and iii) enhanced technical co-operation for capacity building. Further, these tools should be implemented towards achieving the more specific social pacts underpinning the social contract (e.g. expanding the reach of social protection and public services, reinvigorating regional productive strategies) and others with a global scope (e.g. mainstreaming environmental sustainability) including an intersectional perspective that goes across socioeconomic groups (including income, gender, ethnic and racial), generations and territories. Strengthening political and policy dialogues involving discussions across these tools is critical to ensure a mission-driven approach that integrates them and considers their interconnections, as most of the time these tools are designed and implemented separately.

Table 5.2. **Integrated approaches for international co-operation to enable a new social contract in LAC**

	Mainstreaming environmental sustainability	Expanding the reach of social protection and public services	Reinvigorating regional productive strategies
Sustainable financing	Mainstream environmental sustainability across financing instruments.	Ensure debt repayment schemes do not compromise expanding the reach of social protection and public services delivery.	Ensure sufficient public and private financing for strategic productive.
Global rules and standards	Adopt environmental regulations and standards, following the principle of common but differentiated responsibilities.	Adopt international regulations for the cross-border transfer of social security contributions and a global corporate tax rate. Agree on international standards for social protection, fair labour, taxation, international migration, etc.	Agree and implement rules conducive to LAC's productive diversification.
Technical co-operation for capacity building	Provide technical co-operation on sustainability practices, research and knowledge; promote policy dialogues with a focus on environmental sustainability.	Exchange policy experiences on social protection and public services delivery; foster capacity building in public institutions, including by enhancing understanding of the interconnections across national development strategies and global dynamics.	Transfer knowledge and technology to increase productivity; boost policy dialogues at regional and global levels to foster regional value chains.

Strengthen political and policy dialogues with a balanced and integrated use of tools

Source: Own elaboration.

Sustainable finance for development

Sustainable finance for development remains an essential tool for international co-operation with the region, particularly for the post-COVID-19 recovery. Capacity to mobilise domestic and external resources remains a key challenge for countries in LAC. Domestic resource mobilisation remains low, at 22.9% of GDP, compared to 33.8% in OECD countries (OECD et al., 2021[60]). Further, accessing international development finance is a key element to enable a new social contract in the region promoting inclusive and sustainable development. This is especially essential given the economic and financial shock the COVID-19 crisis has inflicted in LAC, by reducing its already weak fiscal capacity and liquidity.

Financial challenges for a new social contract should be addressed considering the previous financial inflow structure of the region and acting upon projected tendencies. Most of the inflows of external financing received by LAC economies are from foreign direct investment (FDI), representing more than 3% of the region's GDP. The dynamics of financial flows to LAC show that the share of private flows in total financial flows to the region has increased in contrast to ODA, which has declined to represent less than 1% of GDP in the region (ECLAC, 2021[31]), falling short of the spending needs to achieve the SDGs by 2030. During 2020, the different sources of external financing evolved differently. ODA rose globally, remittances to LAC increased by 6.5% (World Bank, 2021[61]), but FDI, the region's main external financing resource, fell 34.7%, going back to 2005 levels (ECLAC, 2021[30]).

Diversifying external financing, pushing forward innovative finance mechanisms and channelling financing towards overcoming multi-dimensional development traps and attaining the SDGs, should be a priority for LAC and its partners. Governments from the region and intergovernmental organisations should put forward further external financing innovations for building a sustainable recovery, by boosting public finance and leveraging private finance towards achieving the SGDs and the 2030 Agenda. In particular, efforts should be devoted to catalysing the important volumes of private assets, such as pension funds or insurance companies. FDI and other sources of investment

should be channelled into sectors that can promote a new development pattern, boost competitiveness and employment and reduce the environmental footprint. For instance, promising sectors include renewable energy, sustainable mobility in cities, the digital revolution to universalise access to technology, the health-care manufacturing industry, the bioeconomy and ecosystem services, the care economy, the circular economy and sustainable tourism (ECLAC, 2021[62]).

Innovation efforts should focus on increasing climate finance, which currently falls short. As of September 2020, Brazil, Chile, Colombia and Mexico lead the region in relation to sustainable finance markets, with green bonds issuance and active dialogue with investors and financial institutions on sustainable practices. The total amount of climate change finance needed to fund both mitigation and adaptation measures post-2020 has been estimated at more than USD 100 billion annually, an ambitious global goal for facing current scenarios (The Independent Expert Group on Climate Finance, 2020[63]). Despite the financing gap, a promising trend appears. During 2020, the volume of green, social and sustainable bonds issued in the region doubled to USD 12 693 billion. This growth is attributable to the first social bond issues, which totalled USD 3 876 billion, and the first sustainable bond issues, which amounted to USD 1 689 billion (ECLAC, 2021[19]).

