

# THE TRIPLE CHALLENGE OF THE MIDDLE-INCOME COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN.

DEVELOPMENT IN TRANSITION OPPORTUNITIES  
AND THE 2030 AGENDA.<sup>1</sup>

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Oxfam's Policy Briefings are part of a series of papers written to inform public debate on development and humanitarian policy issues.

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The Latin America and Caribbean (LAC) region is going through a period of uncertainty and upheaval after a decade of relative democratic stability and weak economic growth. Public mobilisation and the different expressions of social unrest in the last year are symptoms of the harsh economic adjustment that the region is experiencing after the commodity super cycle. There is a new, vulnerable middle class, which represents 30% of the social structure. Its alienation from the public sector and distrust of political institutions are effects of the same process. Added to this is the social and economic shock produced by the COVID-19 pandemic, which, according to ECLAC, could leave 35 million new poor persons in the region, including 22 million in extreme poverty.<sup>2</sup>

The countries of the region and the international community must address this situation by establishing cooperation strategies in line with the new economic recession, which means necessarily rethinking labels such as “Middle-Income Countries” (MIC) or even the very concept of “graduation”—a process of advancing through different income levels.<sup>3</sup> To strengthen international cooperation and its adaptation to the new context, it is vital for the region to agree on a development agenda that is transformative, overcomes structural pitfalls and resolves the challenges of the current economic and political model.

The MICs must lead this change process, coordinating with each other to tackle common challenges such as inequality, democratic quality and development governance, in order to improve the management and provision of global public goods, such as healthcare, for example. This will not be achieved without the creation of new cooperation instruments and the implementation of innovative strategies that also have the capacity to mobilise a much broader set of organisations (social, public and private). At the same time, governments as well as the actors involved must find spaces for exchange and coordination, to arm themselves with the legitimacy necessary to face these enormous challenges.

In this sense, it is important that cooperation with the MICs is seen as an exercise of complementarity, collaboration and mutual learning among multiple actors, and not only as a means of financing. The new cooperation should focus on solving the structural problems of regional development, without losing the global perspective.

# 1. DEVELOPMENT COOPERATION WITH THE MIDDLE-INCOME COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN.

Cooperation with MICs has gained importance in the international community for its association with the new global geography of development. Unlike in the past, most of the world's poor now live in MICs.<sup>4</sup> This fact has refuted one of the main theses of development cooperation, which is that the poor live in poor countries. With almost 200 million poor people (30.8% of the population), this circumstance is especially relevant for LAC: of the 33 countries in the region, 25 are classified as MICs.<sup>5</sup>

Thus, the issue of graduation in LAC and the challenges derived from the coronavirus crisis become an opportunity to revitalize the debate on regional development and adjust the rules of the game for international cooperation. More than ever, a transformative transition agenda is necessary to:

- 1) Explore innovative cooperation instruments and strategies.
- 2) Review the global governance framework for cooperation, under the umbrella of a more systemic and universal 2030 Agenda.
- 3) Rethink the State's capacity and mechanisms to respond to the expectations of a hyperconnected citizenry.

The MIC discussion revolves around what is known as middle-income traps. These are the result of the faltering rate of growth in these countries, which does not allow them to secure development paths that synchronize the pace of the economy with that of well-being. The middle income traps are identified with structural problems, mainly:

- Historical and calcified inequality that condemns a high percentage of the population to suffer a cyclical situation of vulnerability and is a source of social conflict.
- An economic model based on the extraction of natural resources and the provision of cheap labour.
- A stagnation of the “green transition” in a region that already accumulates significant environmental losses and damage and is increasingly exposed to natural disasters that are increasing due to climate change.
- Growing public distrust towards state institutions and the political system, particularly among youth, as a result of corruption and political capture, with the consequent erosion of the social contract.

The regional and global crisis caused by the COVID-19 pandemic can deepen structural gaps and, at the same time, become the lever of change to tackle reforms that have been postponed for decades.

## Who are the middle-income countries and how are they classified?

The World Bank defines MICs as those countries with a gross national income (GNI) per capita of between 1,006 and 12,235 US dollars. Within those two extremes, we can differentiate lower middle-income countries (USD 1,006 - 3,955) and upper middle-income countries (USD 3,956 –12,235).

The MIC label covers a wide variety of situations. MICs constitute an ever-larger and more diverse group of more than 100 countries. They are home to 75% of the world population and 62% of the world's poor. Economically, they represent one third of the global GDP. In LAC, of the 25 MICs, 18 belong to the upper middle-income category.

However, classifying countries according to their per capita GNI is still an economic simplification. Multidimensional analyses reveal the persistence of large development gaps in the MICs, even with economic growth and with many other positive indicators. This is the case in LAC, where more than 40% of the population lives in poverty, and levels of income inequality are extremely high. Furthermore, the differences between urban and rural conditions are enormous (the poverty average is 20 points higher in rural areas), as is the wage gap (women receive on average 68.4% of what men receive for the same work).

There has been a debate in recent years about how to classify countries using more than economic criteria. However, the current juncture offers a unique opportunity to reopen this debate and reach a consensus on a change in methodology. The international community has put forward various proposals to incorporate a multidimensional vision of reality. The Multidimensional Poverty Index of the United Nations Development Programme,<sup>6</sup> the OECD Multidimensional Well-being Index,<sup>7</sup> ECLAC's Structural Gaps<sup>8</sup> or the Oxfam and LSE Multidimensional Inequality Framework<sup>9</sup> are some of the most outstanding initiatives.

## 1.1 From graduation to progression. The opportunity for new approaches under the umbrella of the 2030 Agenda.

Joining the “middle income club”, or “graduating”, has profound implications for a country:

First, the way in which Official Development Aid (ODA) is received changes (assuming the country hasn't even become a donor). Instead of being the recipient of mostly subsidies, the country starts receiving loans that have lower levels of concessionality, impact investments, and other forms of financing that are successful under a more commercial scenario, less focused on reducing poverty and inequalities.<sup>10</sup> There is, therefore, a diversification of financing objectives and sources, which in turn involves a change from traditional international cooperation schemes.

