# The Challenge of Promoting **Sustainable Enterprises** in **Latin America** and the **Caribbean**: a Regional Comparative Analysis


**International Labour Organization**
**Regional Office for Latin America and the Caribbean**
**Bureau for Employers' Activities ACT/EMP**


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# Foreword

In June 2007, the 96th Session of the International Labour Conference adopted a tripartite resolution which included conclusions concerning the promotion of sustainable enterprises. The report prepared by the International Labour Office for the general debate stated that the "T*he central role of the private sector, in all its forms, is increasingly recognized as key to development challenges including employment creation."*

The concept of "sustainable enterprise" is related to the general approach to sustainable development – forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs. It is an approach which postulates a holistic, balanced and integrated perspective on development. However, sustainable development is about more than just environmental issues; it requires the integration of all three pillars of development – economic, social and environmental.

Since 2007, the ILO has stressed that promoting sustainable enterprises is about strengthening institutions and governance systems that nurture enterprises — strong and efficient markets require strong and effective institutions – and ensuring that human, financial and natural resources are combined equitably and efficiently in order to bring about innovation and enhanced productivity, which fall short in the Americas.

This calls for new forms of cooperation between government, enterprises and society to ensure that the quality of present and future life (and employment) is optimized while ensuring environmental sustainability.

This vision of a conducive environment is important not only because it identifies the conditions under which enterprises can make a key contribution to social and economic development, but also because it demonstrates that decent work flourishes in an environment of sustainable enterprise, without which there is low productivity and informality associated with a lack of quality employment.

In the conclusions of the Seventeenth American Regional Meeting in December 2010, the tripartite delegations recognized that "*the areas calling for progress and in-depth review through more effective social dialogue include the following: the creation of new decent and productive work opportunities through the promotion and development of sustainable enterprises.*"

These conclusions, as well as those adopted during previous regional meetings, serve to guide the work of the ILO Regional Office for Latin America and the Caribbean, for which reason the issue of sustainable enterprises was included among the work priorities for the Americas during 2012-2013.

To this end, the ILO Regional Office for Latin America and the Caribbean and the Bureau of Employers' Activities (ACT/EMP) have joined forces to analyze current conditions for sustainable enterprise development in Latin America and the Caribbean based on the 17 pillars included in the conclusions adopted during the 2007 International Labour Conference. The goal of this study is to describe the situation of enterprise development in the region.

Ideally, this analysis will continue to contribute elements for the tripartite discussion on how to promote enterprise development in a way that reconciles the growth of enterprises with the objectives of sustainable development and the generation of productive employment and decent work.

As described in Chapter I of this document, the methodology used in this report proved quite a challenge. The limitations and weaknesses associated with some indicators, as well as the lack of fine-tuned analytical tools, raised concerns regarding the accuracy of the findings in some cases. We are convinced these problems can be overcome in future research in this field.

The research conducted seeks to determine the state of the conditions of an enabling environment for sustainable enterprises in Latin America and the Caribbean through a comparative analysis of these conditions with those of other geographic regions. To this end, a comparison was made with the high-income countries of the OECD in the period preceding the current crisis, given that at the time they had characteristics favourable for sustainable enterprise development and therefore can serve as a benchmark for this study.

This innovative exercise led to conclusions that allow for useful recommendations for improving the environment to make it more favourable for sustainable enterprise development. It also underscored the need for further analysis and improvement of available indicators. The objective is to stimulate reflection and discussion on the issue.

Tripartite participation in social dialogue is vital for the discussion of the promotion of sustainable enterprises and the generation of an environment more conducive to their development. Here at the ILO, we hope to continue to study the issue and to promote research that contributes to progress in this area in the countries.

The importance of enterprise as a key source of growth and employment can never be stressed enough. Economic growth is driven first and foremost by the creativity and hard work of entrepreneurs and workers.

We trust that the study presented here will be useful for governments, employers, workers and enterprises, as well as for individuals interested in addressing the multidimensional challenges of enterprise sustainability.

Elizabeth Tinoco
ADG and Regional Director
ILO Regional Office for Latin America and the Caribbean

Deborah France-Massin
Director, ILO Bureau for Employers' Activities

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The International Organization of Employers' (IOE) interest in this report deserves special mention, as do the enthusiasm and encouragement received from Antonio Peñalosa, former Secretary General of the IOE, and Daniel Funes de Rioja, Employers' Group spokesperson in the ILO and vice-president of the IOE.

Finally, we would like to express our gratitude to all other ILO colleagues who in one way or another contributed to the preparation and publication of this report.

# Note to Readers

In a globalized world, enterprises strive to be competitive because their survival depends on it. However, today it is practically impossible to be competitive without being sustainable and vice versa. In other words, the two concepts are mutually reinforcing in practice. There is growing awareness of key sustainability factors, as well as of the role of governments, private enterprises, and employers' and workers' organizations in generating appropriate conditions for promoting enterprise development and thereby favouring the crucial contribution of enterprise in the creation of decent, productive work.

In different sectors of productive activity, the private sector has played a key role in Latin America's recent phase of economic growth and social development, which basically began in 2004, and which this document examines. We are witnessing the revitalization of the role of enterprises in the region and of their importance in the region's economic and social development. As a share of GDP, the private sector contributed 60% and 15% to consumption and investment between 1995 and 2011, respectively. This revitalization occurred mainly because the region has enjoyed a period of peace and democratic stability, which in turn has contributed to ensuring the adoption of stable macroeconomic policies. Both of these are essential for enterprises to feel confident enough to make investments and begin operations.

Thus, thanks to sustained economic growth, the consolidation of a market economy and the generation of wealth that this context has brought about, the region recorded significant social progress, including low unemployment rates and a sharp decline in poverty and infant mortality. The significant increases in formal employment and coverage of social security, education and basic services also deserve mention. We can only imagine what the region could achieve if governments, in collaboration with social partners, adopted the key policy reforms needed to enable enterprises to develop their activities in a secure, sustainable manner.

Although the role of enterprise as an essential part of the social-economic apparatus of society has experienced positive change in the past decade, making it a key actor in efforts toward sustainable development, our region still has a long way to go. In Latin America, for example, figures from 2009 indicate that some 59 million production units generated more than 200 million jobs. Of these production units, 11 million are enterprises or companies with workers whereas the remainder (80%) are mainly one-person operations. The high incidence of the latter type of production unit in the economic profile of the region is frequently associated with high levels of informality and one of its main shortcomings: productivity. Both phenomena – high informality and low productivity – are key for understanding the challenges the region faces in terms of social cohesion and social and economic progress. Undoubtedly, the definition of successful policy measures in these areas would contribute to increasing average income, improving working conditions and promoting the competitiveness of the region's economies.

When the 2007 International Labour Conference adopted in a tripartite manner the "Conclusions concerning the promotion of sustainable enterprises," it created an opportunity for the ILO and its constituents to become actively involved in promoting an environment conducive to the creation and development of sustainable enterprises, ensuring the promotion of the three key dimensions of sustainable enterprises: social, economic and environmental.

The ILO believes that enterprise sustainability depends on 17 policy conditions that refer to the set of standards and institutions that influence enterprise activity. These range from areas traditionally considered in the sustainability approach – such as environmental factors – to others that involve an innovative focus on enterprise sustainability –such as the political stability of the countries, respect for property rights, the fundamental principles and rights at work, good governance, social dialogue and social protection, to name just a few. This broader vision of the ILO with respect to the enterprise environment is also important because it identifies the conditions under which enterprises can make a key contribution to social and economic development, and demonstrates that decent work flourishes in an environment of sustainable enterprise, without which low productivity and informality would result in a lack of quality employment, as mentioned above.

Based on this approach, this document recognizes that to achieve an effective, lasting promotion of sustainable enterprises in Latin America and the Caribbean, it is essential to strengthen and/or reform the institutions and governance systems that foster enterprise creation. A strong, dynamic and efficient market needs solid, transparent institutions. It is equally important to guarantee an equitable, efficient combination of human, financial and natural resources in a framework of appropriate macroeconomic, educational, infrastructure and social protection policies. These enable enterprises to achieve the required innovation and to make productivity gains, which are so necessary for advancing toward increased social cohesion in the framework of the decent work agenda. From this perspective, creating decent and productive work in the region requires a supportive, enabling environment for sustainable enterprises. Freeing up the potential of thousands of small and medium-sized enterprises, and in general of the low-productivity informal sectors, which are very much a part of the region's economic reality, to transform them into actors that generate wealth and productive efficiency, demands an agenda to identify the necessary reforms in the policies, structures and institutions that regulate the enterprise environment. Consolidating and expanding the important advances achieved in this period of sustained growth with employment is crucial for addressing the region's major economic and social challenges.

The ILO Regional Office for Latin America and the Caribbean and the ILO Bureau for Employers' Activities have joined forces to evaluate the key challenges in Latin America today for the promotion of sustainable enterprises and to identify policy areas in which the region lags behind, and that may eventually become obstacles for enterprise development and the creation of productive employment.

We hope that this report contributes to the discussion of this issue and that the conclusions and recommendations we offer lead to actions that promote new and lasting forms of cooperation between governments, enterprises and social partners, with a view to promoting a better quality of life and employment, with favourable regulatory and institutions environments to ensure that enterprises can play their key role as an engine of growth and development. This is where the ILO plays an important role given its close contact with the protagonists of the world of work.

Deborah France-Massin
Director
ILO Bureau of Employers' Activities
ACT/EMP

# Contents

# Executive Summary

This study takes stock of the situation of the promotion of sustainable enterprises in Latin America and the Caribbean (LAC) in the past decade. To this end, it uses the concept of sustainable enterprise promotion as defined by the ILO in 2007. The study consists of a comparative analysis between LAC countries and the high-income countries of the OECD (HIC-OECD). A series of indicators associated with sustainable enterprise environment were evaluated, which allowed for a quantitative and qualitative analysis of the main issues concerning the economic, social, political-institutional and environmental contexts.

From 2000 to 2010, LAC experienced a period of significant economic growth, macroeconomic stability and poverty reduction, along with slight improvements in employment and social protection indicators. When this report was completed in late 2012, economic forecasts for the coming decade continued to show positive trends for LAC, even though estimates were adjusted downwards in the context of the global crisis.

The LAC context of social progress and economic growth has contributed to the creation of a supportive environment for the development of sustainable enterprises. Sustainable enterprises with medium- and long-term objectives and perspectives require a growing economy but at the same time need structural issues to be resolved given the region’s disadvantages in this area compared with other parts of the world. The concept of "sustainable enterprise" is related to the general approach of sustainable development – forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs – an approach which postulates a holistic, balanced and integrated perspective and that differs from the enterprise development approach per se, which views enterprises in terms of linear input–output relationships centred solely on maximizing short-term economic value.

Sustainable development requires the integration of key elements of development: economic growth, social progress, the institutional system and environmental aspects. The analysis of these dimensions revealed that LAC still has enormous gaps with respect to more advanced countries. These gaps can be addressed through specific policies and interventions.

With respect to basic conditions associated with the *economic context*, LAC has made considerable strides in specific aspects in comparison with the HIC-OECD. Nevertheless, LAC countries have major deficits, especially in terms of information technology, access to financial services, regulation and infrastructure, which largely determine the differences in productivity and living standards between the regions. Enterprises become economically sustainable not only by ensuring a favourable short-term context, but especially by stimulating the development of factors that promote their competitiveness in the long term.

In terms of basic conditions associated with the *social context*, LAC has sharply reduced poverty rates and has outperformed the HIC-OECD in terms of entrepreneurship potential. Most entrepreneurs are created as a result of the lack of other opportunities, which is undoubtedly related to the fact that the region continues to be the most unequal in the world and that high levels of social exclusion persist. This is reflected in phenomena such as the high percentage of workers employed in the informal sector, where social protection regimes are difficult to implement and vulnerability is more evident.

With regard to basic conditions of the *political/institutional context*, noteworthy advances include the prevailing tendency toward democratic political stability in the region and the ratification of the main human rights agreements of the United Nations, as well as the ILO’s fundamental conventions on labour rights. Nevertheless, the high levels of corruption, citizen insecurity and violence threaten enterprise sustainability. Moreover, although social dialogue channels have increased, which is clearly a positive development that reflects the willingness of constituents to jointly address issues concerning labour relations, strengthening these spaces and the participants in social dialogue is a pending challenge.

Finally, responsible environmental management faces the major challenge of LAC’s dependence on its natural resources, which makes the region highly vulnerable to the impact of climate change and natural disasters. Other environmental challenges facing the region include extensive deforestation, the loss of land and water biodiversity, inadequate waste management, and water and air pollution in the cities.

In summary, the LAC context in the past decade reveals improved conditions for enterprise development, a process to which the private sector has contributed. Nevertheless, the future development of sustainable enterprises in the region will depend on efforts to address the enormous deficits in key areas such as competitiveness and the social, political-institutional and environmental gaps persisting in the region. In general, LAC has made significant progress in attaining levels of intermediate development with social-economic growth; nevertheless, if faces the risk of becoming accustomed to what has been achieved. In a globalized context, this risk can rapidly lead to a loss of the achievements attained. To address this and other challenges, LAC needs more strategic policies to support the productive transformation of the region's economies within a framework of comprehensive policies for growth, productive transformation and sustainable enterprise promotion.

# Introduction

The term "sustainable enterprise" resulted from the development of the concept of decent work. In 2004, the International Organization of Employers (IOE), in light of the debates on job creation and decent work, requested that the ILO ask the Governing Body to include the definition of the framework and parameters necessary for the creation and consolidated development of enterprises on the agenda of the International Labour Conference (ILC). Under these conditions, enterprises could openly contribute to the creation of decent, productive work.

In 2007, the ILO International Labour Conference adopted a resolution which concludes that the development of sustainable enterprises covers a variety of areas, whose relative importance may vary in terms of different stages of development and different contexts, but that some essential conditions exist. Specifically, it listed 17 pillars: peace and political stability; good governance; social dialogue; respect for universal human rights; entrepreneurial culture; sound and stable macroeconomic policy; trade and sustainable economic integration; enabling legal and regulatory environment; rule of law and secure property rights; fair competition; access to financial services; physical infrastructure; information and communications technology; education, training and lifelong learning; social justice and social inclusion; adequate social protection; and responsible stewardship of the environment.

This report takes stock of the situation of these 17 pillars in Latin America and the Caribbean (LAC), using available information to develop specific operational indicators for them. As a point of reference, results of these indicators were compared with those of high-income OECD countries (HIC-OECD) in the years prior to the global economic crisis.

The study found that economic growth in LAC during the decade has helped create an environment conducive to the development of sustainable enterprises. Nevertheless, there are structural pillars where the region has a clear disadvantage with respect to the HIC-OECD. These gaps are significant in the four contexts–economic, social, political-institutional and environmental – especially in areas that affect the competitiveness of enterprises (technology, informality, infrastructure, etc.), but also in social, institutional and governance areas, which have an impact on their long-term sustainability. To ensure the sustainable, long-term development of these enterprises, these deficits must be reduced, mainly through public policies.

This document has six chapters in addition to the introduction. The first chapter describes the concept of sustainable enterprises and details the methodology used. The second chapter evaluates LAC's economic, labour and social performance during the period 2000- 2010. Chapters 3, 4, 5 and 6 analyze the economic, social, institutional and environmental contexts, respectively. Finally, the report contains a brief section with conclusions and recommendations for action.

# Chapter 1: Promotion of Sustainable Enterprises and Research Methodology

This study analyzed the promotion of sustainable enterprises, with an emphasis on the analysis of conditions conducive to their development. With a view to defining the key aspects of those concepts and the analytical base of the study, this chapter addresses the following topics:

1.1 Promotion of sustainable enterprises;
1.2 Enabling environment for the development of sustainable enterprises; and
1.3 Research methodology used to analyze these topics in LAC.

The 2007 ILO International Labour Conference (ILC) addressed these issues and adopted a resolution[1] containing the conclusions concerning the promotion of sustainable enterprises. The sources of the concepts defined below include that resolution and Report VI[2], which served as the discussion paper for the 2007 ILC and which offers a comprehensive analysis of the subject.

## 1.1 Promotion of sustainable enterprises[3]

The promotion of sustainable enterprises is a broad, wide-ranging subject, not least because enterprises take many forms, not just in terms of size, sector and spatial dimensions but also in terms of how an enterprise is managed and governed and its legal status and operational objectives. All enterprises are part of society; they shape and are shaped by the communities in which they operate.

Promoting sustainable enterprises is about strengthening the institutions and governance systems which nurture enterprises – strong and efficient markets need strong and effective institutions – and ensuring that human, financial and natural resources are combined equitably and efficiently in order to bring about innovation and enhanced productivity. This calls for new forms of cooperation between government, business and society to ensure that the quality of present and future life (and employment) is optimized while ensuring environmental sustainability.