The region needs to contribute to and harness ongoing innovative efforts in terms of finance for development. The interlinkages across domestic and global challenges – including inclusiveness and jobs, global health, digital transformation or climate change – make it even more relevant for LAC to join efforts in mobilising private investment in line with the region's development objectives in a coherent manner. Positive innovations are already emerging. These include development of blended finance mechanisms, such as the Latin American Investment Facility (LAIF) and the European Union's Caribbean Investment Facility (CIF). Another innovative example is the UN Net Zero Asset Owner Alliance, whose members – representing a USD 6.6 trillion united investor action – commit to transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures (UNEFPI, 2019[64]). Finally, LAGREEN, the first Latin American green bond fund created by EU's LAIF, the German Co-operation Ministry and the German Development Bank, will leverage an approximate EUR 450 million investment (EC, 2020[65]).

A co-ordinated solution for managing the challenge of debt should be a priority, especially considering the investments to be made in the medium and long term to attain the SDGs. The *Forum of the Countries of LAC on Sustainable Development 2021* (hereafter, The Forum) made key agreements on the international financial measures needed to address LAC countries' limited fiscal space and high debt levels, which take into account the heterogeneity of countries in the region. The Forum called on UN member states and international financial institutions to provide more liquidity in the financial system, especially in all developing countries (ECLAC, 2021[66]).

Regional institutions and experts call for leveraging the current policy space to drive reform of the international debt architecture and to integrate short-term measures into financing for a development strategy focused on building forward better (ECLAC, 2021[30]; Ocampo, 2021[34]). This could include the creation of a multilateral sovereign debt restructuring mechanism and the establishment of a multilateral credit rating agency (ECLAC, 2021[30]). Other proposals for the long term include eliminating the dual IMF accounting and consolidating regular and SDR accounts so that unused SDRs could be considered deposits by countries into the fund, which the institution can then use to finance its programmes. Future financial instruments should also consider improving countries' capacity for debt repayment and avoid an unsustainable indebtedness that compromises the expansion of social protection and public services by, for instance,

linking loan repayments to each country's exposure and vulnerability to disasters (as do current hurricane clauses) (Nieto Parra and Da Costa, 2021[4]). Last, sovereign debt issues should be managed with a long-term view through the design of an institutional mechanism to facilitate sovereign debt restructuring (Ocampo, 2021[34]). Environmental sustainability should be mainstreamed across innovative debt mechanisms, for instance through SDG and green bonds and debt-swaps (Nieto Parra and Da Costa, 2021[4]).

LAC countries represented in the Forum also stressed the importance of addressing the specific needs of MICs through innovative financing for development. MICs (also HICs) of the region need an accurate response that goes beyond current graduation criteria and takes into account their structural vulnerabilities. One of the latest proposals looks to implement an ambitious idea, Global Public Investment (GPI) (Box 5.5) (Glennie, 2020[67]).

Box 5.5. **Global Public Investment**

The pandemic has highlighted the profound funding challenges that prevent the international community from securing essential global public goods and realising sustainable development. The post-COVID-19 period will provide a unique opportunity to gather momentum behind a paradigm shift in how concessional international public finance can complement other sources of finance in promoting sustainable development; securing global public goods, services and infrastructure; and protecting the global commons.

Global Public Investment (GPI) is a new approach to concessional international public finance for the 21st century (Glennie, 2020[67]). Building on the SDGs, where development is understood in its diversity and multi-dimensionality, and the push in LAC towards DiT, the GPI approach suggests a framework based on sustained co-responsibility. Under this framework, all countries would work together: all would contribute on an ongoing basis, and all would be eligible to receive, based on assessed requirements. As co-contributors, all countries would play a role in deciding how the funds are allocated. For the world to move closer to the internationally agreed development goals, multiple types of financing need to be maximised. Domestic resources (including taxation), private financing, philanthropic funds and remittances are all crucial, but the concessional international public funding component is also critical and needs to evolve to fit modern expectations of governance and objectives. That is what the GPI approach offers.

GPI proposes five broad evolutions (or paradigm shifts) in ambition, function, geography, governance and narrative. It comprises four fundamental pillars: i) universal contributions; ii) ongoing commitments; iii) representative control; and iv) co-creation between governments and peoples of the world.

This new approach to finance could be a strategic tool, especially for LAC countries, as many are reaching the upper middle-income and high-income thresholds. Instead of "graduation", which would affect progress in many LAC countries, GPI proposes "gradation" whereby all countries continue to receive financial support depending on their specific needs. This new approach would also allow the region to create forms of wealth redistribution to tackle the growing problem of inequality.