Second, the greater dynamism of financial cooperation and the growing participation of private companies and institutions in the development sector mean that interest and priorities are focused on those countries in which the commercial and investment opportunities are greatest. This is not always compatible with development objectives, if proper game rules and incentives are not ensured.

Third, governments have a growing responsibility to provide universal, good-quality public services to an increasingly demanding citizenry, including a more significant middle class. This requires a transformation of their development financing model. The new model will have to mobilise more resources and see how they can be obtained and allocated.

The logic of the graduation process, based on per capita income thresholds, presupposes that ODA is understood as a mechanism focused on combatting poverty. On the contrary: it should be understood as a comprehensive system of support for countries' development efforts, which recognises the diversity of their territories and accompanies their international insertion processes. As an alternative to the reductionist paradigm of per capita income, the progression approach understands development as a gradual and uninterrupted process that does not end when countries reach a certain level of per capita income, since this does not mean that they have overcome development challenges, which are increasingly common and more ambitious. The process continues until the achievements are sustainable and do not exclude any region or population group. Cooperation, from this perspective, should focus on creating the incentives to promote the changes and transformation processes necessary to overcome the development obstacles underlying the middle income traps. Under this approach, ODA must be understood as a catalyst mechanism for processes of change that complements the national efforts made by each country.

The 2030 Agenda represents an opportunity for cooperation with MICs in several ways. First, because the agenda's systemic approach has equivalences to many of the structural gaps that are identified as MIC obstacles, and enables good alignment with the targets, goals and indicators of the Sustainable Development Goals (SDGs). Second, because the universal focus of the 2030 Agenda underscores the importance of the supranational agenda. This encourages greater efforts to be made for the provision of regional and global public goods, such as the fight against climate change or guaranteeing human rights. In this area, MICs are called on to play an increasingly relevant role due to their dual status as "recipients" of vulnerabilities and as "suppliers" of the lessons learned (see Figure 1).

Figure 1: 2030 Agenda Opportunities for Middle-Income Countries.



Source: Author's compilation.

Despite this, the degree to which governments in the region comply with the 2030 Agenda is spotty. Only a determined and concerted response from governments, private actors, civil society and the international community will ensure significant progress. Along these lines, Alicia Bárcena, General Secretary of ECLAC, recently highlighted three key conditions for 2030 Agenda achievement:

- 1) Guarantee economic growth and better income redistribution,
- 2) strengthen multilateralism at the regional and international level,
- 3) strengthen the democratic channel for its legitimization and to prioritize the interests of the majority over those of minority groups that control certain power resources.<sup>11</sup>

## 1.2 The Development in Transition concept.

Latin America and the Caribbean are in search of a new narrative and conceptual framework that respond to central questions of their development. Despite reductions in inequality in the first decade of the 21st century, it continues to be a structural problem in the region (with income inequality above 0.5 GINI).<sup>12</sup> LAC is also undergoing a demographic transition, with a growing middle class (from 21% of the population in 2000 to more than 35% in 2017)<sup>13</sup> and there are millions of young people demanding better services and investments from the State.<sup>14</sup> All of this, in a global economic context of deep economic recession, with a 5.3% fall in GDP predicted for the region.<sup>15</sup>

As if that were not enough, the legitimacy of the system of government is in doubt, as is trust in it. The corruption and discrediting of public institutions, captured in many cases by corrupt elites, are cause for major concern.<sup>16</sup> This is the partial cause of exploding social tension, even in those countries that seemed to be the most stable and have the strongest institutions, such as Chile. The expectation is that this tension will continue to grow due to the difficult economic situation that the coronavirus pandemic will leave in its wake, which could even include an increase in food insecurity. This complicated context may cause mass migration phenomena to multiply at a higher rate than before.<sup>17</sup> All of the above shows the need to promote structural transformations of the political and economic system. Therefore, it is crucial to find a new framework that brings together different elements to reconstruct the social contract.

As a contribution to this goal, it is worth mentioning the initiative prepared by the OECD Development Centre, the European Commission,<sup>18</sup> ECLAC, the IDB and CAF, which represents the concept of “Development in Transition” (DiT). The conceptual summary and policy proposals were presented in the latest *Latin American Economic Outlook*.<sup>19</sup>

At Oxfam, we read the DiT approach in terms of opportunities. First, because it represents a multidimensional vision of development that goes beyond growth. The DiT concept refers to a comprehensive way of analysing the challenges faced by countries that have reached a certain level of per capita income, the famous MIC traps, but which, despite their economic growth, have not necessarily experienced an improvement in quality of life in all its dimensions. The fundamental premise is that income does not equal well-being. DiT advocates incorporating the quality of employment and education, health, democracy, inequality and personal safety.

Second, because it brings with it a new mental framework based on peer-to-peer exchange, the principle of horizontality, mutual learning, inclusion of all actors (public and private) and a contribution from all levels of governance (local, national, regional and multilateral). The underlying logic is to identify common elements among the countries, but to be based on the analysis of the different sub-regional and national situations. This approach connects with the heterogeneous nature of MICs, and values international cooperation as the generator of a set of incentives to overcome gaps and provide regional and global public assets.

## 2. HOW CAN THE GAPS IN LATIN AMERICA AND THE CARIBBEAN BE CLOSED? A COMPLEMENTARY VISION ON DEVELOPMENT IN TRANSITION.

The DiT approach delves into the traps that explain the main obstacles and challenges of sustainable development in LAC. It focuses on the importance of the traps involving productivity, vulnerability, institutions and, finally, the environment as priority areas for action.

At Oxfam, we share this take on the traps, but we suggest putting special emphasis on the following points:

- The **centrality of inequalities**, from a multidimensional perspective, which goes beyond vulnerability traps.
- The **centrality of the democratic crisis** in LAC and the importance of addressing in-built mistrust in public institutions, political disaffection and the closure of democratic spaces.
- The need to complete said approach—based on endogenous actions to reach development paths—with a vision that incorporates the relevance of exogenous factors and **the need for transformation of development governance**.