Enterprise is the principal source of growth and employment, since economic growth is fuelled, first and foremost, by the creativity and hard work of entrepreneurs and workers. Driven by the quest for profits, enterprises innovate, invest and generate employment and wage income.

Given that their main function is to supply market demand, enterprises compete with each other to provide the goods and services people need, which is helpful for society. To be able to fulfill their function, enterprises need to be sustainable. In other words, to be viable, profitable, capable of existing and developing over time, to be led and organized by individuals with business and management training, to conduct their activities efficiently and effectively, and to reconcile their development with sustainable development objectives. When they are sustainable, enterprises become an important tool for achieving decent work, sustainable development and innovation, which ultimately improve standards of living and social conditions.

Enterprises need to ensure that their core business activities continue to add value and are undertaken efficiently and effectively. Enterprises also need a supportive enabling environment characterized by, among other things, the existence of open, rule-based, predictable and non-discriminatory markets and a non-corrupt and well-governed economy. Enterprises benefit from operating in value chains characterized by high-quality industries, with prosperous consumers and investors. Enterprises also benefit from enterprise-level, sectoral and national mechanisms for effective social dialogue.

A distinction is made between enterprise development per se and the development of sustainable enterprises. The concept of "sustainable enterprise" is related to the general approach to sustainable development – forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs – an approach which postulates a holistic, balanced and integrated perspective on development. However, sustainable development is about more than just environmental issues; it requires the integration of all three pillars of development – economic, social and environmental.

The social dimension of sustainable development typically includes "a commitment to promote social integration by fostering societies that are stable, safe and just and which are based on the promotion and protection of all human rights and on non-discrimination, tolerance, respect for diversity, equality of opportunity, security and participation of all people including the disadvantaged and vulnerable groups and persons."[4] A central tenet of the social pillar of sustainable development is, of course, the generation of secure livelihoods through freely chosen productive employment. Sustainable development is therefore a framework for the general global dialogue on growth and development, but also for the more specific discussion on enterprise development and, within that, it provides a sound framework for the debate on regulation and voluntary action in the sphere of business.

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[1] See http://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_093970.pdf

[2] See http://www.ilo.org/public/english/standards/relm/ilc/ilc96/

[3] This section is based on ILO (2007a). *Report VI: Promotion of sustainable enterprises*. Geneva, Switzerland: ILO, pp. v-viii).

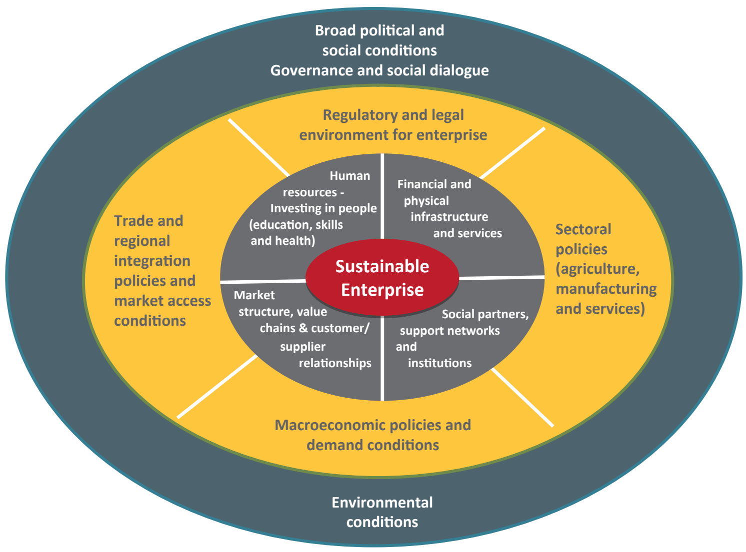
[4] *The Copenhagen consensus – a summary of principle commitments of the World Summit for Social Development, Copenhagen, 1995, Commitment 4.* (Footnote of the original: ILO (2007a). Report VI: The promotion of sustainable enterprises. Geneva, Switzerland: ILO, p. vi).

[5] Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica,

Thus, in contrast to narrowly defined, traditional perspectives which depict enterprises in terms of linear input–output relationships centred solely on maximizing short-term economic value, an integrated approach to sustainable enterprise development takes a more holistic and long-term view. Figure 1 illustrates the distinction between three overlapping and interdependent operational and policy spheres (micro, macro and meta levels). At the centre are the sustainable enterprises, which comprise a number of different actors, including shareholders, employers, workers and customers, as well as relationships with suppliers, governments and the broader community.

## FIGURE 1

### Sustainable Enterprises and Outside Influences




**Source:** ILO. *Report VI: Promotion of sustainable enterprises.* Geneva, Switzerland: ILO. International Labour Conference, 96th Session, Geneva, Switzerland.

The integrated approach to sustainable enterprise development can be presented as follows:

The micro level refers substantively to what goes on within the enterprise or its immediate environment (the management of human and financial resources and use of physical resources like energy, transport and communications systems) and to the direct interface between enterprises and their customers and suppliers. It also refers to workplace organization, to support networks and institutions and, within this, to the role that social dialogue and social partners play in fostering sustainable enterprises. Thus, at the micro level, it is necessary to consider the sustainability of an enterprise in terms of the structure of the sector or market in which it operates and, in particular, its relationship with suppliers and customers along the value chain.

At the macro level, there are a set of policy areas which directly define the competitive and enabling environment and determine the sustainability and growth potential of enterprises. These policy areas are: macroeconomic policies (fiscal, monetary and exchange rate), particularly those affecting demand conditions; specific policies at the sectoral level – agriculture, manufacturing and services – as well as geographical or regional enterprise development policies, investment promotion and industrial policies; trade and regional integration and market access policies; and the specific regulatory and legal environment for doing business.

At the meta level are the broad political, economic, social and environmental conditions which determine, among other things, the quality of institutions and governance in a society. Included here are a range of factors which might not be specific to enterprise but which effectively influence broader private sector development and general societal outcomes such as stability, inclusivity and the challenges posed by issues like inequality and corruption. The sustainable stewardship of the natural environment is also covered at this level, as are governance issues and the role that social dialogue can play in fostering the conditions for sustainable enterprises.

The rise of globalization and the expanding and deepening role of the private sector in the domestic economy have given rise to new challenges and opportunities. Globalization has compounded the economic, social and environmental challenges facing enterprises. These changes have led to a new, evolving relationship between enterprises and development.

There is a symbiotic relationship between enterprise and development – enterprises thrive when society thrives – and the private sector has a vital role in helping countries to achieve the Millennium Development Goals (MDGs), such as the main goal of reducing by half the number of people who live below the extreme poverty line (on less than $1.25 per day in the United States). Furthermore, MDG 8 specifies that a global partnership for development, including cooperation with the private sector, should underpin international efforts. This makes creating the right conditions for profitable and sustainable enterprise development and private investment a high priority in development policy and for the Decent Work Agenda.

Sustainable enterprises require policies that support their development, such as strengthening of the rule of law, institutions and governance systems, ensuring that human, financial and natural resources are combined equitably to bring about sustainable innovation and enhanced productivity, as well as addressing other needs for enterprise development. This means that sustainable enterprises need an environment that attracts investment; business initiative; and the creation, growth and maintenance of enterprises, reconciling the needs and interests of the enterprise with the aspirations of society to follow a growth model that respects the values and principles of decent work, human dignity and environmental sustainability.

## 1.2 Enabling environment for the development of sustainable enterprises

A supportive environment for sustainable enterprises covers a broad range of factors whose relative importance varies in different stages of development and in distinct cultural and socio-economic contexts. Some basic conditions, which are inter-related, mutually reinforcing and considered essential, include the following:

1) **Peace and political stability.** Peace and political stability are basic preconditions to nurture the formation and growth of sustainable enterprises, while war and civil conflict are major deterrents to investment and private sector development.
2) **Good governance.** Democratic political institutions, transparent and accountable public and private entities, effective anti-corruption measures, and responsible corporate governance are key conditions for making market economies and enterprises perform in superior ways and to be more responsive to the values and long-term goals of society.
3) **Social dialogue.** Social dialogue which is based on freedom of association and the right to collective bargaining, including through institutional and regulatory frameworks, is essential for achieving effective, equitable, and mutually beneficial outcomes for governments, employers, workers and society at large.
4) **Respect for universal human rights and international labour standards.** Competitiveness should be built on values. Respect for human rights and international labour standards, especially freedom of association and collective bargaining, the abolition of child labour, forced labour, and all forms of discrimination, is a distinctive feature of societies that have successfully integrated sustainability and decent work.
5) **Entrepreneurial culture.** Governmental and societal recognition of the key role of enterprises in development and strong support, both public and private, towards entrepreneurship, innovation, creativity and the concept of mentorship, particularly for start-ups, small enterprises and targeted groups such as women and youth, are important determinants of a conducive business environment. Respect for workers' rights should be embedded in programmes targeting entrepreneurial culture.
6) **Sound and stable macroeconomic policy and good management of the economy:** Monetary, fiscal, and exchange rate policies should guarantee stable and predictable economic conditions. Sound economic management should balance the twin objectives of creating more and better jobs while combating inflation and provide for policies and regulations that stimulate long-term productive investment. Attention should also be given to increasing aggregate demand as a source of economic growth contingent on national conditions. In the case of developing and least developed countries, achieving sound macroeconomic conditions usually requires the decisive support of the international community through debt relief and official development assistance.

7) **Trade and sustainable economic integration:** The varying development levels of countries must be taken into account when lifting barriers to domestic and foreign markets. Efficiency gains caused by trade integration can lead to positive employment effects either in terms of quantity or quality of jobs, or through a combination of both. However, as trade integration can also lead to job dislocation, increased informality, and growing income inequality, measures must be taken by governments in consultation with the social partners, to better assess and address the employment and decent work impact of trade policies. Actions are also needed at regional and multilateral levels to remove trade distortions and to assist developing countries towards building their capacity to export value-added products, manage change and develop a competitive industrial base.

8) **Enabling legal and regulatory environment:** Poorly-designed regulations and unnecessary bureaucratic burdens on businesses limit enterprise start-ups and the ongoing operations of existing companies, as well as leading to informality, corruption, and efficiency costs. Well-designed, transparent, accountable and well-communicated regulations, including those that uphold labour and environmental standards, are good for markets and society, as they facilitate formalization and boost systemic competitiveness. Regulatory reform and the removal of business constraints should not undermine such standards.

9) **Rule of law and secure property rights:** A formal and effective legal system which guarantees all citizens and enterprises that contracts are honoured and upheld, the rule of law is respected, and that property rights are secure, is a key condition not only for attracting investment, but also for generating certainty, and nurturing trust and fairness in society; property is more than simple ownership. Extending property rights can be a tool for empowerment and can facilitate access to credit and capital. They also entail the obligation to comply with the rules and regulations established by society.

10) **Fair competition:** It is necessary to establish, for the private sector, competition rules that include universal respect for labour and social standards, and to eliminate anti-competitive practices at the national level.

11) **Access to financial services:** A well-functioning financial system provides the lubricant for a growing and dynamic private sector. Making it easier for small and medium-sized enterprises (SMEs), including cooperatives and start-ups, to access financing such as credit, leasing, venture capital funds, or similar or new types of instruments, creates appropriate conditions for a more inclusive process of enterprise development. Financial institutions, particularly multilateral and international ones, should be encouraged to include decent work in their lending practices.

12) **Physical infrastructure:** Enterprise sustainability and human development critically depend on the quality and quantity of the physical infrastructure available, such as physical facilities for enterprises, transportation systems, schools, and hospitals. Reliable and affordable access to water and energy also remains a major challenge, especially in developing countries. Enterprises are also particularly assisted by local access to supporting industries such as service providers, and machinery suppliers and producers.

13) **Information and communication technologies:** Expanding access to information and communication technologies (ICTs) is another crucial challenge in the era of the knowledge economy. The use of ICTs is, therefore, fundamental to the development of sustainable enterprises and must be fully utilized in this regard. Affordable broad band technology is also of extreme importance to countries and enterprises, and should be facilitated.

14) **Education, training and lifelong learning:** Human talent is the single most important productive factor in today's economy. Focusing on the development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training, and lifelong learning is important for helping workers to find good jobs and for enterprises to find the skilled workers they need. Financial support should also be made available to enhance access of poor workers to training and for skills upgrading. In this way, society can achieve the twin goals of economic success and social progress.

15) **Social justice and social inclusion:** Inequality and discrimination are incompatible with sustainable enterprise development. Explicit policies for social justice, social inclusion, and equality of opportunities for employment are needed. Effective exercise of the right to organize and bargain collectively is also an effective means to ensure a fair distribution of productivity gains and an adequate remuneration of workers.

16) **Adequate social protection:** Sustainable tax-based, or other national models of universal social security that provide citizens with access to key services, such as quality health care, unemployment benefits, maternity protection,

and a basic pension, are key to improving productivity and fostering transitions to the formal economy. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development.

17) **Responsible stewardship of the environment:** In the absence of appropriate regulations and incentives, markets can lead to undesirable environmental outcomes. Tax incentives and regulations, including public procurement procedures, should be used to promote consumption and production patterns that are compatible with the requirements of sustainable development. Private market-based solutions, such as the use of environmental criteria in assessing credit risk or investment performance, are also effective means to tackle this challenge.

These 17 pillars can be grouped into four contexts, as shown in Table 1.

**TABLE 1**

**THE 17 PILLARS, GROUPED BY CONTEXT**

| Economic Context | Political / institutional Context | Social Context | Environmental Context |
|---|---|---|---|
| - Sound and stable macroeconomic policy and good management of the economy<br>- Trade and sustainable economic integration<br>- Enabling legal and regulatory environment<br>- Rule of law and secure property rights<br>- Fair competition<br>- Access to financial services<br>- Physical infrastructure<br>- Information and communication technologies | - Peace and political stability<br>- Good governance<br>- Social dialogue<br>- Respect for universal human rights and international labour standards | - Entrepreneurial culture<br>- Education, training and lifelong learning<br>- Social justice and social inclusion<br>- Adequate social protection | - Responsible stewardship of the environment |

These four contexts are examined in the main chapters (Chapters 3 through 6) of this report. The 17 pillars serve as a frame of reference for the analysis of the sustainable enterprise environment in LAC, using the methodology described below.

## 1.3 Methodological considerations for the quantitative analysis

### Regional analysis

This study is a regional analysis focusing on the countries of Latin America and the Caribbean (LAC).[5] In an effort to construct a base for comparison with another region and to establish a benchmark, the group of High-income Countries of the OECD (HIC-OECD) was chosen.[6] The periods selected for analysis of the two regions were as follows: (i) for LAC, available information from the most recent years; (ii) for the OECD, the years before 2009 (pre-crisis period) as the most representative for comparison purposes. In both cases, the available information corresponds mainly to the pre-2009 period, with a few exceptions.[7]

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the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela (Bolivarian Republic of).

[6] High-income countries of the OECD (HIC-OECD) in 2009: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Holland, Hungry, Iceland, Ireland, Italy, Japan, Luxembourg, New Zealand, Norway, Portugal, Slovakia, South Korea, Spain, Sweden, Switzerland, the United Kingdom and the United States.

[7] For example, for the OECD, 2010 data were used for some indicators, such as access to basic services and electricity access. Data on the literacy rate of the population over age 15, life expectancy at birth and health coverage correspond to 2009. For LAC countries, access to water and sanitation services and infant mortality data are for 2010 whereas the information on access to electricity, life expectancy at birth and health coverage are for 2009 in most cases.

[8] The 17 indicators were developed based on a series of indicators

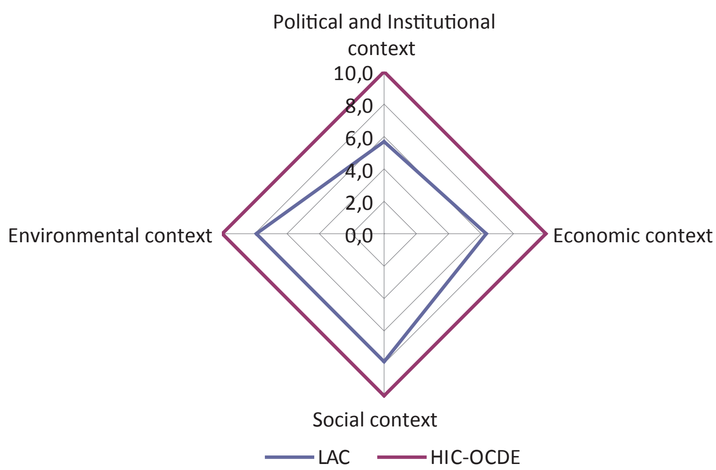
### Quantitative analysis

Specific quantitative indicators were developed to conduct this study.[8] These enabled an empirical approach for each of the 17 pillars mentioned above.[9] The values of the 17 indicators were calculated individually for each country and the data were subsequently aggregated and a simple average was taken to obtain aggregate values for the two regions. Simple averages were then rescaled, standardizing the indexes to enable their numeric comparison. With a view to identifying gaps with respect to LAC countries,[10] data from the HIC-OECD were used as a base, which equaled 10 in all cases. The processed information was then used to prepare radial graphs that identified the relative gaps between LAC countries and the HIC-OECD for most of the 17 pillars.