Global rules and standards

Promoting inclusive and sustainable development requires that regional and international partnerships take integrated approaches that combine financing and knowledge transfer with the creation and implementation of global rules and

standards pertinent to facing global shared challenges. The cross-border nature of major development issues not only calls for the improvement of national capacities but equally, or even more importantly, it requires multilateral agreements on shared policy criteria and actions that reduce global inequality and promote policy coherence across national, bilateral and multilateral levels.

For instance, eradicating tax evasion is a requirement for the attainment of new social contracts in LAC that demands cross-border rules. In 2018, tax evasion amounted to USD 325 billion, which equated to 6.1% of LAC's GDP that year (Pezzini, 2020[68]; UN, 2020[69]). Untaxed resources unfairly reproduce the region's high income and wealth inequality levels and withhold funds needed to invest in an inclusive and sustainable recovery. Promising outcomes stem from recent agreements for the adoption of a global corporate tax rate and from ongoing work by the OECD through instruments such as the Common Reporting Standard (OECD, 2021[70]), the Inclusive Framework on Base Erosion and Profit Shifting and the LAC Fiscal Initiative. Regional and global standards would help foster the implementation of gender-oriented tax policies and other innovative policy actions in the taxing field (Chapter 1).

LAC's development success through a new social contract relies on the capability of the multilateral system to regulate this and other global megatrends, such as digitalisation, inequality and climate change, through innovative collective action. In turn, the region will be better equipped to contribute to the attainment of the SDGs and the provision of regional and global public goods.

Technical co-operation for capacity building

Technical co-operation remains essential, particularly in exiting this crisis through new social contracts. International co-operation efforts could include transferring capacities on innovative options for the reduction of social protection gaps – particularly for the poor and extremely poor, informal workers, those vulnerable to climate change, women and migrants – and exchanging experiences on how to improve the quality and coverage of basic public services, for example, through digitalisation. In the productive sphere, renewed partnerships should promote spaces for political and policy discussion at the regional level on regional value chains and the diversification of the productive matrix to help LAC countries increase manufacturing capacities, improve preparedness and resilience for future pandemics, and accelerate industrialisation, including in the health sector. Technology and knowledge transfer will be fundamental instruments.

This crisis has shown that national development strategies cannot be conceived in a national vacuum. For developing countries to reduce their exposure to external shocks and improve their fiscal or socio-economic capacities, these strategies will have to grasp global challenges better. Policy dialogue, training, exchange of knowledge and best practices, and technical co-operation, particularly through South-South and triangular co-operation, could provide valuable lessons in this regard (Nieto Parra and Da Costa, 2021[4]).

Capacity building should also follow a multilevel, multilateral and multi-stakeholder approach. National governments, as well as subnational governments, civil society, the productive sector and organised vulnerable groups, should take part in capacity-building programmes. Multilateral roundtables that favour mutual learning and monitoring can function as an effective mechanism to advance more impactful knowledge sharing at the international level.

European Union-LAC partnerships to build forward better

The European Union is a key interregional partner of LAC, as seen during the pandemic. The European Union has signed association, free trade or political and co-operation

agreements with 27 of the 33 LAC countries and is LAC's largest provider of development co-operation, its third largest trade partner and its first foreign investor (EEAS, 2019[71]).

However, there is a need to continue strengthening and modernising the bi-regional partnership. In April 2019, the European Commission released a communication to revitalise political dialogue by joining forces for a common future through four mutually reinforcing priorities: prosperity, democracy, resilience and effective global governance (EEAS, 2019[71]). The document stated that the rapidly evolving geopolitical environment introduces new challenges and opportunities to which the European Union and LAC should respond by working together to preserve multilateralism and a rules-based global order (EEAS, 2019[71]).

LAC and the European Union should seize the global momentum created by the pandemic to continue crafting a partnership that provides strategic autonomy for both regions, a space for policy dialogue, regulatory convergence and, in the case of LAC, a productive transformation to change the economic model and a reconstruction of the social contract (Sanahuja and Rodríguez, 2021[72]). It is important to sustain the European Union's support, through capacity building and policy dialogue, to the revision of national social contracts in LAC, as with EUROsociAL's co-operation directed towards Chile's constitutional process and towards Argentina and Costa Rica in the creation and strengthening of their own Economic and Social Councils. Triangular co-operation will be a key instrument for the bi-regional partnership, facilitated by the programme ADELANTE 2 and its 2021-2024 Triangular Co-operation Window.

Mission-driven partnerships between LAC and the European Union should further ensure a multi-dimensional and universally coherent approach to the region's development traps and foster a stronger and co-ordinated voice to address common issues in the multilateral sphere. The new generation of Association Agreements might be a key instrument in the implementation of these renewed partnerships, as they cover all areas of the bi-regional relation (co-operation, political dialogue, trade, investment) in one document, thereby helping identify synergies and promoting greater national and international policy coherence. Team Europe is an institutional innovation that will facilitate this process.