At Oxfam we share a critical view of the literature on middle income traps and the DiT paradigm based on the evidence, knowledge and experiences originating in the programs, alliances and perspectives of the actors in LAC with whom we work. Our proposal is articulated around what we call the triple challenge of DiT, a challenge consisting of three dimensions: inequalities, democratic quality and inadequate development governance. Each of these three challenges within the major dilemma, which is the subject of this paper, in turn shapes a specific perspective on the objectives of the 2030 Agenda for LAC countries; especially on some of the more strategic SDGs, such as 10 (reduced inequalities), 16 (strong institutions) and 17 (partnerships for the SDGs).

### 2.1 The inequalities challenge.

The main challenge that we identify is that of **inequalities**, which is strongly rooted and institutionalized throughout the countries of the region (see GINI indices for upper middle-income countries such as Colombia).<sup>20</sup> The positive results of the golden decade in Latin America were not equally distributed in terms of reducing poverty and improving the population's quality of life, which is why the region remains one of the most unequal in the world.<sup>21</sup> Therefore, the reduction of inequalities must be put at the heart of all debates, policies and cooperation models with the region. Ignoring its importance as one of the central causes of instability and obstacles to full development would prevent us from properly tackling this debate.



At Oxfam we insist on two fundamental ideas to approach the analysis of this phenomenon:

1) The reduction of poverty in the region has taken place at the same time as wealth and income has been increasingly concentrated in the decile of the highest-income population.<sup>22</sup> This suggests that it is not enough to look at the lowest deciles without also focusing the analysis on the richest deciles.

2) Addressing inequalities requires a multidimensional approach, which pays attention to inequalities that exist among individuals, but also among collectives, with special attention to gender inequalities and their intersectionality with certain ethnic groups and LGTBIQ+ communities.

Regarding the first point, the vulnerability affecting almost 38% of LAC's population is due to the phenomenon of inequality, which has become a structural trap. Thus, despite the fact that poverty was gradually reduced in recent years, this trend has recently been reversed and it has increased again. As of today, one in four people in the region (26.3% of the population) is poor.<sup>23</sup> However, just addressing these vulnerabilities means ignoring the other part of the problem: the extreme concentration of wealth.

To analyse the phenomenon of inequalities and the associated culture of privileges, it is necessary to go beyond classical measurements, without forgetting what happens at the extremes and how inequality is related to wealth. In LAC, the extreme concentration of wealth goes hand in hand with extreme inequality: the richest 1% concentrates 41%<sup>24</sup> of wealth. As we emphasize at Oxfam, in an upper middle-income country like Mexico, we find both the richest man in Latin America and more than 23 million people who cannot purchase a basic basket.<sup>25</sup> In Sao Paulo, an inhabitant of Cidade Tiradente (a neighbourhood on the outskirts of the southern area) dies on average 25 years earlier than a person who lives in the Pinheiros district, a wealthy neighbourhood in the western part of the city.<sup>26</sup>

One area that most dramatically reflects these inequalities is the region's fiscal structure, which taxes those with the highest purchasing power much less, proportionally. Thus, a good part of tax collection is concentrated in taxes on consumption (50% of tax revenues), which are clearly regressive, instead of prioritizing those that tax income, wealth or property (27.8% of tax revenues).<sup>27</sup>

Inequality also shows different faces. It affects certain groups in certain areas with greater virulence, acting as a brake on their life achievement options. This point has been amply demonstrated in the weeks of confinement due to the coronavirus pandemic. There are families who have great difficulty in complying with confinement measures, either because they live in overcrowding, because their livelihood depends on informal jobs or because the presence of the State is very limited in the areas they inhabit. Inequalities based on gender, ethnicity or those that exist between the countryside and the city are at the foundation of the patterns of historical and structural exclusion in the region. In Guatemala, for example, if you are born a woman, poor and indigenous you are automatically relegated to a life of exclusion and a tremendously inferior set of opportunities.<sup>28</sup> Intersectionality allows for the effect of combined inequalities that intersect and reinforce each other. Take **gender** inequality. In LAC, a woman receives on average 68.4% of what a man receives for the same job, and almost 30% of women have no income (compared to 12.5% of men).<sup>29</sup> This situation goes beyond economic discrimination and includes violence against women as well as the persistence of social imaginaries that subject women to domination.<sup>30</sup>

The relevance of addressing inequalities becomes more evident in the face of the impacts caused by emergency situations that recurrently plague the region, such as natural disasters or the current COVID-19 health crisis. In this latest case, the insufficient investment in healthcare by most of the region's governments accentuates the structural vulnerability of societies that have very high levels of inequality and large pockets of poverty. Thus, with average public spending on health per capita of \$600 and 18 doctors per 10,000 inhabitants (compared to OECD countries, whose per capita spending is \$2,871 and which have 33 doctors per 10,000 inhabitants),<sup>31</sup> a crisis of this magnitude highlights the structural deficiencies in countries' provision of public services, regardless of their level of development. Furthermore, women are the most affected in crisis situations. In the case of COVID-19, the fact that they represent the majority of the population employed in the informal sector – which, in turn, represents the employment of 53% of the total population – puts them in an extremely vulnerable situation.

Moreover, there is a strong relationship between high levels of inequality, which is the result of a greater accumulation of power and resources by minority segments of the population, and these elites' capacity for political influence. These asymmetries of power make it possible to create, maintain or reinforce privileges by capturing certain public policies, such as tax policies,<sup>32</sup> that are essential for reducing inequality and achieving full development.

Inequality's political dimension is one of the main reasons that the region's citizens strongly distrust the system. As ECLAC affirms, the 2030 Agenda will not be achieved if there is no curb on the primacy of the interests of organized groups or those that concentrate capital and technology.<sup>33</sup> Which leads us to the second challenge: democratic quality.

## 2.2. The democratic challenge.

The second challenge, related to the **quality of democracy**, is clearly expressed in the widespread political disaffection and general mistrust in the political system and its institutions. Three decades after the third wave of democratization, a cycle of stability in Latin American governments has generalized the impression that this system of government is an intrinsic feature of modern LAC societies. However, in recent years the system has been increasingly questioned, with recent demonstrations and the explosion of social conflict in Chile or Ecuador being good evidence of this.