Thus, for example, Figure 2 illustrates the differences in the aggregate level of each of the contexts analyzed in this document. Chapters 3, 4, 5 and 6 provide information on the pillars mentioned in each of these contexts.

## FIGURE 2

**LAC countries and the HIC OECD: economic, social, political, institutional and environmental contexts**




**Source:** ILO.

### Study limitations

The proposed quantitative approach provides only a pragmatic, imperfect approximation for measuring and comparing the values of the 17 indicators between the two regions (LAC and HIC-OECD). The usefulness of this approach lies in its capacity to produce quantitative values that can be compared. Despite this benefit, the method presents some important limitations and disadvantages, including the following:

- Information was unavailable for some countries for some indicators used to calculate compound indexes. Nevertheless, data were available for the indicators for a large group of countries, which enabled regional averages to be calculated. This report specifies the instances where the average is calculated with information for a smaller number of countries.
- Some indicators were not included in the calculation of their respective 17 pillars because they are only qualitative. These cases were included for descriptive purposes only or as support material for interpreting the results.
- There are a set of indicators whose absolute value does not necessarily indicate a better or worse position. Strictly speaking, it would

from secondary sources. These indicators are listed at the end of this chapter.

[9] Data were processed using the methodology described in Rausch A. and R. Carrasco (2008). "Entorno sostenible y desarrollo de enterprises sostenibles en América Latina y el Caribe."

[10] Values were calculated simply by applying the rule of three. The scale was constructed with the 'more is better' methodological principle, irrespective of the values of the indicators used for the calculation. To obtain the value of each of the 17 conditions, the rescaled values of their indicators were averaged. In this way, all the data presented in graphic form are in the same units. Final values of the indicators for each pillar for LAC and the HIC-OECD are listed in the annex.

[11] ILO (2012c). *Global Employment Trends*. Geneva, Switzerland: ILO.

be correct to calculate an optimal value of the ratio and consider a deviation in any direction as negative. However, given that the optimal value is not evident for every country of the region, the researchers opted to exclude them from the calculation of indexes by pillar, although they are reported in the text as part of the analysis.

- Likewise, the indicators starting a business and paying taxes (in the regulatory environment pillar) were calculated based on World Bank data. In the original database of that institution, the indicator starting a business is composed of the index of required procedures (number), time to complete them (calendar days), cost (percentage of per capita income) and minimum capital paid (as a percentage of per capita income). With respect to paying taxes, the World Bank takes into account the number of payments per year, the time needed to make the payment and the tax rate. For this analysis, the minimum capital paid was excluded from the indicator starting a business whereas for the second indicator the tax payable was not included.
- The result of the public sector and tariff dispersion indicators were excluded from the quantitative analysis. However, these data were considered in the qualitative analysis in the corresponding chapter.
- The calculation of simple regional averages is a synthesis, an aggregate, which provides an overview of regional conditions.

These and other limitations should be taken into account when interpreting the results. The values produced represent analytical approximations with respect to these highly complex issues, for which reason they require a more in-depth analysis. Therefore, this study should be taken as an overview of the region that does not identify profound differences or individual characteristics of the countries.

### Complementary literature review

To complement and strengthen the study, researchers reviewed other important documents prepared by different institutions and authors on the respective issues (Table 2). Thus, this quantitative analysis is complemented by findings from other studies in an effort to provide a more comprehensive view of the issue.

## TABLE 2

## LIST OF 17 INDIVIDUAL INDEXES USED TO CALCULATE THE SINGLE INDICATORS OF THE 17 CONDITIONS

| 17 Conditions | Individual indexes used to obtain single indicators for each of the 17 conditions (source) |
|---|---|
| Peace and political stability | Political stability and lack of violence (World Bank - WB)<br>Freedom of the press (Freedom House) |
| Good governance | Budget transparency (Fundar)<br>Participation and accountability (WB)<br>Government effectiveness (WB)<br>Perception of corruption (Transparency International) |
| Social dialogue | Rate of trade union density (ILO)<br>Rate of collective bargaining coverage (ILO)<br>Workers involved in strikes and lockouts as a share of the workforce (per 1,000) (ILO) |
| Respect for universal human rights and international labour standards | *Adherence to human rights agreements:*<br>Convention on the Prevention and Punishment of the Crime of Genocide (UN)<br>International Convention on the Elimination of all Forms of Racial Discrimination (UN)<br>International Covenant on Economic, Social and Cultural Rights (UN)<br>Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (UN)<br><br>*Adherence to fundamental labour conventions:*<br>Freedom of Association and Protection of the Right to Organize Convention (ILO)<br>Right to Organize and Collective Bargaining Convention (ILO)<br>Equal Remuneration Convention (ILO)<br>Abolition of Forced Labour Convention (ILO)<br>Discrimination (Employment and Occupation) Convention (ILO)<br>Minimum Age Convention (ILO)<br>Worst Forms of Child Labour Convention (ILO)<br>Child Labour (percentage of the employed population aged 5-17 years) (ILO) |

| 17 Conditions | Individual indexes used to obtain single indicators for each of the 17 conditions (source) |
|---|---|
| Sound and stable macroeconomic policy and good management of the economy | GDP per capita growth (IMF)<br>Rate of average growth of the Consumer Price Index (IMF)<br>Current account surplus as a percentage of GDP (ECLAC)<br>Rate of total investment (as a percentage of GDP) (WB)<br>Rate of public investment (as a percentage of GDP) (IMF)<br>Result of public sector (as a percentage of GDP) (ECLAC)<br>S&P sovereigns ratings |
| Trade and sustainable economic integration | Trade volume (as a percentage of GDP) (ECLAC)<br>Net flows of indirect investment (as a percentage of GDP) (ECLAC)<br>Global enabling trade (World Economic Forum - WEF)<br>Effective tariff (World Trade Organization - WTO)<br>Tariff dispersion (WTO)<br>Concentration of destination markets for exports<br>Concentration of export goods (Hirsch-Herfindahl) |
| Enabling legal and regulatory environment | Regulatory quality index (WB)<br>Starting a business – procedures, time, cost, minimum capital paid (WB)<br>Resolving insolvency –time, cost and recovery rate (%) under bankruptcy proceedings (WB)<br>Paying taxes – number of taxes paid, hours spent annually preparing tax returns and total tax payable |
| Rule of law and secure property rights | Property rights (WEF)<br>Compliance with contracts: time, cost, procedures (WB)<br>Protecting investors – indexes on the extent of disclosure, extent of director liability and ease of shareholder legal action |
| Fair competition | Intensity of local competition (WEF)<br>Effectiveness of anti-monopoly policies (WEF)<br>Market dominance (WEF) |
| Access to financial services | Credit depth of information index (WB): scope, accessibility, and quality of credit information available through public or private credit registries<br>Average interest rate spread (WB)<br>Aggregate domestic credit, as a percentage of GDP (WB)<br>Level of sophistication of financial markets (WB)<br>Stock market capitalization, as a percentage of GDP (WB) |
| Physical infrastructure | Quality of general infrastructure index (WEF)<br>Index of transportation and communications infrastructure (WEF): roads; airports; railways<br>Index of quality of port infrastructure (WEF)<br>Getting electricity (WB): procedures, time, cost<br>Percentage of households with access to potable water (WHO)<br>Percentage of households with access to electricity (ECLAC)<br>Percentage of households with access to a sanitation facility (WHO) |
| Information and communication technologies | Internet users (WB)<br>Cell phone access (WB)<br>Research and development spending (WB)<br>Patent applications (per 1 million inhabitants) (WB) |
| Entrepreneurial culture / education, training and lifelong learning | Perceived opportunities (GEM)<br>Fear of failure (GEM)<br>Rate of new enterprises (GEM)<br>Literacy rate (WB)<br>School enrolment, secondary level, (% gross) (WB)<br>School enrolment, tertiary level (% gross) (WB)<br>Public spending on education (% GDP) (WB)<br>Education quality (WEF) |
| Social justice and inclusion | *Social justice and inclusion:*<br>Human Development Index (UNDP)<br>Gini Coefficient (UNDP)<br>Infant mortality rate (WHO)<br>Literary rate, young women (WB)<br>Life expectancy at birth (WHO) |

| 17 Conditions | Individual indexes used to obtain single indicators for each of the 17 conditions (source) |
|---|---|
| | *Labour opportunities:*<br>Urban unemployment rate (ILO)<br>Youth urban unemployment rate (ILO)<br>Unemployment rate among men and women (ILO)<br>Remuneration ratio women-men (ECLAC)<br>Women's labour participation (WB)<br>Poor workers (ILO)<br>GDP per worker (WB)<br>Informal sector employment (% of total employment) |
| Adequate social protection | Health coverage: insurance (ILO)<br>Health coverage: beds per 1,000 inhabitants<br>Pension coverage (ILO)<br>Public spending in health, percentage of GDP (WB)<br>Social protection men/women (ILO) |
| Responsible stewardship of the environment | Average annual change, CO2 emissions (WB)<br>CO2 per capita (WB)<br>PM10 (micrograms per cubic meter) (WB)<br>GDP per unit of energy use (WB) |

**Source**: ILO.

# Chapter 2: Recent Economic, Social and Labour Trends in the Region

This section provides an overview of the economic, social and labour trends in the region over the past decade and their relationship with sustainable enterprise development.

In 2009, the LAC region had 603 million inhabitants, of which approximately 275 million were economically active (EAP); in other words, people who worked or wanted to work. Among these, 254 million worked whereas 21 million were unemployed.[11]

Employment created by private enterprises – in other words, total employment minus public and domestic employment – provided jobs to 201 million workers (79% of total), as shown in Table 3. Data from 2009 indicate that these jobs were created by some 59 million production units, of which nearly 48 million are individual units (own-account) and approximately 11 million are businesses or enterprises with workers. Of these enterprises, 8.5 million have a maximum of five workers and 2.5 million have six or more workers.[12] Annexes 2, 3 and 4 offer more detailed information on growth and employment trends in the region.

**TABLE 3**

**LAC. NUMBER OF INDIVIDUALS WHO REPORT OWNING A BUSINESS (2009)**

| | Urban | Rural | Total |
|---|---|---|---|
| Total (million) | 53.4 | 5.4 | 58.8 |
| Individual enterprises (own account) | 75.7% | 4.8% | 81.6% |
| Enterprises with workers (employers) | 15.1% | 4.4% | 18.4% |
| Maximum of five workers | 11.5% | 3.7% | 14.2% |
| More than six workers | 3.6% | 0.7% | 4.2% |

**Source:** ILO 2011b and estimates based on SIALC information.

The region's economic and social performance in the past decade has been characterized by increased macroeconomic stability, improvements in poverty and consumption indicators and a vigorous private sector, despite the persistence of major gaps, particularly in structural indicators such as productivity.

## 2.1 Economic trends and outlook

During the period 2000-2010, GDP grew at an average annual rate of 3.3% in LAC. Specifically, in the period 2004-2008, the region recorded GDP growth of 5.3% annually (Figure 3). Even with the risk of crisis in Europe, in October 2012, the IMF expected a regional growth rate of 4.3% for the period 2010-2015. In contrast to the post-2012 growth forecasts for other regions, perspectives for growth in LAC are encouraging, particularly given the region's type of insertion in the global economy and the economic reforms implemented, which have established new bases for growth.[13]

Economic growth was driven by exogenous and endogenous forces. On the one hand, the growth of exports was associated with the change in the exchange rate, as well as with the increase in commodity prices on global markets (improved terms of trade), particularly in the South American countries, encouraged by the sharp rise in global demand, particularly from Asian countries. Moreover, increased foreign direct investment (FDI) and the

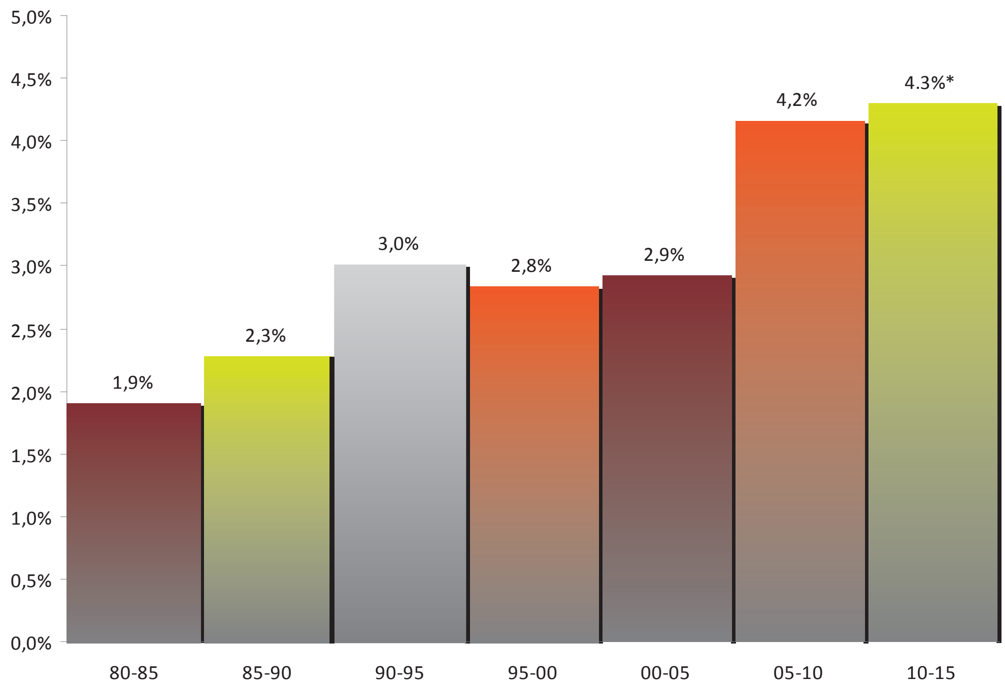
[12] The number of production units was estimated based on the number of individuals who reported owning a business in household surveys applied in most of the countries in the region.

[13] The World Bank (2012a) has reported that growth forecasts for LAC vary considerably, depending on complex interactions among exogenous factors and factors specific to each country. According to the Bank, the main risks in the region continue to originate from exogenous forces, especially weaker growth in Europe and China [World Bank (2012a)]. *The Labor Market Story Behind Latin America's Transformation*. Office of the Chief Economist for the Latin American and Caribbean Region. Washington, D. C.: World Bank].

[14] It should be noted that there are important differences within the

**FIGURE 3**

**LAC. Annual average GDP growth rate (%)**




***:** Proyected

**Source:** International Monetary Fund (2012). *Worl Economic Outlook*. Washington, D. C.: IMF, October.

fluid access to international financing[14] contributed to growth, together with the adoption of the policies, reforms and regulations discussed in Section 3.1 of this report.

In addition, the expansion of domestic demand occurred at the same time as improvements – although slight – in employment and wages, and a significant decline in poverty (Figure 3). The increase in domestic demand has in turn strengthened economic growth. Thus, one way to consolidate the region's growth is to step up efforts to increase the social and labor impact of this process, especially because LAC is still the region with the world's most unequal income distribution.

Economic fluctuations have tempered but not halted this period of growth in the region. In 2009, the region was affected by the global financial crisis. At that time, despite the solidity of the banking system, credit was restricted and its cost increased in response to the prevailing uncertainty. Trade was also affected, both in terms of volume and price of leading exports. Declines in remittances and a decrease in tourism in the region were other effects of the global crisis.