Conclusions

International co-operation is indispensable for Latin America to exit the COVID-19 crisis, set the region on the path towards achieving the SDGs, complete and foster national efforts. There is a need to create a new social contract to allow LAC countries to break the vicious circles created by development traps and reinforce international co-operation's facilitating role – as stated in the DiT framework – in a context of increased interconnection between the national and international spheres.

The pandemic proved that the region is a fertile ground to realise international co-operation's facilitating role, but there is space to improve collaboration. LAC shows a wide range of North-South, South-South, triangular, multi-stakeholder and even South-North initiatives that have addressed key challenges during the pandemic and towards the recovery stage by providing not only financial support, but also technical assistance and exchange of experiences. Nevertheless, the crisis also showed that the region still lacks bolder regional co-operation and co-ordination, as well as international financial and non-financial co-operation initiatives to ensure its long-term recovery.

This moment brings an opportunity to strengthen regional and international co-operation with and within LAC, revaluing and renewing multilateralism. This critical juncture, coupled with the need for LAC countries to build a new social contract, calls

for defining new partnerships. These new partnerships need to face the issues that are blocking the full potential of international co-operation. This includes the need for increased participation of citizens, for equal-footing governance mechanisms and frameworks, including strengthened regional co-operation, and addressing the current levels of fragmentation between institutions and between tools.

Mission-driven partnerships could be an innovative approach to experimenting new ways of integrating all relevant resources, tools and actors in issue-based coalitions that achieve measurable development results. This could enable greater policy coherence across international co-operation efforts, foster a whole-of-society approach to the design and implementation of international partnerships, and promote a virtuous cycle at the multilateral level to ensure the attainment of the SDGs and the effective implementation of a new social contract. Leveraging regional co-operation efforts and networks towards increased regional integration appear as a key step forward. Finally, equally relevant would be to explore how best to take holistic approaches that consider different tools to solve multi-dimensional challenges. Efforts would need to be put in place to find the right balance across sustainable finance, global rules and standards, and technical co-operation for capacity building, in order to face global shared challenges. Well-articulated political and policy dialogues are a necessary condition to underpin the above-mentioned efforts.

LAC can contribute to strengthen and experiment new forms of multilateralism by boosting policy dialogues within the region and beyond through equal-footing international policy partnerships that put people and policy first. The LAC-European Union partnership is a privileged policy space to implement this agenda, as it has already taken decisive steps in this direction.

Box 5.6. **Key policy messages**

- The COVID-19 crisis revealed the interconnection between unregulated global megatrends and national discontent in Latin America.
- The consolidation of a Development in Transition approach can contribute to boosting a multi-dimensional agenda for the recovery in LAC that considers the interrelation between policy areas, actors and governance levels.
- The multi-dimensional nature of global development calls for multi-dimensional responses, including efforts to measure development beyond GDP, both nationally and internationally, providing a renewed guidance for co-operation efforts.
- International co-operation can facilitate and complement domestic efforts to define and implement a new social contract in the region, allowing to break the vicious circle created by LAC development traps.
- The pandemic has scaled up efforts by LAC countries and international partners with important lessons for international co-operation's facilitating role (particularly through technical South-South and triangular co-operation). Still, there have been significant gaps in financing and in policy co-ordination at the regional and multilateral spheres.
- Mission-driven partnerships can promote more participatory and equal multilateral governance. They can increase citizens' participation and ensure policy coherence at the national, regional and international level, as well as across social, environmental and economic objectives. These are critical elements of a global enabling environment for exiting the crisis with more inclusive and sustainable development models.
- Strengthening regional co-operation will be key to enhancing the region's voice in the international arena, as well as its capacities to deal with its development traps in an interconnected world.

Box 5.6. **Key policy messages** *(cont.)*

- Strengthening the political and policy dialogue will be crucial towards building new social contracts for the recovery in the region.
- Within these dialogues, balancing the three key tools of 1) sustainable finance; 2) global rules and standards; and 3) technical co-operation for capacity building will be crucial to ensuring coherence across national and international policies and facilitating a new social contract.
- Renewed political and policy dialogue and co-operation between LAC and the European Union could provide both regions with strategic autonomy and mutual learning to tackle common development challenges. It could also provide LAC with the resources and capabilities to transform its economic model and reconstruct its social contract.

Note

1. Minilateral agreements or small-group voluntary commitments can provide pathways to achieving global norms (Chatham House, 2021[50]).

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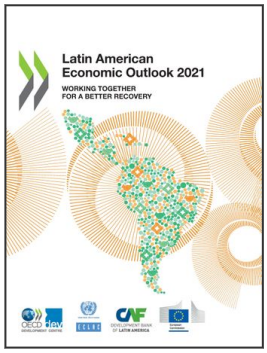

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