There are several points that illustrate this trend. The high levels of mistrust in the system and democracy in general are especially revealing: only 39.4% of the population in LAC is satisfied with the functioning of democracy,<sup>34</sup> while 79% of the population feels that the government works "for the benefit of a few powerful groups".<sup>35</sup> Also very illustrative is the fact that 27% of the population wants to migrate permanently.<sup>36</sup>

These data are based on two phenomena that are critical for the survival of democracy in the region:

- 1) political capture,<sup>37</sup> as we call it in Oxfam, and its impact on the effectiveness of the State and the discrediting of institutions;
- 2) the closure of democratic spaces, the reduction of rights and freedoms, and the reduction of space for civil society organisations: the flipside of the political capture coin.

The first phenomenon, political capture, is the result of the high concentration of power in a small number of hands, increasing the ability of these actors to impose their interests on political decisions and on the provision of public goods and services to the population. As noted above, the need for such provision increases as societies develop, and the LAC region is no stranger to this phenomenon. However, the prioritizing of private interests over those of the majority means the government provides an increasingly limited supply of public goods and services,<sup>38</sup> at the same time as this prioritizing skews the orientation of laws, regulations and policies to the detriment of the general interest. This explains the ineffectiveness of fiscal reforms to reduce inequalities in LAC, among many other things.<sup>39</sup>

Implementing the most appropriate policy is not a merely technical matter. Its viability depends on the correlation of forces that support or oppose it. It is therefore crucial to understand the asymmetries of power in decision-making and the not-always-visible phenomenon of political capture. At Oxfam, we insist on the significance of these factors based on an analysis of the elites and the power resources at their disposal, as well as their conditioning factors (institutional, contextual, historical) and the mechanisms (lobby, revolving doors, party financing, etc.) through which the capture and abusive influence of certain groups affects politics<sup>40</sup>

Dovetailing with this capture, the region has been affected by the closure of democratic spaces in different areas and at different levels. In recent years there has been an increase in the persecution and stigmatization of activists, leaders and social and environmental defenders, as well as regressions in the area of political rights and civil liberties, which especially affect women.<sup>41</sup> This situation is clearly reflected in the growing wave of violence against territorial and environmental defenders.<sup>42</sup> Worldwide, three out of every four defender murders occur in the Americas. The concentration and intensification of the extractive model, which fuelled the boom in raw material prices, has fuelled disputes and conflicts in the territory (it is estimated that they doubled from 2010 to 2016).

Legislative frameworks regulating the exercise of political rights and civil liberties have also suffered significant setbacks. According to CIVICUS, Latin America is where 35% of restrictive law approvals or reforms take place; laws that regulate everything from civil society activities and financing to protest, or impose greater restrictions on the use of the internet, or limit freedom of expression. All this leads to the fact that in the region only three countries can be considered an open space for civil society.<sup>43</sup>

Currently, we are experiencing a global closure of public space to contain the expansion of the COVID-19 pandemic. In LAC countries, as elsewhere, measures have been adopted aimed at confining and controlling the population. Some of these measures use digital tools that can help contain the spread and track population movements in an extraordinary time. However, it is necessary to ensure that the temporal scope of these measures is limited and periodically reviewed, preventing them from becoming mechanisms that harm democratic quality. Their perpetuation would represent a serious setback in citizens' exercise of freedoms.

## 2.3. The challenge of development governance.

### 2.3.1. The double edge of international insertion.

DiT analyses and proposals reinforce a vision in which development will be achieved, above all, based on the efforts and strategies implemented by LAC countries themselves. Despite partially sharing this approach at Oxfam, we cannot ignore the impact of international economic and political structures (such as trade agreements or international financial institutions) on these countries. These structures limit or expand the margin of public investment in certain sectors, various governments' actions to promote a change in the productive matrix, or the energy transition process within the framework of the 2030 agenda, among other things.

As the region advances along the graduation path, its international insertion and access to global financial markets increases. This process has been accelerating in the last 10-12 years. In LAC, the sources of development financing available have been greatly diversified, at the same time as their vulnerability to financial crises and market volatility has increased.<sup>44</sup> Thus, episodes of crisis such as the one caused by the current COVID-19 pandemic cause huge and sudden capital flight as well as currency collapses. Both of these situations greatly affect governments' ability to guide their policies in one direction or another.

The region's position as a centre for extraction and cheap labour within what is known as Global Value Chains greatly limits the possibility of **transforming the productive model**. The power of transnational corporations (TNCs) to determine which part of the chain corresponds to each region limits governments' ability to develop the domestic industrial fabric and empower local small and medium-sized enterprises. This has greater consequences when a sustainable transition agenda is promoted. TNCs also benefit from the laxity of the policies that different governments put into place to attract them (special economic zones, tax incentives and benefits, maquilas, ad-hoc labour regulations, etc.), all designed with the logic of generating jobs and increasing exports. Experience shows, however, that these jobs are mostly of low quality; the transfer of technology and learning for national economies is very limited. And these companies, their subcontractors or their suppliers have been involved in cases of human rights violations, for which they are barely held responsible.

One obstacle to development is the restriction on the access to and use of technology that TNCs impose through the intellectual property rights protected in Investment Agreements. If new technologies are identified as strategic elements for the region's productive transition, access to them must be open or, at least, favourable under certain conditions. This will favour not only their use, but also the training of human capital.

Finally, the **sovereign debt** issue puts great pressure on governments. The availability of abundant and relatively cheap debt has served as a lifeline for LAC, and it still has room to continue growing. Public debt has increased in recent years and, consequently, interest payments already represent 2.5% of GDP on average. Coping with debt maturity has put some countries under financial stress.<sup>45</sup>

New debt burdens future investments if it does not translate into investments with an impact on growth. Today's debt must be covered by tomorrow's taxes, and this is the reality surrounding the evolution of many LAC governments' public finances. The greater weight of debt payment limits the possibilities of increasing current spending and investment to provide public services, finance the 2030 Agenda, address natural disasters, or provide an effective response to the health, economic and social emergency linked to the global COVID-19 pandemic.<sup>46</sup>

In countries with societies that demand more and better public services, the possibility of having margins to increase public spending is crucial. The case of Argentina is paradigmatic in this sense: the government must urgently renegotiate its debt and, at the same time, it has a difficult commitment to maintain growing public investment that will help recover economic growth.