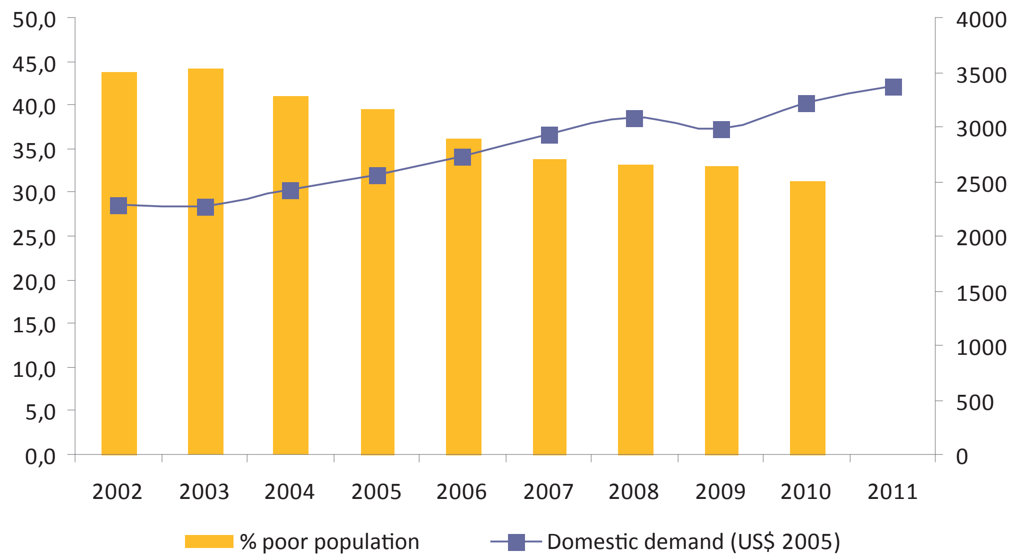
Notwithstanding, a sound fiscal situation characterized by macroeconomic equilibrium and a low rate of indebtedness enabled several countries of the region to implement a series of counter-cyclical measures to ease the economic slowdown recorded, and thus to mitigate the negative effects on the well-being of the population. These measures, as well as economic trends in with China and other Asian countries, which led to a rapid recovery of demand for the region's main export commodities, made the

region. According to ECLAC (2012b), the new economic scenario benefits countries that are net exporters of natural resources but has negative consequences for those in the opposite situation. [ECLAC (2012b)]. *Structural Change for Equality. An Integrated Approach to Development*. Thirty-fourth Session. San Salvador, August 27-31. Santiago, Chile: ECLAC]. Likewise, Izquierdo and Talvi (2011) report that the opportunities and challenges of the new global economic order has different effects, depending on the advantages that each country has for taking advantage of the global environment. [Izquierdo, A. and E. Talvi (2011). *One Region, Two Speeds?: Challenges of the New Global Economic Order for Latin America and the Caribbean*. Washington, D. C.: IDB].

[15] South American countries led this process, whereas Central

**FIGURE 4**

**Latin America. Poverty (%) and Domestic Demand (Billions of US$ at constant 2005 dollars)**




**Source:** ECLACSTAT and ECLAC (2011b)

recession in the region a very brief one.[15] In late 2009, some LAC countries entered a cycle of economic recovery that strengthened throughout 2010. A salient feature of this recovery was job creation, which enabled the downward trend in unemployment that began in 2003 to resume.

A global economic slowdown was observed in 2012: whereas Europe recorded zero growth and is again entering a recession, the U.S. economy maintained positive but low growth. China experienced a slowdown and Japan recorded low growth. Latin America has not been immune to these global trends, as evidenced by the successive lowering of growth forecasts in 2012 for the region.

There are also concerns regarding the reactivation efforts of advanced economies, particularly monetary policies, which could modify exchange rates of LAC currencies. In recent years, these currencies have appreciated, and this trend may continue. The World Bank (2012a) reports that the appreciation of the real exchange rate associated with the commodity boom has favoured the expansion of employment in services and construction in relation to employment in the manufacturing sector.[16]

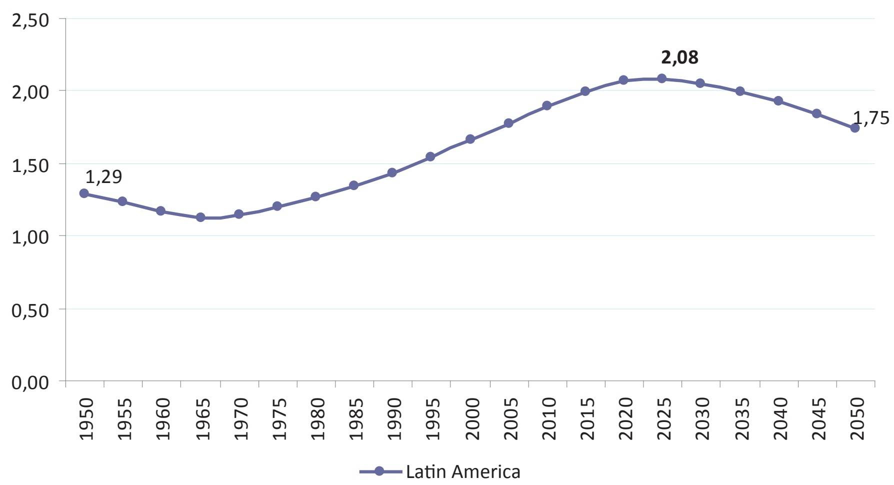
There are other, more long-term elements that could help create a scenario of expectations for positive growth in the next decade, despite global fluctuations. On the one hand, the demographic context is expected to be favourable. According to estimates of the Latin American and Caribbean Demographic Centre (CELADE), although the situation varies between countries, LAC as a whole is expected to continue the trend of increases in the ratio of the number of workers to the number of dependents in households, which would strengthen the capacity for household savings and investment. However, this increase will reach its peak in 2025, after which time this indicator will begin to decline, as shown in Figure 5.

In addition, during the past decade, the penetration of new information technologies has risen sharply in the region. According to the International Telecommunication Union (ITU), the percentage of people who use Internet rose from 3.9% in 2000 to 34.1% in 2010 whereas the number of cell phones per 100 inhabitants increased from 12 to 99 during the same period (Figure 6). A simple projection of these trends suggests that this process will strengthen in the decade 2010-2020. The growing use of information technologies, if everything else remains constant, will generate an increase in productivity, a key variable for the development of labour markets in the region. Nevertheless, it can also represent a variable of exclusion, especially for those who do not

American and Caribbean countries and Mexico experienced a slower recovery (ECLAC/ILO (2010). *Informe sobre crisis* 2010. Santiago, Chile).
[16] World Bank (2012a). *The Labor Market Story Behind Latin America`s Transformation*. Office of the Chief Economist for the Latin American and Caribbean Region. Washington, D. C.: World Bank,
[17] In constant 2005 dollars.

## FIGURE 5

### LAC. Inverse dependency ratio

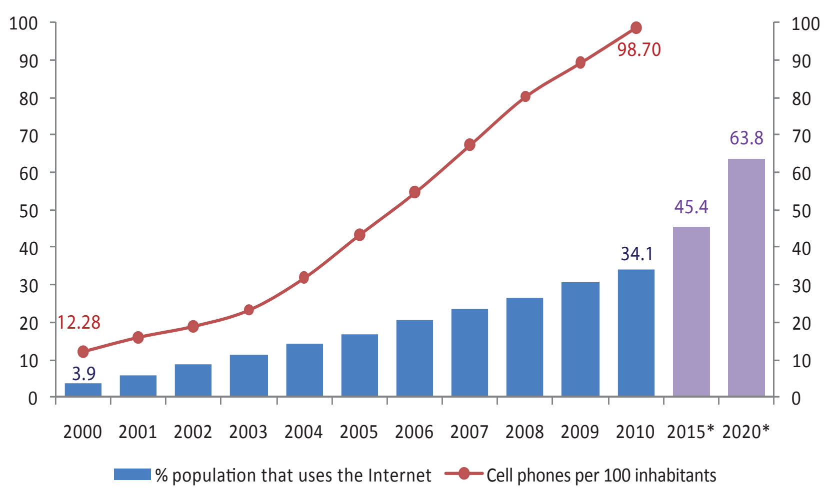



**Source:** CELADE database.

have access to these information and communication technologies (ICTs). As discussed later in this report, this is perhaps the area where the region lags most with respect to countries such as those of the OECD. However, ICTs have the potential to contribute significantly to productivity gains in the region.

## FIGURE 6

### LAC. Use of ICTs in the region




*: Estimates based on current trends.

**Source:** International Telecommunications Union (www.itu.int)

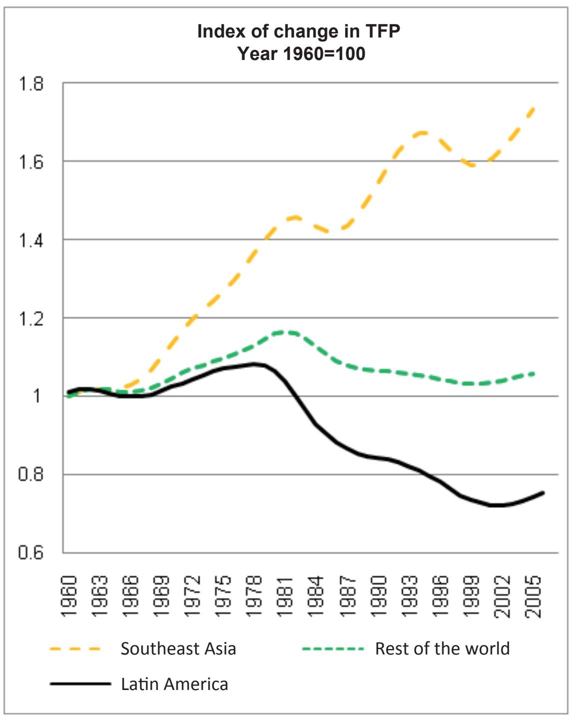
## 2.2 Productivity trends

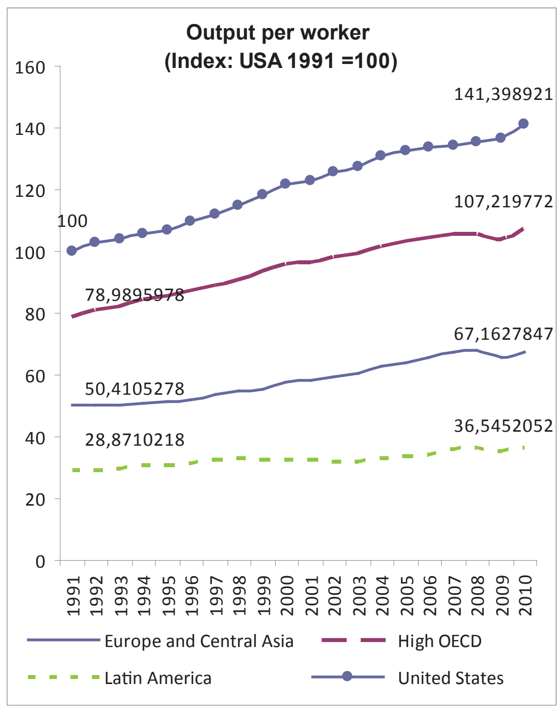
The region faces the daunting challenge of reversing the slow growth in productivity. In 2010, the region generated an average per capita GDP of some US$ 5,500, whereas per output per worker was US$ 12,515 per year (just over US$1,000 monthly).[17] Productivity is a key indicator for determining economic and social progress since it is an important mechanism of transmission between the world of production and the labour market. These averages hide considerable variations among LAC countries given their different sizes and characteristics.

Regardless of the indicator used – total factor productivity (TFP) or output per worker – the region lags behind other parts of the world in previous decades. Despite the growth observed in recent years, the region still falls far short of achieving levels of other regions. According to an IDB study (2010), average income per capita in the region went from representing a fourth of that of the United States in 1960 to a sixth today. At the same time, several Asian countries, whose 1960 income levels were far below those of the region, have now surpassed LAC levels and approach those of developed countries. This study also found that the progressive increase in productivity gaps between LAC and more developed countries is not only due to a lack of investment in physical or human capital (which would refer strictly to the accumulation of production factors) but rather to the chronic deficits in the growth of TFP.[18] Moreno (2011) reports that productivity in Latin America has reached just half of its potential and is not keeping pace with the known frontier. Moreno also demonstrates that if the region were to employ its current physical and human capital resources with the productive efficiency of the United States, per capita income would double and income

**FIGURE 7**

**LAC. Productivity trends**




**Source:** IDB (2010) and World Bank data.

[18] According to ECLAC (2012a), the 3% annual GDP growth in the region during 1981-2010, was due to an increase of 1.6% in employment, 1.3% in capital and 0% in total productivity of factors. This is in contrast to the period 2003-2010, where growth was 4.8% and the contribution of employment was 1.8%, that of capital, 1.7%, and that total productivity of factors, 1.2%. This underscores the need to promote long-term investment and increased growth and convergence in productivity levels of the economy as a whole.

[19] Moreno, L. (2011). *La década of América Latina y el Caribe. Una*

in LAC would reach a third of that in the U.S. (it currently stands at a sixth).[19] The second panel of Figure 7 shows a slight upward trend in the regional growth of output per worker,[20] although it remains far below that observed in other regions of the world.

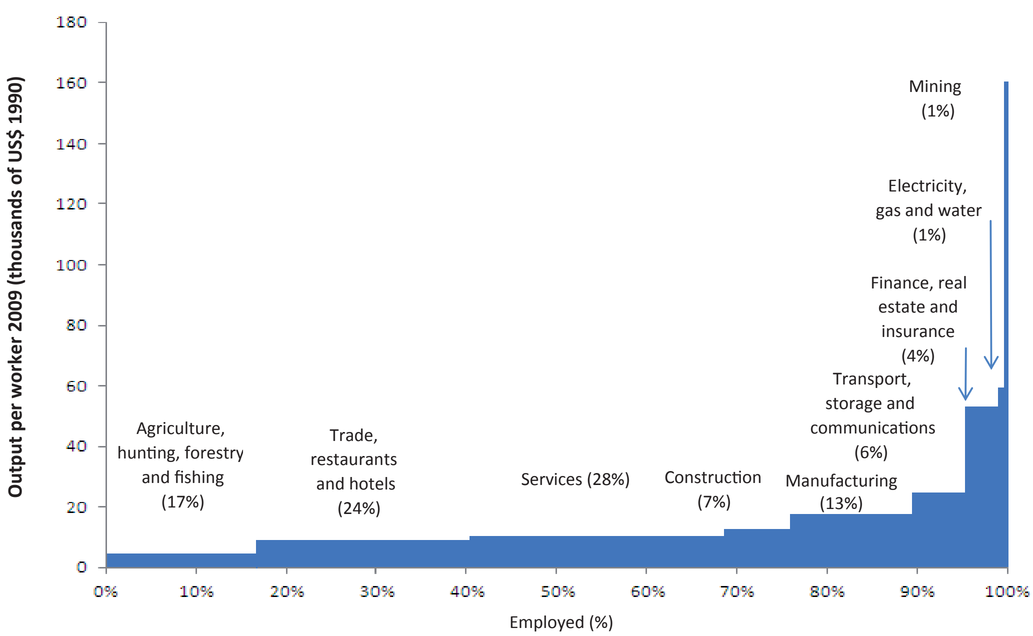
What factors determine productivity growth? There is extensive international literature on the subject, although it will not be discussed here. However, it should be stressed that productivity has macro, meso and microeconomic dimensions and that its promotion requires interventions at each of these levels.[21] Thus, for example, productivity increases require innovation, productive development policies and technological improvements, but also alignment of incentives and guaranteed fair competition for resources. Enterprises also need good ideas, especially the smaller ones, as well as opportunities to prosper, etc.

Specifically, an environment conducive to enterprise development contributes to productivity growth. From that perspective, LAC has considerable room for improving policies and institutions of the enterprise environment to increase productivity, especially in areas related to property rights, regulations and respect for the law, access to ICTs and education, as discussed in Chapter 3 and subsequent chapters of this report.

In recent years, the ILO has stressed that the productive diversity existing in Latin America can also hinder productivity growth (ILO, 2007a). This diversity is evident in Figure 8. In terms of economic sectors, the figure shows that high output-per-worker sectors co-exist with sectors where this indicator is extremely low, which are the ones employing a large share of workers. This also occurs in terms of enterprise size. An ECLAC study (2012a) with information from seven LAC countries found that larger enterprises (those with more than 200 workers) account for between

## FIGURE 8

### Latin America. Output per Worker and Sector (2009)




Note: Calculated based on data on employed individuals from 14 Latin American countries in 2009.

**Source:** ILO, based on information from SIALC-ILO and ECLACSTAT.

*oportunidad real*. Second expanded edition. Washington, D. C.: IDB.

[20] ECLAC/ILO (2012). *The Employment Situation in Latin America and the Caribbean: Labor Productivity and Distribution Issues*. Bulletin N° 6. Santiago, Chile.

[21] For further discussion of this issue, see IDB (2010). *The Age of Productivity. Transforming Economies from the Bottom Up*. Washington, D. C.: IDB.

[22] The countries analyzed are: Argentina, Brazil, Chile, Colombia,

20% and 25% of employment, and between 60% and 78% of production.[22] According to Infante and Sunkel (2012), among European Union countries, large enterprises account for 33% of employment and 51% of added value.

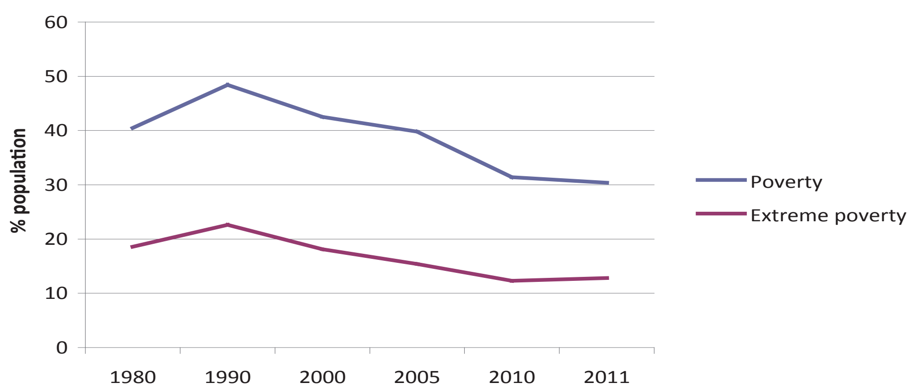
To increase global productivity to benefit everyone, the growth of high-productivity sectors should be complemented with specific policies linking them with lower productivity sectors. Complementary labour market policies should be developed to take advantage of the growth of more dynamic sectors in an effort to promote productivity gains in more stagnant sectors. At the same time, economic diversification policies should be developed to reduce the risk of changes in trade terms and fluctuations in demand. As Rodrik (2005) stressed, developing countries that export some commodities of developed countries in addition to natural-resource intensive commodities or inexpensive manual labour, tend to grow more quickly, apparently regardless of their human capital or institutional quality. Although no universal formulas exist, this type of policy would be highly beneficial in economic terms as well as for promoting social and labour inclusion.[23]

## 2.3 Trends in poverty and inequality

Economic growth driven by a favourable external context has significantly reduced poverty. Whereas in 2002, 44% of the LAC population lived in poverty and 19.3% in extreme poverty, in 2011, the poverty rate stood at approximately 30.4% and extreme poverty affected 12.8% of the population (Figure 9). This represents the most significant decline in poverty since the early 1980s.

**FIGURE 9**

**Latin America. Poverty trends (population living in poverty and extreme poverty) (%)**




**Source:** ECLAC (2011b)

The decline in poverty and extreme poverty rates has been accompanied with decreases in absolute terms. In 2002, 225 million people lived in poverty and 99 million in extreme poverty. In 2011, the number of people living in poverty fell to 174 million whereas the population living in extreme poverty decreased to 73 million. Poverty has declined in most but not all LAC countries. Figure 10 shows the distribution of poverty and extreme poverty rates, which clearly demonstrates a leftward shift in poverty rates. However, this change is not as apparent in the case of extreme poverty, which confirms that as poverty declines, marginal reductions become more complex. Despite these advances, poverty and extreme poverty rates remain high in LAC.

Levels of inequality have also decreased slightly during the decade. According to ECLAC (2011a), the Gini coefficient, the main method used to measure inequality in household income distribution, has fallen during the past decade, particularly in the

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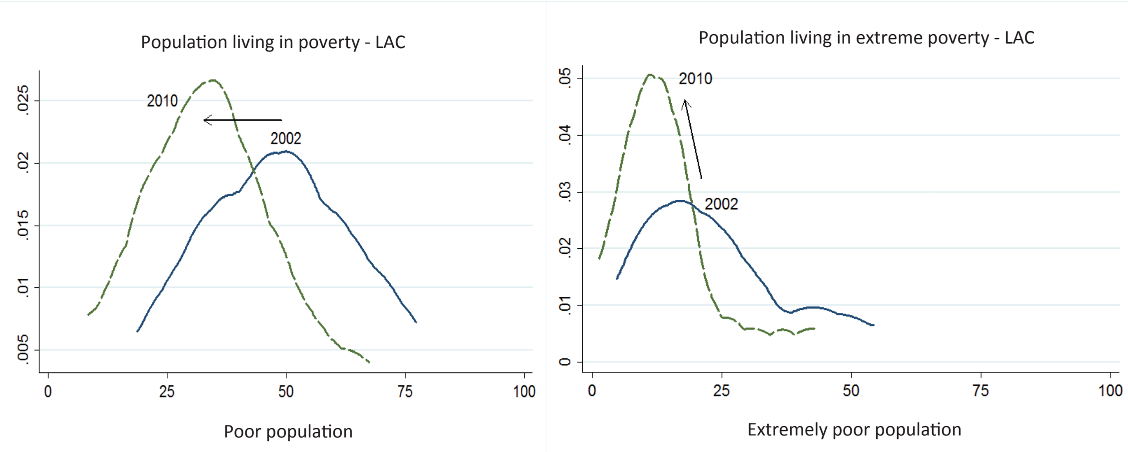
Costa Rica, Mexico and Peru. See Infante R and Sunkel, O (2012). *La heterogeneidad of la estructura productiva latinoamericana*. Preliminary notes. Working Paper. Santiago, Chile: ECLAC.

[23] Castro (2010) states that more diversified structures contribute to reducing inequality since some natural resources are developed as enclave sectors whereas the rest of the economy focuses on low productivity activities. [Castro, L. (2010). "Recursos naturales and diversificación productiva. El desafío de América Latina con el Asia emergente." Buenos Aires, Argentina: CIPPEC].

[24] The Gini coefficient measures how household income of a country is

## FIGURE 10

### Distribution of poverty and extreme poverty rates in LAC[1/]




1/ The distributions are for countries, each with its indicator level.

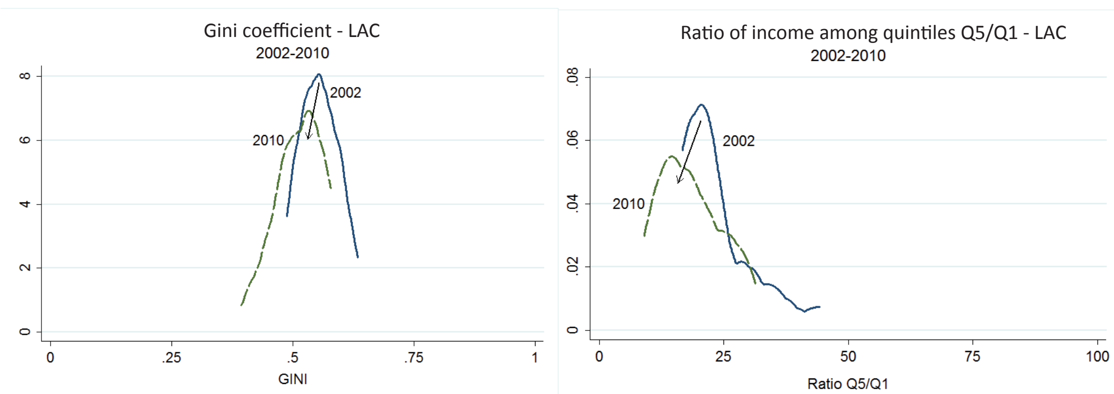
**Source:** ECLAC (2011b)

period 2002-2008, when it declined from 0.532 to 0.515.[24] For its part, the World Bank (2012a) analyzed the distribution of labour income among individuals aged 16 to 65 who were employed in 2000 and 2010, and reported an even larger decline (of 4 points in the Gini coefficient of labour income).[25]

Another indicator of income distribution is the simple average of the ratio or quotient between the average income of Quintile 5 (the wealthiest fifth of the population) and Quintile 1 (the poorest fifth), which declined from 23.8 to 18.5 between 2002 and 2010. This trend varied by country. A comparison of the

## FIGURE 11

### Distribution of inequality in LAC [1/]




1/ The distribution is for countries, each with its indicator level.

**Source:** ECLAC (2011b)

---

distributed or concentrated. It would be 1 if all income were concentrated in a single household and the rest had none. It would be zero if all households had the same income. [ECLAC (2011a). *Economic Survey of Latin America and the Caribbean* 2010-2011. Santiago, Chile: ECLAC].

[25] This study associates the reported decline in earnings with the decrease in the returns to education, which measure how much individuals earn in relation to their educational level. This could be due to a decrease in the quality of tertiary education with relation to its demand, or to the lower than expected demand for skilled labour. The report states that both explanations are plausible. [World Bank (2012a). *The Labor Market Story Behind Latin America`s Transformation*. Office of the Chief Economist for the Latin American and Caribbean Region. Washington, D. C.: World Bank].

[26] Berg, A. and J. D. Ostry (2011). *Inequality and Unsustainable Growth*:

distributions (Figure 11) of the Gini coefficients and of the Q5/Q1 ratio for most of the countries of the region demonstrates that the empirical distributions for 2002 and 2010 tend to overlap, indicating a smaller change in the distribution level.

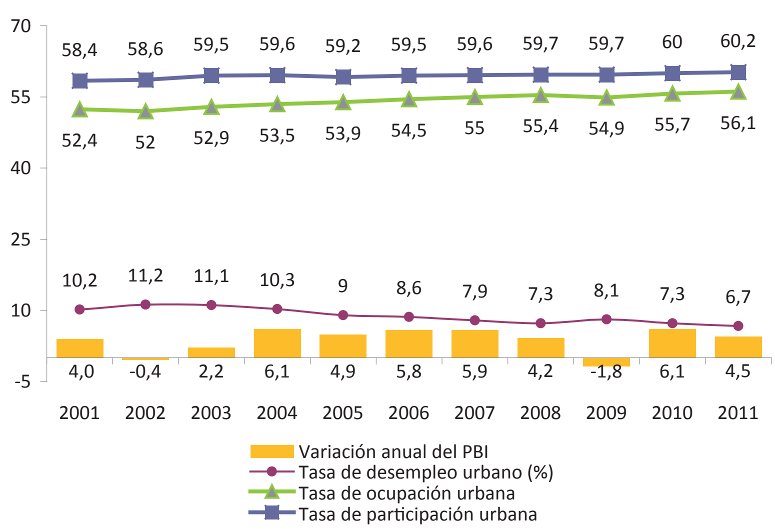
This trend toward greater income equality should be intensified. Recent studies show that the poorest countries have enjoyed periods of growth for a few years. What is unusual is sustained growth. More importantly, these studies also demonstrate that longer periods of growth are clearly associated with a decline in inequality.[26] The labour market plays a key role in aggregate inequality given that approximately 80% of household income is derived from job earnings. For this reason, the analysis of the personal distribution of income should be complemented with an examination of the functional distribution of income. On this point, ECLAC/ILO (2012) reports that most LAC countries have not taken advantage of the current economic bonanza to implement policies to improve income distribution according to this criterion. In addition, as the report emphasizes, a supportive environment of integral policies for enterprise development at all levels also has a positive impact on improving productivity, and consequently on the income of citizens of the region.[27]

## 2.4 Employment trends

The data show that labour indicators improved as a result of the economic growth over the past decade: the regional employment rate increased from 52.4% in 2001 to 56.1% in 2011 whereas the regional unemployment rate declined from 10.2% in 2001 to 6.7% in 2011. In addition, the labour force participation rate rose from 58.4% to 60.2% during the same period due to the increase in the employment-to-population ratio resulting from the decline in unemployment. These indicators differ by gender and age.[28]

**FIGURE 12**

**Latin America. Trends in employment, unemployment and urban labour force participation rates (%)**




**Source:** ILO (2011b)

*Two Sides of the Same Coin*? IMF Staff Discussion Note. April 8. Washington, D. C.: IMF.

[27] ECLAC/ILO (2012). *The Employment Situation in Latin America and the Caribbean: Labor Productivity and Distribution Issues*. Bulletin N° 6. Santiago, Chile.

[28] With respect to age, the unemployment rate among youth ages 15 to 24 was 15% in 2011, triple that of adults (ages 25 and over), which was 5%. In terms of gender, the labour force participation rate among women was 50% as compared with 71% among men in 2011, whereas the employment-to-population ratio among women was 46% as compared with 67% among men.

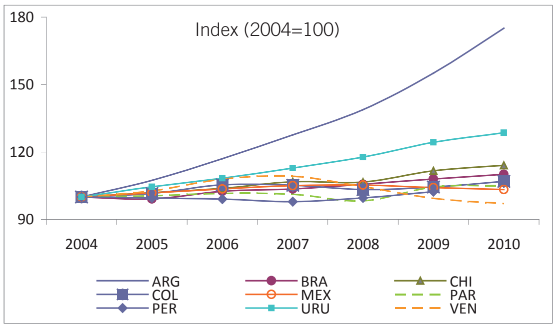
[29] ILO (2012a). Global Wage Report. In printing. Geneva.

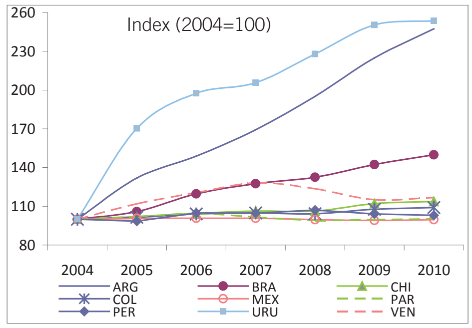
The experience of the region in previous decades indicates that economic growth is not always directly reflected in the creation of quality jobs, but rather in underemployment and poor quality jobs, which is an indicator of the breadth, complexity and persistence of underemployment. However, in recent years there have been signs that the situation is improving, particularly in the second half of the decade.

Real average wages increased by 2% in the period 2006-2011.[29] Minimum wages followed a similar trend. Moreover, comparing the period 2004-2008 with the previous five-year period, the open underemployment rate (in terms of hours) tended to decline, although not to the same extent as the unemployment rate. In addition, a recent World Bank study pointed out that the long history of wage

## FIGURE 13

### Latin America. Labour income trends in selected countries




**Source:** ILO (2011b)

volatility associated with inflationary problems did not occur in the past decade thanks to the growing credibility of monetary policy.[30]

In addition, wage and salaried employment increased, mainly in the private sector, while non-wage and salaried employment experienced a slight decrease, particularly own-account employment. Even so, employment structures continue to show that wage and salaried employment accounts for two of every three jobs in the region. Within private sector wage and salaried employment, which in 2009 accounted for 50% of total employment in the region, employment in enterprises with a maximum of five workers represented 13% (26% of total private sector wage and salaried employment). As a result, the ILO (2012c) reported a trend towards the slight reduction in vulnerable employment throughout the decade.[31]

The IDB (2010) reports that in LAC, own-account employment, together with employment in micro, small and medium-sized enterprises, accounts for 86.5% of total employment whereas in the European Union, these types of enterprises generate 67.1% of employment. Table 4 lists the composition of employment in the different categories of enterprises.

The region clearly has a high percentage of own-account and microenterprise employment given that these categories account for two-thirds of total employment. By contrast, the European Union shows more balanced figures: own-account and microenterprise employment represent less than a third of total employment.

The share of workers with health and/or pension coverage increased from 52.3% in 2000 to 67.2% in 2009 (Table 5). This increase reflected both the aforementioned rise in wage and salaried employment and the establishment of new social security schemes in the region, in some cases of a non-contributory nature, which have incorporated other types of workers (non-wage and salaried workers, for example) and which have generated controversy. At any rate, the change has been significant. Nevertheless, much remains to be done, especially in terms of health care coverage.

[30] World Bank (2012a). *The Labor Market Story Behind Latin America`s Transformation*. Office of the Chief Economist for the Latin American and Caribbean Region. Washington, D. C.: World Bank.
[31] ILO (2012c). *Global Employment Trends*. Geneva, Switzerland: ILO. Vulnerable employment is defined as the total of own-account employment and employment as unpaid family workers.
[32] ECLAC (2011a). *Economic Survey of Latin America and the Caribbean*

## TABLE 4

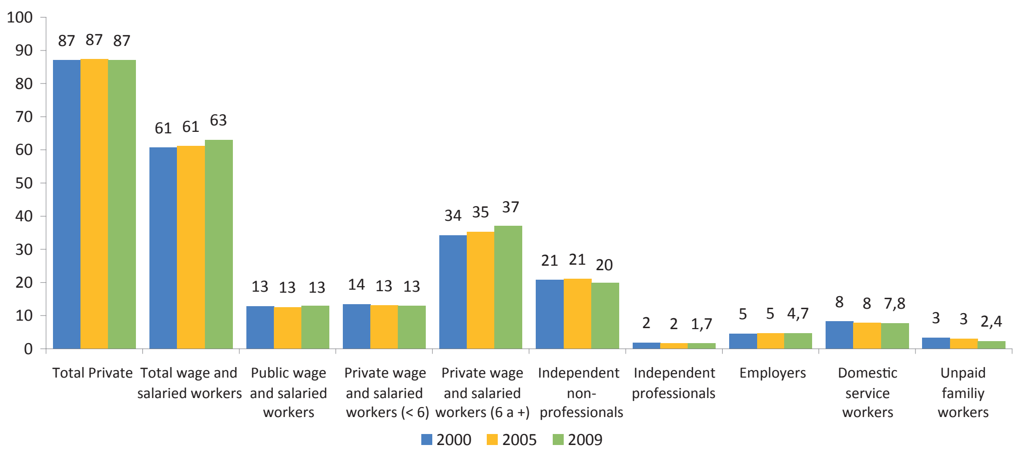
### Total employment by enterprise size in LAC and the European Union (%)

| | LAC (%) | EU (%) |
|---|---|---|
| Own account and micro enterprise employment | 66.5 | 29.1 |
| Small and medium-sized enterprises | 20.0 | 38.0 |
| Large enterprises | 13.5 | 32.9 |

**Source:** IDB (2010)

## FIGURE 14

### Latin America. Change in employment by status in employment (%)




**Source:** ILO (2011b)

One of the most notorious features of LAC economies is their low level of formality; however, some progress has also been observed in this area through the significant increase in wage and salaried employment. ECLAC (2011a)[32] has reported employment indexes (based on administrative records in most cases) with significant positive variations. In a group of 12 LAC countries, this indicator equaled 100 in 2000; by 2010 it had reached levels fluctuating between 122 and 173 in all of these countries, most in the higher range. Together with the economic growth of recent years, this is a relatively new phenomenon in the labour market given that workers were not registered in many of the countries.[33] An increase in the registration of workers with a government body (whether a labour organization or a social security system) implies increased coverage of labour law or social security, for example. Despite these advances, informal employment in the region remains high, affecting approximately 50.4% of the population in 2010 (ILO, 2011).[34] Of this percentage, employment in the informal sector accounts for 32.7%; informal employment in the formal sector represents 12.3%; and domestic work accounts for 5.4% (ILO, 2011). Clearly, worker registration should be improved in

2010-2011. Santiago, Chile: ECLAC.