### 2.3.2. The opportunities and challenges of new development financing.

The importance of private capital in development financing has grown exponentially in recent years. Simultaneously, the development agenda has become more complex while countries have become more attractive to markets. Thus, between 2013 and 2017, foreign direct investment (FDI) accounted for around 51% of total financing in developing countries, with portfolio investment providing 24% and bank loans 12%.<sup>47</sup>

The central debate lies in the distinction between aid volumes and its nature, or impact. This issue must be clearly addressed in all discussions on the future of cooperation, since it is precisely in the MICs that practically all the private resources mobilised for development are concentrated.<sup>48</sup> In the case of LAC, there is a series of elements that favour the entry of private capital financing. This has made the region one of the most dependent on and attractive to private capital: regulatory frameworks that facilitate FDI, a pressing need for investment in infrastructure and other sectors, and its recent incorporation into the international financial system.<sup>49</sup>

The main problems with regard to private capital fall into two categories. First, the pro-cyclical nature of most investments and, second, investors' interest in certain sectors (especially infrastructure and banking), which is detrimental to others that are more strategic for development. The latter represents a greater challenge for the development of countries that have a very low domestic resource mobilisation capacity (23.1% of GDP on average in the region in 2018, compared to 34.3% in the OECD)<sup>50</sup> and where external financing is very important.

All this has brought about a structural change benefitting the mobilisation of private resources via development finance institutions (DFI) and development banks (DB). Different instruments are used to facilitate this investment, such as blending. The logic is to attract private resources that would not be allocated to development objectives if it were not for the use of public resources that serve as a "guarantee". These types of mechanisms are mostly concentrated in the MICs, mainly due to the DFIs' economic interest.<sup>51</sup> In the case of LAC, from 2009-2017 almost 33% of the EU cooperation allocated to the region (329 million euros) was channelled through this instrument.<sup>52</sup> The main facility for this purpose in the EU is the LAC Investment Facility (LAIF).

Although it is evident that a greater volume of resources must be mobilised and that private capital is essential, there is still little evidence regarding the impact of blending on poverty and development. However, there are indications of the risks associated with blending – and in general with various private resources – regarding the appropriation of development priorities, accountability, the real impact on recipient country economies, or their link with tax havens.<sup>53</sup>

Finally, it is worth mentioning that the debate on expanding the development financing perimeter in the MICs does not sufficiently address the financing of regional and global public goods. This is a central component of the 2030 Agenda and a decisive issue in the post-COVID-19 context. Greater leveraging of public resources will be required in order to achieve global financing of the fight against climate change, global public health or respect for human rights. Therefore, the need for an initiative in this regard is clearer than ever.

### 2.3.3. The need to position a knowledge- and learning-based cooperation agenda.

There remains a huge gap in the region that must be decisively addressed: the one involving the type of knowledge and capabilities that individuals, companies and institutions require to drive an agenda for sustainable economic transformation. It has already been more than a decade since different geo-economic changes made knowledge a decisive factor for achieving competitive advantages within the international system.

Knowledge's importance has continued to grow with the fourth industrial revolution, so it is essential for new development governance to prioritize this issue as a key component of structural change. Technical and scientific cooperation are going to be vital, since they appear as possible catalysts for much-needed transformations in the region.<sup>54</sup> But, again, there is a lack of mechanisms and institutions capable of generating and sharing knowledge more effectively among countries, offering solutions, models and proposals for emerging political challenges.

An analysis of knowledge must inevitably be addressed from a power standpoint. Who generates it? Who benefits? What goals and purposes does it serve? The answers to these questions are not so obvious, although they must be answered accurately so that the region can invest in strategic matters, those that truly accelerate the transformation of its economic and political model, democratizing access to knowledge.

The debate on knowledge transcends the considerations that demand greater investment in education, science and applied technology. Of course, the quality of public education and the investment in science and technology are basic pillars to drive a knowledge-based development agenda. However, the knowledge sub-agenda has to go much farther. At Oxfam we identify three areas with clear lags and limitations; areas that should be promoted based on revitalized regional development governance:

- **At the personal level:** it is essential to fight against the inequality in digital skills and internet access affecting the population (the digital divide), a situation that has been aggravated in a context of confinement such as that caused by the COVID-19 crisis. While many of the children who attend private schools, whose parents have higher incomes, have been able to keep up their classes through digital means, the poorest and most vulnerable have had to suspend their learning process.
- **At the company level:** advance a collaborative agenda between companies and other key development actors, aimed at sharing their experiences and learning, in key sectors that promote cooperation. A firm commitment by the private sector of the region's MICs to reduce their carbon footprint and their impact on inequality would make it possible to reassess companies as potential agents of sustainable development and not as vectors of inequality and cost outsourcing.
- **At the institutional level:** ensure that the profound changes brought about by the digital transformation and the revaluation of regional and global public goods benefit the majority of citizens, and not just a few favoured segments while others are left even farther behind. This requires innovative policies and new institutions. At the same time, there is also a regional trend to privatize social services, a process that is widening the knowledge access gaps among different segments of society. This must be urgently reviewed.

### 2.3.4. The ecosystem of actors.

**All the actors in the cooperation system share the responsibility** to generate the framework of incentives to effect the transformations needed to overcome the triple middle income challenge. With regard to public actors, bilateral and multilateral cooperation play a fundamental role in stimulating domestic resource mobilisation (DRM), including through fiscal reforms. These actors also play a role in strengthening institutional capacities, enabling institutions to go beyond designing good legislative frameworks and appropriate policies and make the leap to implementation. Technical cooperation, South-South cooperation and triangular cooperation have great potential in this area. As regards the private sector, possible initiatives and their limits were described in the previous section.