[33] This may be due to the creation of new formal jobs or to the formalization of workers who were previously informal.

[34] According to ILO figures (2011b). 2011 *Labour Overview. Latin America and the Caribbean*. Lima, Peru.

[35] Private sector consumption grew 47% over the past decade

## TABLE 5

### Latin America. Trends in social protection and/or pension coverage (%)

| | Health | | Pensions | | Health and/or Pensions | |
|---|---|---|---|---|---|---|
| | 2000 | 2009 | 2000 | 2009 | 2000 | 2009 |
| Total | 49.8 | 60.1 | 48.5 | 56.5 | 52.3 | 67.2 |
| Wage and salaried workers | 67.4 | 76.3 | 64.7 | 75.1 | 68.1 | 80.1 |
| Public | 82.8 | 93.2 | 80.7 | 92.6 | 84.6 | 94.4 |
| Private | | | | | | |
| Maximum of five workers | 30.7 | 41.6 | 28.1 | 38.8 | 32.1 | 50.5 |
| Six or more workers | 75.8 | 82.9 | 72.7 | 82.8 | 75.9 | 86.1 |
| Non-wage and salaried workers | 20.7 | 31.9 | 22.6 | 29.9 | 27.2 | 49.3 |
| Employers | 44.5 | 50.7 | 43.1 | 48.8 | 47.3 | 68.8 |
| Own-account and unpaid family workers | 14.3 | 25.3 | 16.3 | 22.3 | 20.7 | 40.9 |
| Domestic workers | 26.4 | 33.2 | 23.2 | 30.3 | 29.9 | 45.6 |

**Source:** ILO (2011b)

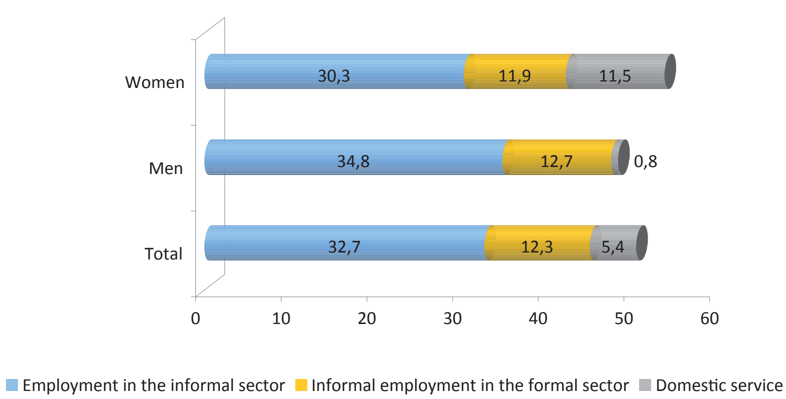
order to track changes in the structure of regional labour markets.

To facilitate the transition from informality to formality requires sustained productivity gains in the sector of own-account workers and of the smallest enterprises. As a complementary measure, limitations of regulatory, registration and tax systems and procedures should be identified where possible. Finally, control mechanisms, which appear to be concentrated in very limited parts of the productive network, need substantial improvements in an effort to increase the opportunity cost for an enterprise to remain informal. Achieving a more profound change in incentives also requires measures to modify the overall culture of non-compliance with the law.

In previous decades, discussions in LAC focused on the issue of the costs of formality. Now is the time

## FIGURE 15

### Latin America. Structure of informal employment (%)




**Source:** ILO (2011b)

to seriously address the issue of the benefits of formality. A new debate should centre on efficient social dialogue and a broad reform agenda in an effort to comprehensively address the drivers of formalization that define a new inclusive framework for government relations and in which all citizens feel called upon to participate and to comply with government mandates.

### 2.4.1 The role of the private sector

The private sector has played a key role in recent achievements in the region. The importance of the private sector in a country's economy is evident in its participation in total production. According to ECLACSTAT, over the past 15 years, private sector consumption and investment have contributed more than 60% and 15% to the regional GDP, respectively[35] (Table 6). Domestic credit to the private sector as a percentage of regional GDP has also risen sharply, from 27% in 2000 to 46% in 2011.[36]

Another way to understand the importance of the private sector in the economy is through its contribution to job creation. As mentioned above, the LAC private sector generated approximately 79% of total employment. The disaggregation of the private sector contribution to job creation in LAC demonstrates that 50% of workers were wage and salaried workers in the private sector in 2009, which was higher than the percentage at the beginning of the decade.

In sum, for the private sector to maintain and expand its contribution to regional GDP and job creation, it is essential to consolidate the economic growth achieved in this decade and to focus on creating an environment conducive to sustainable enterprise development. Sustainable enterprises with medium and long-term objectives and perspectives require the economy to grow, but at the same time need for structural issues to be resolved given that the region is at a disadvantage in this area compared with other parts of the world.

**TABLE 6**

**Latin America. Indicators of private sector participation in the economy (% GDP)**

| Indicator | 1995 | 2000 | 2005 | 2010 | 2011 |
|---|---|---|---|---|---|
| Final consumption expenditure of the general government | 16% | 15% | 14% | 15% | 14% |
| Final private consumption expenditure | 63% | 63% | 63% | 65% | 66% |
| Gross capital formation of the public sector | 4% | 3% | 5% | 6% | 3% |
| Gross capital formation of the private sector | 16% | 16% | 16% | 16% | 15% |
| Domestic credit to the private sector (% GDP) | 34% | 27% | 26% | 41% | 46% |

**Source:** ILO, based on ECLACSTAT data.

whereas the rate for the public sector was 34% during the same period.

[36] Domestic credit to the private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities and trade credits and other accounts receivable, which establish a claim for repayment. For some countries, these claims include credit to public enterprises (definition of the World Bank database).

[37] ILO (2008a). *Conclusions concerning the promotion of sustainable*

# Chapter 3: Economic Context

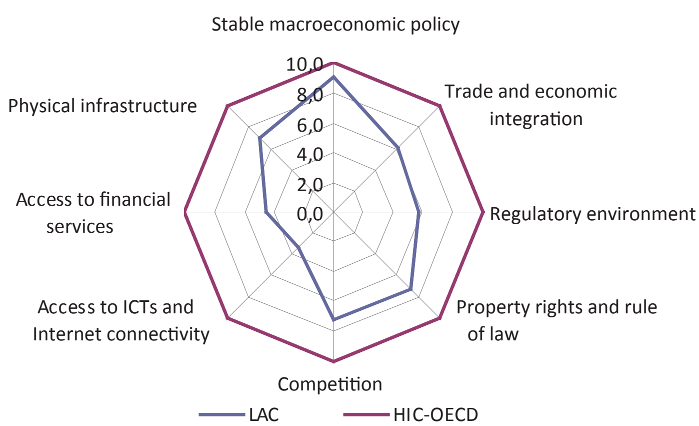
This chapter on economic context focuses on eight of the 17 pillars of the environment required for sustainable enterprise development: sound and stable macroeconomic policy and good management of the economy; trade and sustainable economic integration; enabling legal and regulatory environment; rule of law and secure property rights; fair competition; access to financial services; physical infrastructure; and information and communication technologies.

Results of calculations of indicators for each of the pillars of the economic context and in comparison with the HIC-OECD reveal that for the period 2000-2008, LAC performed more poorly than the HIC-OECD in all pillars (Figure 16) although in the case of the index of stable macroeconomic policies, the average values for LAC approached those of the HIC-OECD. For the other indicators, which measure more structural dimensions, the indexes for LAC were low, especially with respect to ICTs and Internet connectivity.

These elements are directly related to the environment that determines the competitiveness of enterprises and contribute to making them sustainable. Competitiveness indexes measured by the World Economic Forum (WEF) clearly demonstrate that LAC countries fall far short of competitiveness levels of the HIC-OECD. Figure 17 presents the distribution of competitiveness scores reported by the WEF for both regions, which reveals that the HIC-OECD concentrates the highest scores. It could be argued that some LAC countries have levels of competitiveness similar to those of less competitive HIC-OECD, but in distributional terms, the HIC-OECD far outperforms LAC in terms of competitiveness.

**FIGURE 16**

**LAC and HIC-OECD. Aggregate indicators of economic context**




**Source:** ILO, based on information from the WB, IMF, International Trade Centre, OECD, WTO and WEF.

The following section analyzes each of the pillars of the economic context in LAC countries as compared with those of the HIC-OECD.

## 3.1 Sound and stable macroeconomic policy and good management of the economy

> Monetary, fiscal and exchange rate policies should guarantee stable and predictable economic conditions. Sound economic management should balance the twin objectives of creating more and better jobs with combating inflation and provide for policies and regulations that stimulate long-term productive investment. Attention should also be given to increasing aggregate demand as a source of economic growth contingent on national conditions. In the case of developing and least developed countries, achieving sound macroeconomic conditions usually requires the decisive support of the international community through debt relief and official development assistance.[37]

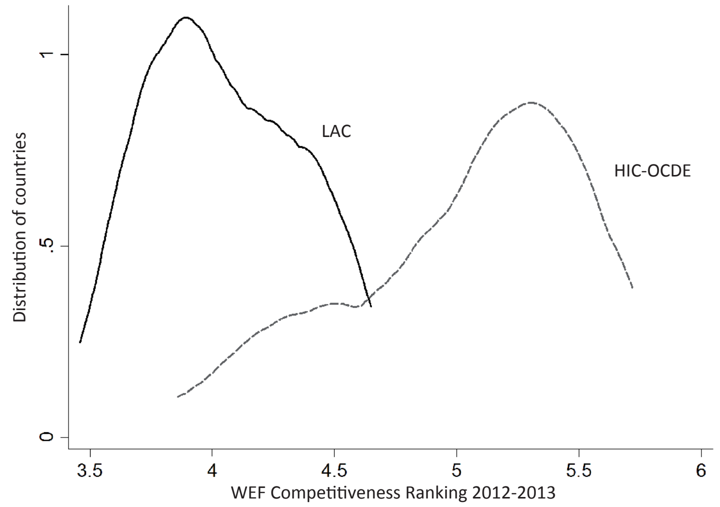
This pillar includes indicators such as per capita GDP growth rate, inflation rate and the rate of investment in relation to GDP. In the first indicator, Latin America surpassed the HIC-OECD in the period

*enterprises*. International Labour Conference, June 2007. Geneva, Switzerland: ILO.

[38] ILO (2007b). *Decent Work in the Americas: An Agenda for the Hemisphere.*

## FIGURE 17

### LAC and HIC-OECD. Comparison of competitiveness rankings

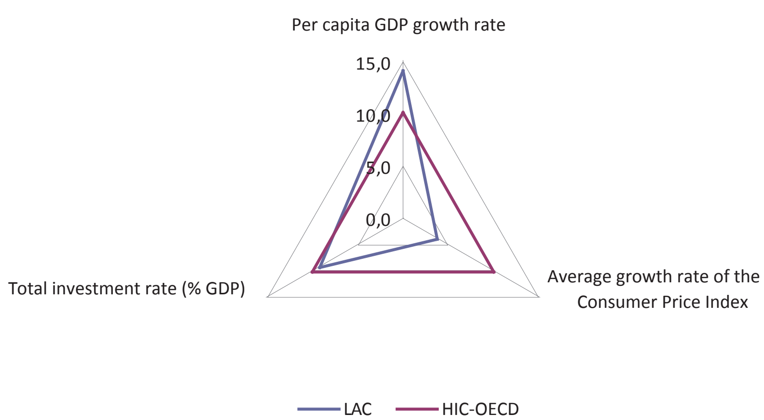



**Source:** ILO, based on WEF information (2012).

2000-2008; whereas HIC-OECD performed better than LAC countries in the second and third indicators (Figure 18). The region made important strides in macroeconomic management during 2000-2008: it kept inflation rates lower than in past decades, improved the fiscal situation and reduced structural problems associated with the increased likelihood of a crisis in capital markets, such as the dollarization of financial liabilities and the inadequate debt maturity structure. These measures, together with global economic trends, led to a period of significant growth, despite international volatility and cases of specific countries where the crisis hit harder.

## FIGURE 18

### LAC and HIC-OECD. Stable macroeconomic policies pillar




**Source:** ILO, based on IMF information.

The major reforms implemented in previous decades created a solid base, without which economic growth would not have been possible and the current crisis would have had a greater impact on LAC. Some examples of these reforms and changes include:

- Public debt was drastically reduced and its profile and composition became more balanced. Fiscal income and average tax pressure increased. Reduced interest payments generated important fiscal spaces (ECLAC, 2011a).
- Several countries implemented institutional reforms of their central banks – giving them greater autonomy to control inflation – which generated a better framework for transparent, coordinated monetary policy (IMF, 2010).
- Financial systems have been the target of reforms, especially of oversight systems, and banking crises were less frequent during this period.
- Relative prices have been largely free of distortions, even when market and price distortions persist in different countries and sectors.
- Trade liberalization has enabled the increased global insertion of LAC. Within this context, reactivation measures applied mainly by Asian countries enabled LAC to be well positioned to take advantage of the rapid recovery in demand for the main export commodities of the region, thereby quickly recovering commodity prices (ECLAC-ILO, 2010).

Despite the positive actions mentioned above, there are other areas where LAC clearly lags behind the HIC-OECD:

- The average tax burden in LAC countries is almost half that of the OECD countries. Tax bases are narrow and are biased towards non-progressive taxes (ECLAC, 2011a).
- In this decade, LAC has experienced exchange rate revaluations that affect the competitiveness of exports and exert significant competitive pressures on SMEs.
- Although the differences in the indicator of investment as a percentage of GDP are small, this indicator assesses only the level of investment, not its quality, which in LAC countries is far below that of the HIC-OECD.
- In the years examined in this report, the average current account deficit in LAC was approximately 1.5% of GDP, considerably higher than that of the HIC-OECD.
- Latin America's productive structure lacks the diversity of that of the HIC-OECD and has segmented, underdeveloped markets. In domestic markets of some countries, there is a concentration of a few suppliers and in global markets there is a dependency on natural-resource-based exports.
- Enormous gaps remain in terms of productivity between LAC countries and the HIC-OECD. Several studies have shown that the low productivity levels of several economies in the region reflect not only problems of accumulation of productive resources but also – in some cases mainly – insufficient growth of total factor productivity (TFP), which indicates that strong constraints exist in macro, meso and microeconomic areas. As the Decent Work Agenda for the Americas emphasized, productivity growth is associated with improvements in competitiveness and human development as well as with poverty reduction.[38]
- Most of the economies in the region have a high level of productive heterogeneity in which some business segments of high productivity coexist with others with productivity levels considerably below the average and with few linkages between these two segments.
- As discussed later in this report, public investment support for enterprise development is still weak in LAC countries as compared with the HIC-OECD, particularly in terms of the pre-conditions for enterprise development, whether through specific programmes or as incentives for the development of research, technology, infrastructure, etc.

Thus, the economic growth achieved must be strengthened and consolidated to avoid volatility in national production generated by variables such as speculative capital flows. To this end, the following should be taken into account:

- In terms of monetary policy, countries should guarantee the autonomy of central banks. This is a necessary reform that enables countries to control inflation more effectively, in equilibrium with the other variables under its control.[39] In addition, it is essential to develop futures contracts in foreign currency markets since these can provide a safeguard against major exchange rate fluctuations.
- Equally important are effective, flexible regulations that promote capital flows for productive rather than speculative investment and that are consistent with a stable macroeconomic environment. Moreover, clear, counter-cyclical fiscal regulations could help reduce the volatility of aggregate demand. Concrete mechanisms

Lima, Peru.

[39] For example, Cukierman (1992) points out that several studies found that legal autonomy of the central bank is inversely related to inflation in developed countries. [Cukierman, A. (1992). *Central Bank Strategy, Credibility and Autonomy*. Cambridge, Mass: MIT Press].

[40] ECLAC (2012b). *Structural Change for Equality. An Integrated Approach*

for assessing the quality of public spending, as well as systems to prioritize spending, are also needed.

- With respect to the current fiscal situation in LAC, efforts should be made to develop policies to expand the tax base and control tax exemptions and evasion, as well as improve administrative practices to strengthen collection capability. The special tax regimes for SMEs applied in some countries have had some positive effects, although they co-exist with high levels of evasion and can limit the growth potential of enterprises. Mechanisms to assess costs and benefits, along with a sound approach for applying these programmes, are needed to ensure their usefulness and maximize their results.

In general, the region requires specific policies designed to diversify and consolidate long-term growth. According to ECLAC (2012b), in the period 1981-2010, the regional annual GDP growth rate of 3% was driven by a contribution of 1.6% from employment, 1.3% from capital and 0% from TFP. By contrast, in the period 2003-2010, GDP growth was 4.8%, with a contribution of 1.8% from employment, 1.7% from capital and 1.2% from TFP.[40] This underscores the need to create incentives for long-term investment and to promote increased growth and convergence of productivity levels of the economy as a whole. In addition, while the region has benefited from increased raw material prices, which have been crucial for investment and fiscal accounts in the long term, it is also vulnerable given its dependence on global economic cycles.

## 3.2 Trade and sustainable economic integration

> The varying development levels of countries must be taken into account in lifting barriers to domestic and foreign markets. Efficiency gains caused by trade integration can lead to positive employment effects either in terms of quantity or quality of jobs or a combination of both. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, measures must be taken by governments in consultation with the social partners, to better assess and address the employment and decent work impact of trade policies. Actions are also needed at regional and multilateral levels to remove trade distortions and to assist developing countries in building their capacity to export value-added products, manage change and develop a competitive industrial base.[41]

This pillar is composed of indicators associated with trade volume in relation to GDP, foreign direct investment (FDI) flow, index of global trade ease and two indexes of export concentration. Although most LAC countries have made important efforts in this area in recent years, the data suggest that they still lag behind the HIC-OECD.

- The index of global trade ease calculated by the WEF has improved but the region has yet to reach the levels of the HIC-OECD.
- Latin America has only a limited number of enterprises involved in export activities. Export enterprises are usually large, with production capacities and economies of scale to serve external markets, and with logistics and capacity for financing and market intelligence. The HIC-OECD tend to have more enterprises involved in the export sector. Specifically, LAC countries have an export good concentration five times higher than that of the HIC-OECD and the index of concentration of export destinations is double, which indicates a high level of vulnerability in trade and economic integration.
- The effective tariff of LAC continues to be high, despite the signing of major trade agreements.[42]

Transportation costs partially explain trade barriers in LAC. Factors contributing to these high costs include: i) the fact that as a region that produces raw materials, the relative weight-value of exports has a key influence of shipping costs (raw materials are the heaviest exports in relation to other commodities); ii) transfer of income to monopolistic freight forwarders or port, airport or highway operators; and iii) problems with the efficiency of operations of facilities associated with foreign trade activities.

The opening of trade has a positive impact on enterprise competitiveness. However, it also has negative effects, such as the premature closure of growing enterprises. The final balance of these effects is an empirical question that depends on country-specific circumstances (ILO, 2007a). To this end, a good balance between trade openness and promotion of domestic demand/consumption is also important.

Key issues include the need to promote and diversify exports, their added value and their end markets, including the attraction of FDI for that purpose, combined with increased trade openness.[43] Thus, not only must trade diversification be taken into account, but also its quality; in other words, the new areas where the country will begin trading. Figure 20, whose data are based on the Hirsch-Herfindahl

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*to Development*. Thirty-fourth session. San Salvador, August 27-31. Santiago, Chile: ECLAC.

[41] ILO (2008a). *Conclusions concerning the promotion of sustainable enterprises*. International Labour Conference, June 2007. Geneva, Switzerland: ILO.

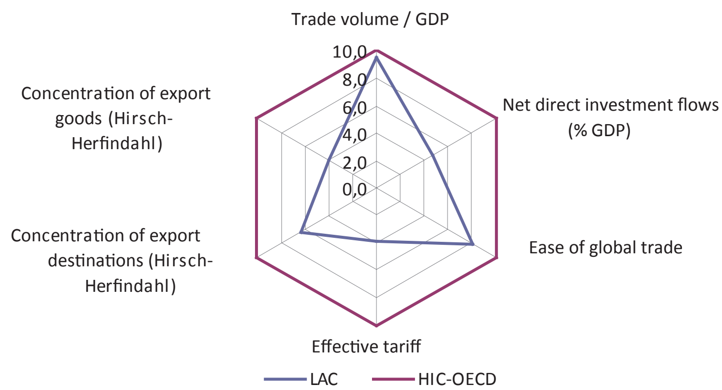
[42] The effective tariff is the ratio between tax revenue from tariffs and total imports.

[43] A simple correlation of the relationship between FDI and the level of openness in Latin America for the period 1990-2010, reveals a non-monotonic relationship. It appears to grow at low levels of openness but this increase is less certain at higher levels. These issues require further evaluation and analysis.

[44] Jansen, M. and E. Lee (2007). *Trade and Employment: Challenges for*

## FIGURE 19

### LAC and HIC-OECD. Foreign trade indicators



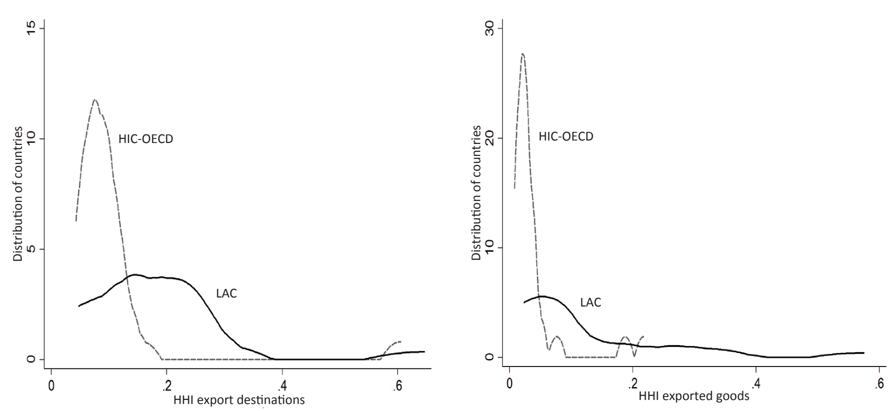

**Source:** ILO, based on information from the WB, International Trade Centre and WTO.

Index – where the lowest values indicate a high level of diversification and high values indicate high concentration – shows that the region is characterized by a high concentration, both in export destination and in goods exported.

Another key issue is to strengthen regional and sub-regional integration processes, as well as to increase factor mobility. In the past decade, several countries have signed preferential trade agreements or free trade agreements with the United States, European and Asian countries, among others. The results must still be evaluated and are likely to vary by country. At any rate, what is certain is that the extraordinary growth of exports in several countries of the region to those zones, in terms of both value and volume, have greatly contributed to the sustained economic growth in the region. This occurred with the trade opening through free trade agreements that are continually being negotiated and implemented. Jansen and Lee (2007) report that it has been difficult to find solid international evidence of the impact of trade liberalization on employment.[44] Nevertheless,

## FIGURE 20

### LAC and HIC-OECD. Distribution of countries by HHI indexes




**Source:** ILO, based on information from the International Trade Centre.

*Policy Research*. A collaborative study of the Secretariat of the World Trade Organization (WTO) and the International Labour Office (ILO). Geneva, Switzerland: ILO, OMC.

[45] Görg, H. (2011). "Globalization, Offshoring and Jobs." In: Marc

Görg (2011) argues that trade may lead to higher job turnover in the short term. In the long run, there is no indication that trade leads to higher unemployment overall, although employment of low-skilled workers may suffer while high-skilled employment may expand.[45]

In light of the specific trade conditions in LAC today, it is clear that countries should promote increased competition; achieve efficiency and quality in port, airport, highway and transport operations, with increased regulation; simplify customs procedures; coordinate customs and phytosanitary services; coordinate procedures of customs agencies of the different countries; and reduce national transport costs, which are affected by the lack of intermodal competition and the poor road network conditions.

Non-tariff protection measures, particularly for value-added goods, are also needed in a context of trade openness. Whereas in the past decade, tariff levels and impact and quantitative restrictions have declined in the HIC-OECD, restrictive non-tariff practices persist, which have lately increased as a protectionist response to the economic crisis. These practices have an extremely negative impact on enterprise development, given the high cost of complying with strict standards and the possibility of completely closing off markets.

Governments should adopt measures, in consultation with social partners, to better evaluate the impact of trade policies on employment and decent work. To this end, in addition to macro policies to boost competitiveness in a context of trade openness, micro policies should be developed, for example, to improve value chains, education and training and to develop active policies for the labour market and increased social protection. These comprise a basic set of policies to support trade openness (ILO, 2007a).

## 3.3 Enabling legal and regulatory environment

> Poorly designed regulations and unnecessary bureaucratic burdens on businesses limit enterprise start-ups and the ongoing operations of existing companies, and lead to informality, corruption and efficiency costs. Well-designed transparent, accountable and well-communicated regulations, including those that uphold labour and environmental standards, are good for markets and society. They facilitate formalization and boost systemic competitiveness. Regulatory reform and the removal of business constraints should not undermine such standards.[46]

In the past decade, LAC has implemented important reforms to improve the legal and regulatory context that governs enterprise activity. Despite these reforms, inefficiency persists in procedures associated with enterprise start-ups. In this pillar, the region is clearly at a disadvantage compared with the HIC-OECD due to deficiencies in regulatory quality. One difficulty enterprises face is the weak capacity for effectively applying laws and regulations. This is illustrated in the time it takes to start a business in LAC, which is 71 days on average, as compared with 12 days for the HIC-OECD.[47] Likewise, procedures for paying taxes take an average of 497 hours in LAC versus 186 in the HIC-OECD.[48]

As mentioned, the regulatory environment is crucial for enterprise sustainability. Thus, governments should guarantee the effective operation of institutions responsible for overseeing the market, service concessions, surveillance and application of standards or the registration and licensing of enterprises. A better regulation does not mean the absence of rules or that they are less strict, but rather that they are clear, stable and can feasibly be fulfilled. In this regard, transparent, understandable and simple regulatory frameworks are needed to provide certainty and legal predictability for enterprises. In addition, they should offer incentives for innovation and promote competition. These are key elements of an enabling environment for sustainable enterprises and the creation of productive, decent work.

Study results indicate that the index of regulatory quality in Latin America is 64% of that of the HIC-OECD.[49] With respect to the ease of starting an enterprise, the percentage is 55%. To increase the efficiency of regulatory frameworks requires major efforts to reduce required procedures for the opening, closing and operation of enterprises. In other cases, government capability to efficiently implement existing regulations must be improved. Efforts to make starting a business easier should be complemented with specific measures to reduce the failure of many entrepreneurial initiatives, which are a source of employment for a large share of the population.

With respect to taxes, the LAC tax payment index is just 57% of that of the HIC-OECD. The high taxes on enterprise profits, low levels of collection and widespread tax evasion negatively affect fiscal and redistribution policies of the region in addition to discouraging entrepreneurial activity. Moreover, procedures to comply with tax obligations, and the

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Bacchetta and Marion Jansen. *Making Globalization Socially Sustainable*. Geneva: WTO, ILO, pp. 21-47.

[46] ILO (2008a). *Conclusions concerning the promotion of sustainable enterprises*. International Labour Conference, June 2007. Geneva, Switzerland: ILO.

[47] World Bank/International Finance Corporation (2011). *Doing Business 2012: Doing business in a more transparent world*. Washington, D. C.

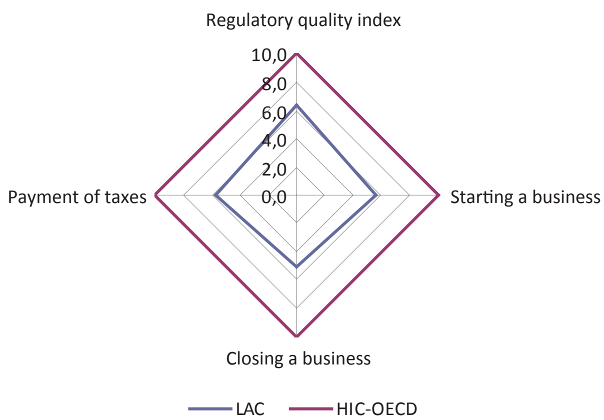
[48] *Ibid*.

[49] The World Bank indicator uses values between -2.5 and 2.5, with a mean of 0. To facilitate the calculation of the indicator on regulatory quality, the mean was increased so that the new indicator has values between 0 and 5.

[50] ILO (2008a). *Op. cit*.

**FIGURE 21**

**LAC and HIC-OECD. Indexes of the legal and regulatory framework**




**Source:** ILO, based on World Bank data.

number of tax changes and payment periods entail additional costs for enterprises. Measures should be adopted to address these problems.

Another serious concern is the impact of tax evasion in informal environments, which creates a clear disadvantage with respect to the formal sector. Here, one solution is to step up efforts to ensure tighter controls on those segments that are beyond the reach of tax inspectors, particularly in the informal sector, and to fine those that do not comply with their tax obligations or do not register their workers. However, it is equally important to include other measures, for example: i) provide information on tax obligations before resorting to applying sanctions; ii) ensure increased inclusion of SMEs in the design and implementation of laws that affect their tax compliance, with a focus on formalization; iii) adapt laws and sanctions to the specific circumstances of SME business environments; and iv) create incentives for compliance.

Countries with special tax regimes should ensure that these help consolidate entrepreneurial processes and the promotion of new enterprises. It is also necessary to establish clear ties or transitions to general regimes, perhaps through continual tax scale increments. This is important because informality in the enterprise environment subsequently hinders labour formalization processes.

In sum, the development of sustainable enterprises depends on coherent, integrated regulations, both for enterprise start-up activities and for enterprise survival and development. To this end, it is also essential to have the national and sub-national institutional capacity to encourage a vision of formality as beneficial rather than as an unnecessary cost for growth.

## 3.4 Rule of law and secure property rights

> A formal and effective legal system which guarantees all citizens and enterprises that contracts are honoured and upheld, the rule of law is respected and property rights are secure, is a key condition not only for attracting investment, but also for generating certainty, and nurturing trust and fairness in society. Property is more than simply ownership. Extending property rights can be a tool for empowerment and can facilitate access to credit and capital. They also entail the obligation to comply with the rules and regulations established by society.[50]

In this pillar, LAC results for all indicators fall far short of levels achieved by the HIC- OECD, especially in terms of the index of property rights and upholding contracts (Figure 22). The indicators for this pillar and the previous one are not quantitative, but rather reflect perceptions and therefore contain subjective valuations. Nevertheless, these are key aspects for understanding the difficulties in starting and developing enterprises in the region.

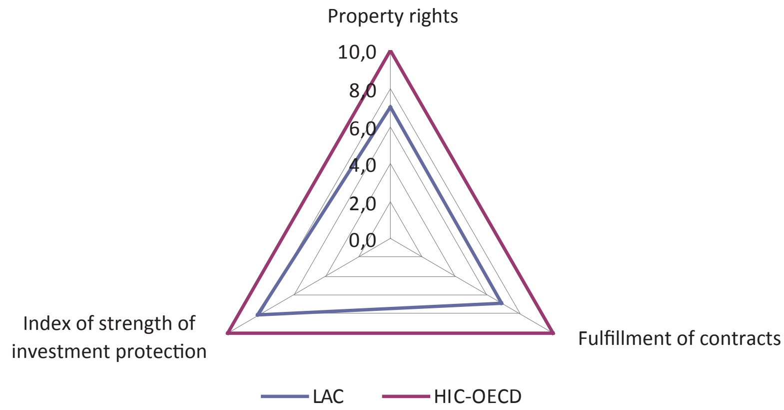
The development of sustainable enterprises requires societies in which the rule of law functions adequately. The existence of trade disputes is relatively normal in a market economy, but their satisfactory resolution can be complicated if the respective legal institutions and frameworks are weak or non-existent. Upholding and honouring property rights also are essential for enterprise sustainability.

A market economy is an exchange system, which to be successful so that it can contribute to overall well-

[51] ILO (2008a). *Op. cit.*

**FIGURE 22**

**LAC and HIC-OECD. Indexes of the rule of law and secure property rights**




**Source:** ILO, based on WB data.

being, must be based on trust in legal institutions and frameworks. The predictability of and compliance with contracts and other written agreements help forge this trust. Respecting ownership of assets, whatever they may be, contributes to this trust, which supports credit and at the same time encourages capital formation, a basic condition for enterprise activity. Without trust, costs for compensating for the lack of certainty and compliance can significantly distort proper resource allocation and economic growth.