**Civil society also plays a fundamental role** in creating the necessary incentives and stimuli to promote the changes needed. First, because it contributes to launching and strengthening citizen empowerment processes, such as the campaign ***Cambiamos las Prioridades*** (*Let's Change Priorities*) in the Dominican Republic,<sup>55</sup> giving voice to the sectors

farthest removed from political decision-making. This makes the political process and interest agendas more inclusive, and incentives for change are generated in balance of power scenarios. Second, because it strengthens the culture of public surveillance, citizen oversight, transparency and social accountability. In El Salvador, the **AltavozES** citizen participation platform promotes public debate on development issues in the country.<sup>56</sup> Third, because it helps articulate a broader view of inequality and different situations, sometimes silenced in contexts where democratic spaces are closed. This is the case of the global campaign **#JuntassomosVictoria** on Women Defenders of Territory and the Environment in Colombia.<sup>57</sup> Finally, civil society contributes to the modification of social imaginaries and the generation of alternative narratives in the face of invisible hindrances that are more linked to the obstacles of informal institutionalism and social norms.<sup>58</sup> Such is the case of the **Enough** campaign on gender violence that is fighting against discriminatory social norms. In short, the participation of civil society is essential because to rebuild the social contract it is not enough to have voter democracies: citizen democracies are essential. Supporting civil society's capacities to generate agendas, organisation, response and political participation must become a priority for the region.



## 3. OXFAM INTERMON'S RECOMMENDATIONS.

The list below is a series of recommendations aimed at addressing the three MIC development challenges within the framework of DiT and the 2030 Agenda in LAC. They are aimed at opening spaces for dialogue among different actors on the mechanisms and instruments to be implemented in development cooperation with the countries of the region. These spaces for dialogue must be inclusive and incorporate the participation and voice of all actors.

### 3.1. The inequalities challenge.

The recommendations for combatting inequalities in LAC focus on the two points mentioned previously: the redistribution of wealth and a multidimensional approach.

- 1. Prioritize domestic resource mobilisation on the cooperation agenda, to promote reforms aimed at broadening the tax bases and making tax systems more effective, increasing progressivity.** Tax revenues are by far the main source of financing for the countries of the South. Collection should be increased based on the design of a progressive fiscal policy that favours direct taxes over indirect ones, expands the number of taxpayers and evaluates the cost-benefit of tax incentives. Only in this way will it be possible to bring the tax-to-GDP ratio closer to the OECD average, limiting the loss of resources through exemptions.
- 2. End tax evasion and avoidance through coordinated action by countries at the regional and global level, and strengthen consistency in fiscal policy design.** These phenomena represent a loss of almost 7% of the GDP in the region's tax revenues. In particular, harmful tax practices in donor countries, such as the EU, must be addressed by conducting an analysis of international tax policies' impact in developing countries.
- 3. Promote a multidimensional approach to inequalities in development cooperation.** In order to encourage innovation in public policies, a comprehensive approach to inequalities and intersectoral policies must be developed that recognises groups' differential treatment. Investment in areas lagging far behind, such as the care economy, could be fertile ground for this approach.
- 4. Implement suitable metrics for DiT and middle income traps, beyond the simplification of income and GDP.** These new indicators should provide a multidimensional vision and a perspective of *progression* rather than *graduation*. The global aid system must make use of the available data to adjust graduation indicators and make them more flexible, in order to reflect different societies' real level of economic, social and political development.
- 5. Do a pre- and post-analysis of donor development cooperation projects, incorporating a multidimensional inequality analysis and indicators.**

## 3.2. The democratic challenge.

At Oxfam, we suggest that the region's democratic challenge has two critical dimensions: the aforementioned phenomenon of political capture and the closure of democratic spaces. Addressing both dimensions means moving towards more inclusive and effective democracies, as well as equalizing the different actors' influence capacity. The recommendations to address this challenge are:

**6. Apply the analysis of political capture to the political-institutional reform proposals promoted by the international development community.** This will make it possible to quantify the social cost of political capture and to identify the main obstacles to the political viability of change and the map of relevant actors.

**7. Increase the aid allocated to support active citizenship and reinforce democratic safeguards.** For example, in areas such as the regulation of political financing, the strengthening of political control mechanisms – both horizontal and vertical –, the promotion of transparency, access to information and the fight against corruption. Support for independent civil society groups that can counterbalance political capture should be included.

**8. Promote triangular cooperation mechanisms among non-government actors to finance specific projects that facilitate cross-learning, learning laboratories and communities of practice in order to strengthen active citizenship.** These mechanisms should promote the exchange of experiences, knowledge, technologies and the political empowerment of the actors who participate in social movements, women's and feminist organisations, or youth organisations.

**9. Evaluate the impact of development cooperation policies, judicial and police cooperation, and the private sector in the evolution of the civic space situation.**

**10. Promote the participation of civil society in the planning, implementation and evaluation of programmatic instruments for development cooperation.** Such as, for example, budget support, SWAPS, etc.

**11. Implement a long-term support strategy to protect and strengthen civic space, which also has flexible financing mechanisms.** The protection of civic space must be proactive and not reactive, paying special attention to the most vulnerable groups and their rights. It is very important to reinforce and innovate protective measures, including those of a collective nature, particularly in relation to human rights defenders.

## 3.3. The challenge of development governance.

The acceleration of internationalization in the region, new trends and financing mechanisms for development, and the diversification of the map of actors opens up opportunities and challenges for the MICs' agenda. The recommendations to address this challenge are:

**12. Guarantee the centrality of ODA as the main lever to close gaps and for transformation processes in the region.** The international community's commitment to public development financing must be reaffirmed. The central focus of ODA must be public investment in key sectors to achieve the SDGs, prioritizing the reduction of inequality and the protection of regional and global public goods.

**13. Establish mechanisms for monitoring and follow-up of private capital flows for development in order to assess their impact on reducing gaps and their alignment with the SDGs.** It is necessary to have clearer rules on the role and actions of the private sector in development, to ensure that they complement public efforts but do not replace them. Greater transparency and more and better data are essential to evaluate their incremental nature and impact. This analysis and monitoring exercise must include the participation of civil society and the communities participating in the projects. In this regard, the pilot phase of the statistical framework should be used to monitor official resources and private financing mobilised in support of sustainable development (TOSSD). This way, it will be possible to analyse and better understand how public funds, which in turn leverage private resources, affect the different indicators.



**14. Prioritize and support DRM by adopting a specific approach for upper middle-income countries.** In these countries, aid for DRM projects should have the following objectives: 1) innovation, to facilitate South-South learning and its appropriation, as well as triangular knowledge and the participation of civil society; and 2) increasing domestic financing for public budgets that reduce inequality. For donors such as the EU, the commitment to double DRM support for 2020 and increase investment in DRM among members of the Addis Tax initiative must be maintained.

**15. Establish and strengthen regional coordination mechanisms in order to strengthen the resilience of countries and societies in the region** when faced with external shocks such as financial crises, debt crises, global threats, supply chain disruptions, digital blackouts or viral pandemics. These mechanisms must have the support of the international community to guarantee their effective implementation.

**16. Latin America and the Caribbean could lead a political alliance of Middle-Income Countries to open a global debate on these countries' situation and role in terms of economic and social cooperation.** Representing 75% of the world population and a third of global GDP, today more than ever it is necessary to prioritize the challenges they must address. Issues such as foreign debt management, environmental sustainability, digitalization or the concept of development itself mean that these debates must be addressed by putting the priorities of these countries and their citizens at the heart of the discussion. This political process requires the support of governments of advanced economies to open and create the spaces for discussion.

**17. Promote new development governance that guarantees greater representation of the DiT countries and overcomes the division between donor and recipient, opening spaces for the participation of civil society.**

<sup>1</sup> This document is an Oxfam Intermón policy brief on cooperation with middle-income countries, and the opportunities and challenges posed by the Development in Transition approach within the context of the 2030 agenda. The document focuses primarily on the implications for Oxfam's development agenda and vision in Latin America and the Caribbean, although its application may be more global in scope. With this document, Oxfam Intermón aims to contribute to the debate that has been generated within the international development cooperation community, with the leadership of the European Union, the OECD Development Center, ECLAC and the Development Banks.

<sup>2</sup> <https://www.cepal.org/es/comunicados/covid-19-tendra-graves-efectos-la-economia-mundial-impactara-paises-america-latina>.

<sup>3</sup> "Graduation" refers to the process in which a country advances from the low-income category toward that of middle income, until finally reaching the level of high income.

<sup>4</sup> In the case of Latin America and the Caribbean, the upper middle-income countries concentrate half of the region's poverty. See: <https://www.un.org/pga/73/event/development-cooperation-in-middle-income-countries/>.

<sup>5</sup> Poverty and extreme poverty data. See: ECLAC. (2019). *Panorama Social de América Latina 2019*. ECLAC: Santiago de Chile. <https://www.cepal.org/es/publicaciones/44969-panorama-social-america-latina-2019>.

<sup>6</sup> <http://hdr.undp.org/en/2019-MPI>.

<sup>7</sup> <http://www.oecdbetterlifeindex.org/es/>.

<sup>8</sup> <https://www.cepal.org/fr/node/35554>.

<sup>9</sup> <http://sticerd.lse.ac.uk/inequality/>.

<sup>10</sup> Lars Engen Lars Engen and Annalissa Prizzon. (2019). *Exit from aid. An analysis of country experiences*. London: Overseas Development Institute. <https://www.odi.org/publications/11298-exit-aid-analysis-country-experiences>.

<sup>11</sup> Bárcena. (April 2019).

<sup>12</sup> Data from the World Bank DataBank.

<sup>13</sup> OECD et al. (2019).

<sup>14</sup> Open Democracy. (Enero 2020). 2019: *Protests and disruptive changes in Latin America*. <https://www.opendemocracy.net/en/democraciaabierta/2019-movilizaciones-ciudadanas-y-cambios-disruptivos-en-am%C3%A9rica-latina-en/>.

<sup>15</sup> <https://www.cepal.org/es/comunicados/pandemia-covid-19-llevara-la-mayor-contraccion-la-actividadeconomica-la-historia-la>.

<sup>16</sup> <https://www.transparency.org/cpi2018>.

<sup>17</sup> Examples of this are the cases of Venezuela, where it is estimated that almost five million people have left the country, and the Central American countries, with almost 500,000 people who have been forced to leave their homes. See: <https://r4v.info/en/situations/platform>; <https://www.acnur.org/desplazamiento-en-centroamerica.html>.

<sup>18</sup> In this sense, it is noteworthy that the European Commission itself has enabled a DiT Facility to be included in the cooperation scheme with LAC.

<sup>19</sup> OCDE et al. (2019).

<sup>20</sup> Colombia has a GINI index of income inequality of 0.48. Despite having experienced a progressive reduction in this indicator, from a level of almost 0.53 in 2010, it remains the country with the second highest inequality in the region, after Brazil. See: Our World in Data. <https://ourworldindata.org/income-inequality>.

<sup>21</sup> On an income level. See: UNDESA. (2020). *World Social Report 2020. Inequality in a rapidly changing world*. <https://www.un.org/development/desa/dspd/world-social-report/2020-2.html>.

<sup>22</sup> According to Oxfam calculations, using CEPALStat 2017 data, in the region the poorest 20% of the population only has access to 6% of total income, while the richest 20% obtains 45%.

<sup>23</sup> Data from the World Bank DataBank based on the percentage of the population living on less than 5.5 dollars a day in 2015 in en base al porcentaje de población que en 2015 vive con menos de 5,5 dólares en 2011 Purchasing Power Parity. See: <https://databank.worldbank.org/data/reports.aspx?source=poverty-and-equity-database>.

<sup>24</sup> OXFAM calculation based on Credit Suisse data.

<sup>25</sup> Gerardo Esquivel Hernández. (2017). *Desigualdad extrema en México. Concentración del poder económico y político*. Oxfam Mexico. [https://www.oxfam-mexico.org/sites/default/files/desigualdadextrema\\_informe.pdf](https://www.oxfam-mexico.org/sites/default/files/desigualdadextrema_informe.pdf).

<sup>26</sup> Oxfam Brazil. (2017). *Inequalities in Brazil. The divide that unite us*. <https://oxfam.org.br/um-retrato-das-desigualdades-brasileiras/a-distancia-que-nos-une/>.

<sup>27</sup> See: OECD et al. (2020). *Estadísticas tributarias en América Latina y el Caribe 2020*. OECD Publishing: Paris. <https://doi.org/10.1787/68739b9b-en-es>.

<sup>28</sup> Oxfam. (2019). *Radiografía multidimensional de la desigualdad en Guatemala*. [https://www-cdn.oxfam.org/s3fs-public/file\\_attachments/entre\\_el\\_suelo\\_y\\_el\\_cielo\\_0.pdf](https://www-cdn.oxfam.org/s3fs-public/file_attachments/entre_el_suelo_y_el_cielo_0.pdf).

<sup>29</sup> Salary gap based on the same work and the same number of hours worked. See: Lucía Converti. (August 2018). *La desigualdad económica de género en América Latina*. CELAG. <https://www.celag.org/la-desigualdad-economica-de-genero-en-america-latina/>.

- <sup>30</sup> Damaris Ruiz and Anabel Garrido. (2018). *Breaking the Mould: Changing belief systems and gender norms to eliminate violence against women*. Oxfam International. <https://policy-practice.oxfam.org.uk/publications/breaking-the-mould-changing-belief-systems-and-gender-norms-to-eliminate-violence-620524>.
- <sup>31</sup> Author's calculations based on WHO data. See: <https://apps.who.int/nha/database/Select/Indicators/en>.
- <sup>32</sup> Rosa María Cañete. (2018). *Democracias capturadas: el gobierno de unos pocos*. Oxfam International. <https://www.oxfam.org/es/informes/democracias-capturadas-el-gobierno-de-unos-pocos>.
- <sup>33</sup> Alicia Bárcena. (2019a).
- <sup>34</sup> Elizabeth J. Zechmeister and Noam Lupu (eds.). (2019). *Pulse of Democracy*. Nashville: LAPOL.
- <sup>35</sup> This percentage has had an upward trend in the region since 2009 (61%). See: Latinobarómetro. (2018).
- <sup>36</sup> Neli Espiova, Anita Pugliese and Julie Ray. (2018). *More than 750 million worldwide would migrate if they could*. <https://news.gallup.com/poll/245255/750-million-worldwide-migrate.aspx>.
- <sup>37</sup> At Oxfam, we understand capture as the “exercise of abusive influence by (an) extractive elite(s) - in favor of their own interests and to the detriment of the general interest - over the cycle of public policies and organisations of the State (or others of regional or international scope) with potential effects on inequality and democracy”. Moreover, it is important to differentiate the phenomenon of capture from that of corruption. While the former has a more structural dimension and can happen legally or illegally, and without any payment associated with it, corruption is illegal and involves a monetary or in-kind payment. In this sense, at Oxfam we consider corruption as a possible mechanism that elites use to effect capture. To learn more, see: Hernán Cortés Saenz and Déborah Itriago. (2018). *The phenomenon of capture: unmasking power. Guide to the analysis of public policy capture and its effect on inequality*. Oxfam Intermón.
- <sup>38</sup> The percentage of GDP allocated to social spending in the region is 11.3%. In the OECD, on the other hand, it is 20%, and within the OECD Mexico and Chile are the two countries with the lowest spending. See: ECLAC. (2019). *Panorama Social de América Latina 2019*. <https://www.cepal.org/es/publicaciones/44969-panorama-social-america-latina-2019> ; OECD database: <https://data.oecd.org/socialexp/social-spending.htm>.
- <sup>39</sup> Several studies carried out show that fiscal policy in Latin America and the Caribbean is a missed opportunity to reduce inequality and poverty. According to ECLAC, in Organisation for Economic Cooperation and Development (OECD) countries mechanisms such as direct cash transfers, income tax and social security contributions reduce market revenues inequality by 36%, while in the region they only decrease it by 6%.
- <sup>40</sup> Cortés Saenz and Itriago. (2018).
- <sup>41</sup> <https://monitor.civicus.org/>.
- <sup>42</sup> See: Paula San Pedro. (2019). *Defensoras de derechos agrarios, territoriales y medioambientales en Colombia. Arriesgando la vida por la paz*. Oxfam International. <https://juntassomosvictoria.org/descargas/bp-colombia-women-environmental-defenders-021019-es.pdf>.
- <sup>43</sup> Only Uruguay, Costa Rica and Suriname have an open space for civil society. The rest, from the most open to closed, are divided up as follows: reduced (6 countries), obstructed (8 countries), repressed (5 countries) and closed (one country). See: CIVICUS Monitor Tracking Civic Space.
- <sup>44</sup> Yılmaz Akyüz. (2018). *Playing with fire*.
- <sup>45</sup> ECLAC. (2019). *Panorama fiscal de América Latina y el Caribe 2019. Políticas tributarias para la movilización de recursos en el marco de la agenda 2030 para el Desarrollo Sostenible*. Santiago de Chile: ECLAC.
- <sup>46</sup> ECLAC. (2017). *Estudio económico de América Latina y el Caribe 2017. La dinámica del ciclo económico actual y los desafíos de política para dinamizar la inversión y el crecimiento*. Santiago de Chile: ECLAC.
- <sup>47</sup> Inter-Agency Task Force on Financing for Development. (2019). *Financing for Sustainable Development Report 2019*. New York: UN.
- <sup>48</sup> Samantha Attridge and Lars Engen. (2019). *Blended finance in the poorest countries: the need for a better approach*. London: ODI.
- <sup>49</sup> Titelman and Pérez Caldentey. (n.d.). *Financiamiento para el desarrollo en América Latina y el Caribe. Un análisis estratégico desde la perspectiva de los países de ingresos medios*.
- <sup>50</sup> OECD et al. (2020).
- <sup>51</sup> Attridge and Engen. (2019).
- <sup>52</sup> European Commission. (2019). *Evaluation of the European Union's Regional Development Cooperation with Latin America (2009-2017)*. Final Report. Brussels.
- <sup>53</sup> Eurodad. (2018). *Blended finance and the water sector - four risks to consider*. Eurodad Briefing Paper. Brussels: Eurodad.
- <sup>54</sup> PNUD. (2019). *Human Development Report 2019. Beyond income, beyond averages, beyond today: inequalities in human development in the 21st century*.
- <sup>55</sup> The Oxfam and #CasaYa campaign asks the country's government to dedicate 1% of the GDP to the construction of decent, affordable housing. See: <https://www.oxfam.org/fr/node/10668>.
- <sup>56</sup> <https://altavozes.com.sv/>.
- <sup>57</sup> <https://juntassomosvictoria.org/>.
- <sup>58</sup> <https://www.sayenoughtoviolence.org/>.

## Oxfam Intermon Policy Brief.

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