Clearly, respect for these pillars falls short in the region, particularly in countries where enterprises do not trust in government institutions and laws, which hinders enterprise development. The recommendations with respect to this pillar and the previous one are simple and focus on ensuring enforcement of the law to promote trust among investors. In response to the poor perception regarding the existence of the rule of law, governments should strengthen mechanisms to ensure respect for property, reform civil and procedural codes and improve legal and law enforcement systems (prosecutor's offices, justice branch, police force). In other words, institutional frameworks should be strengthened and improved to implement legislation that upholds the rule of law, especially property rights. To this end, an effective, predictable justice administration system is needed.

### 3.5 Fair competition

It is necessary to establish, for the private sector, competition rules that include universal respect for labour and social standards, and to eliminate anti-competitive practices at national level.[51]

In the pillar on competition, although a gap exists between the region and the HIC-OECD, it is smaller than those of the previous pillars. The indicator on intensity of local competition in the region is 84% of that of the HIC-OECD; the indicator on market dominance stands at 71%; and the indicator on the effectiveness of anti-monopolistic policy is the lowest of the indicators measured at 64%, which is associated with the high levels of enterprise concentration in all sectors of the economy (Figure 23).

Some Latin American economies and certain sectors of those economies are quite small, thus naturally resulting in enterprise concentration. However, special care should be taken when examining country by country and sector by sector and within each country on the existence, or lack of, competition problems. In several countries, competition from the informal sector limits the competitiveness of law-abiding enterprises.

Thus, countries should modernize their laws to include mechanisms that guarantee competition, such as independent agencies to oversee competition, for example, or the pre- and expost control of mergers, and that limit abuse of dominance within their markets.

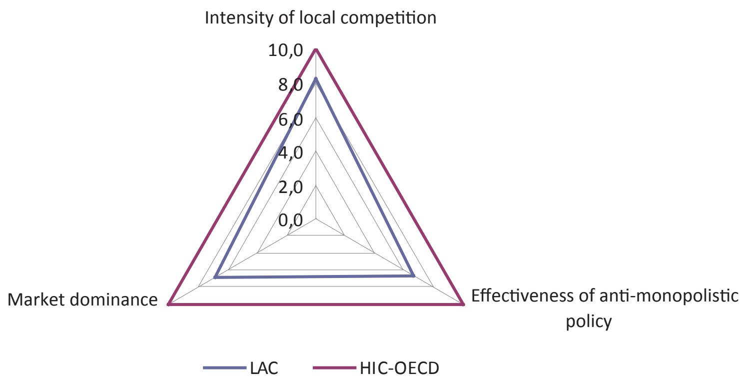
### 3.6 Innovation and information and communication technologies

Expanding access to information and communication technologies (ICTs) is another crucial challenge in the era of the knowledge economy. The use of ICTs is, therefore, fundamental to the development of sustainable enterprises and must be fully utilized in this regard. Affordable broad-band technology is also of extreme importance to countries and enterprises and should be facilitated.[52]

[52] ILO (2008a). *Op. cit.*
[53] An interesting example is the programme "One computer, one

## FIGURE 23

### LAC and HIC-OECD. Indicators of fair competition



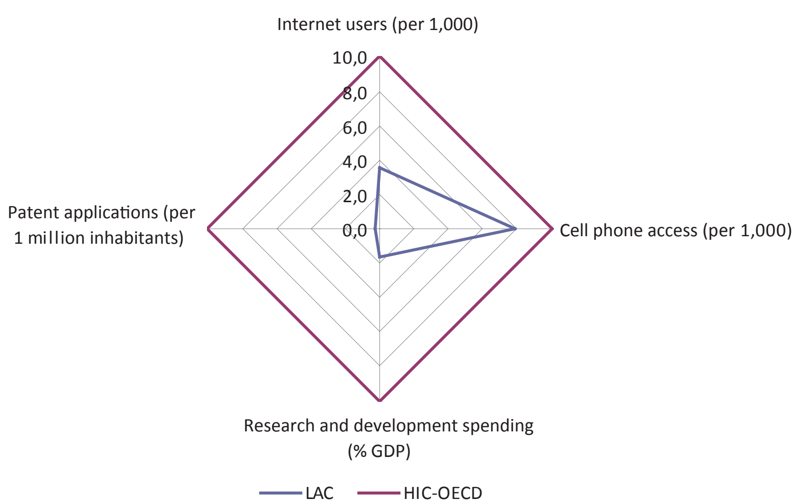

**Source:** ILO, based on WEF data.

This pillar includes indicators associated with ICT and research and development, as well as with the registration of patents, whose development creates conditions for promoting innovation and production of goods of increased added value and technological sophistication. This is the pillar where the region lags farthest behind in comparison with the HIC-OECD, as Figure 24 shows, especially in the following areas:

- The HIC-OECD spends approximately six times more on research and development than LAC countries, and registers 51 times as many patents.
- In the HIC-OECD, Internet access is far above that of LAC.
- With respect to cell phone access, the region has levels similar to those of the HIC-OECD.

## FIGURE 24

### LAC and HIC-OECD. Indicators of innovation and use of ICTs




**Source:** ILO, based on WB data.

Innovation and development, as well as ICTs, are crucial for enterprise development given their effects on productivity, economic growth and the design of new business models that lead to the development of new services vital for the diversification of the economy. This creates more opportunities for enterprises and workers.

The production of more technologically-sophisticated goods, a rarity in the region, requires a more skilled labour force, which at the same time creates more opportunities for generating wealth. The lack of impetus for the production of more technological goods implies that there will be no stimulus for a more highly skilled workforce.

Results for this pillar underscore the need for LAC governments to increase their focus on:

- Developing and consolidating national science, technology and innovation systems (including incentives) and advancing quality certification systems and technical inspections of transportation resources, equipment and other services.
- Developing tools to assess programmes and incentives designed to promote science, technology and innovation.
- Expanding the supply of technological services and infrastructure from research and development centres, universities and consulting firms, among others, in an effort to forge closer ties between enterprises and research centres.
- Eliminating systemic obstacles to innovation and development in areas such as financing, facilitation and closing of start-ups, and protection of intellectual property.
- Expanding human capital development programmes for innovation and development in the education sector, modifying human resource development policies; in other words, from high-level professional training to intermediate levels of training in technical fields.

In the framework of access to ICTs and Internet connectivity, countries should establish policies and practices to give vulnerable populations and youth access to computer services and training in these technologies.[53] At the same time, competition should be encouraged among broadband service providers in the countries and service subsidies should be provided in rural areas.

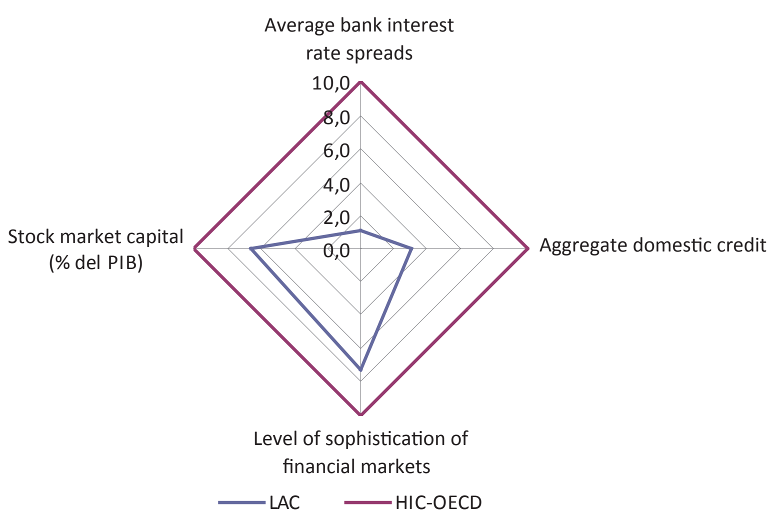
## 3.7 Access to financial services

> A well-functioning financial system provides the lubricant for a growing and dynamic private sector. Making it easier for SMEs, including cooperatives and start-ups, to access financing, for example, credit, leasing, venture capital funds or similar or new types of instruments, creates appropriate conditions for a more inclusive process of enterprise development. Financial institutions, particularly multilateral and international ones, should be encouraged to include decent work in their lending practices.[54]

In Latin America, private sector lending as a percentage of GDP was 31% in the period 1965-2003,

**FIGURE 25**

**LAC and HIC-OECD. Indicators of access to financial services**




**Source:** ILO, based on WB information.

child," implemented in Uruguay and some regions of Peru.

[54] ILO (2008a). *Op. cit.*

[55] As mentioned in the methodological section, all indicators were

with a TFP decline of -0.5%. In developed and Asian countries, private sector lending as a percentage of GDP was between 70% and 80% in the same period, with a TFP growth rate of 0.6% and 1.3%, respectively (IDB, 2010).

Indicators for this pillar reveal major gaps in LAC related to problems of risk, coverage, access to the financial market and information on use of services. The index of level of sophistication of financial markets in the region was 72% of HIC-OECD levels (Figure 25). Furthermore, in LAC, aggregate domestic credit as a percentage of GDP was just 30% of the level achieved in the HIC-OECD during the study period.

The study found marked differences in terms of interest rate spread, with the rescaled index in LAC standing at just 10% of that of the HIC-OECD.[55] Figure 26 also compares the distributions of absolute values (without rescaling) of these spreads, which clearly shows that all OECD countries have levels below LAC countries. Some studies, such as that of the IMF, found that spreads in LAC are high because the region has less efficient banks (which also reflects weaker competition), relatively high interest rates and higher reserve requirements.[56] To address these problems, LAC countries should promote increased competition in the banking sector.

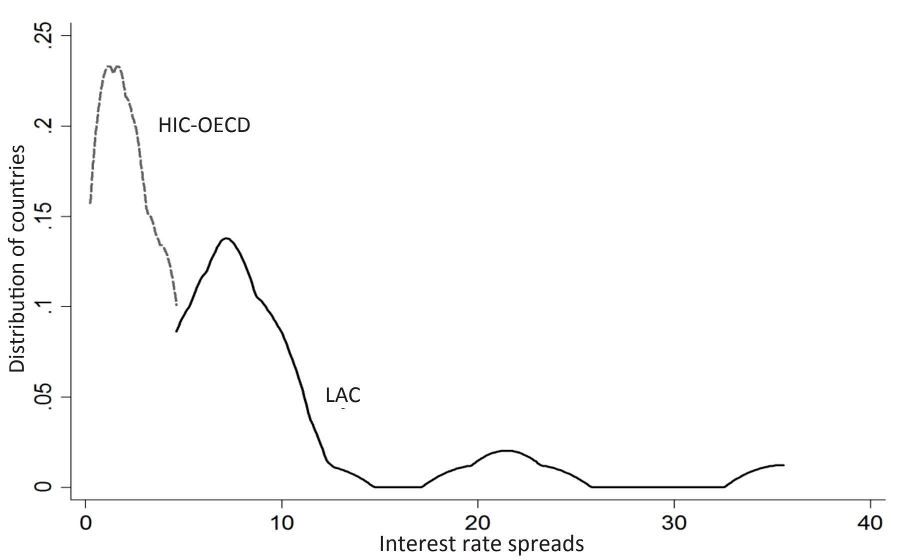
Access to credit markets allows enterprises to grow, develop and consolidate, raising their productivity through the acquisition of modern technologies in the form of capital goods, development of technological innovation and attainment of working capital. In addition, access to non-banking financing – venture capital and seed capital – is essential for promoting new enterprise development.

For many enterprises, a constraint to accessing credit is the lack of collateral required for loan applications. This is associated with the limited development of guarantee funds in loan contracts. Credit access is difficult even for formal enterprises, especially micro and small enterprises. At any rate, facilitating access to credit favours formalization. In practice, a large number of mainly small enterprises obtain financing from informal credit markets with unregulated costs.

One way to improve access is to formalize enterprises and promote competition in the banking sector, which implies allowing access to new agents, without neglecting oversight of the banking system. Other crucial measures include developing guarantee funds for enterprises that have no collateral for bank loans; promoting the development and expanding coverage of ratings agencies; and fostering cooperation for sharing credit information.

**FIGURE 26**

**LAC and HIC-OECD. Empirical distribution of interest rate spreads**




**Source:** ILO, based on WB information.

modified to ensure that they read "more is better."

[56] See Gelos, G. (2006). *Banking Spreads in Latin America*. IMF Working Paper, WP/06/44. Washington, D. C.: IMF.

[57] ILO (2008a). *Op. cit*.

Some countries have made strides in developing microcredit or microfinance systems, for example. Some of these systems are regulated by banking authorities. Nevertheless, the cost of that credit is high and tends to limit the economic viability of many micro and small enterprises. For that reason, several countries have introduced regulatory frameworks for enterprise bankruptcy proceedings so that their main creditors have the possibility of recovering their loans. In other countries of the region, regulatory improvements are also needed to ensure that non-competitive, excessive costs are not imposed in credit markets. Finally, as a complementary measure, governments should develop programmes to promote entrepreneurship. These programmes should include venture capital funds and seed capital funds, which are vital for starting a business. This issue will be revisited in the chapter on social environment.

## 3.8 Physical infraestructure

> Enterprise sustainability and human development critically depend on the quality and quantity of the physical infrastructure available, such as physical facilities for enterprises, transportation systems, schools and hospitals. Reliable and affordable access to water and energy also remains a major challenge, especially in developing countries. Enterprises are also particularly assisted by local access to supporting industries such as service providers, and machinery suppliers and producers.[57]

As Figure 27 shows, the indicators of this pillar reveal that the region lags behind in terms of physical infrastructure:

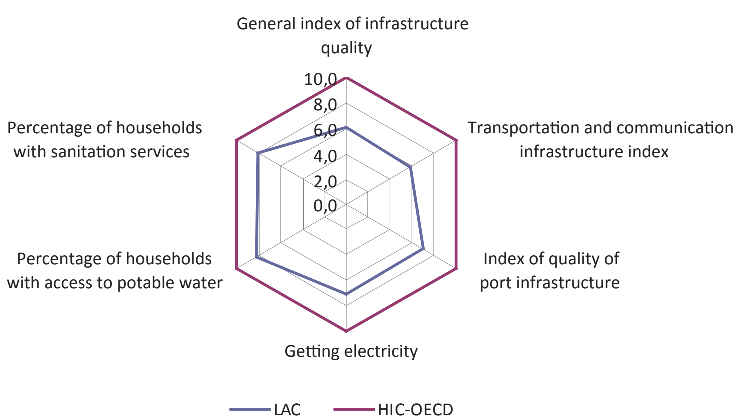
- The general infrastructure index for LAC is 63% of that of the HIC-OECD whereas the transportation and communication infrastructure index is 60% and that of infrastructure quality is 73%. These findings point to the lack of sufficient infrastructure – highways, ports and airports – as well as the poor quality of existing infrastructure in LAC.
- The results of the indicators on basic infrastructure are closer to those of the HIC-OECD. Nevertheless, the regional average distorts the reality of some countries, where access to basic services is still limited in urban areas and especially in rural zones.

Enterprises are sustainable to the extent that sufficient infrastructure exists to allow them to operate and develop (electricity, roads, ports, airports, Internet connection, among many others). This infrastructure must be in good condition – of good quality – and well managed. Infrastructure construction is also a key source of job creation and a driver of economic development.

In addition, basic social infrastructure (access to potable water, electricity and sanitation services) contributes to reducing inequality and poverty. Access to this type of infrastructure has positive effects on income and well-being of the poorest sectors, generates increased access to the labour market and favours human capital development. It is estimated that in LAC, at least a third of the rural population – 40 million people – still have no access

**FIGURE 27**

**LAC and HIC-OECD. Infrastructure indexes**




**Source:** ILO, based on information from the WB, WHO and WEF.

[58] ILO (2008a). *Op. cit.*

to electricity. Potable water coverage is also low, although rates vary between countries.

Governments have traditionally assumed responsibility for infrastructure development. After the crisis of the 1980s, some countries of the region sought alternative forms of infrastructure financing through concessions to private enterprises. Nevertheless, the incursion of the private sector in the construction of infrastructure has been insufficient to offset the decline in total investment in this area (most of the countries of the region have not recovered the investment levels they had before the crisis of the 1980s). It seems unlikely that this situation will change in the near future.

Recommendations in this area include:

- Increase investment in infrastructure through innovative financing mechanisms, for example, public-private partnerships, concessions, participation of pension fund administrators (AFP) or national development banks, where they exist, given that fiscal and external debt policies will probably be insufficient for financing all required infrastructure.
- Establish rigorous mechanisms for selection and evaluation of public investment projects, based on a comprehensive vision of the territory and incorporating mechanisms of public participation in planning and decision-making (quality of projects, transparency and community participation).
- Eliminate biases toward investment and against maintenance costs, which in many cases would have greater economic returns.
- Address the issue of governance of public infrastructure enterprises, given the deficiencies existing in this area.
- Strengthen tariff or tax systems to collect the economic returns of infrastructure spending.
- Create or strengthen national and regional bodies responsible for providing basic infrastructure, with a view to facilitating political and financial decision-making.
- Promote infrastructure projects that encourage development of entrepreneurship and employment.

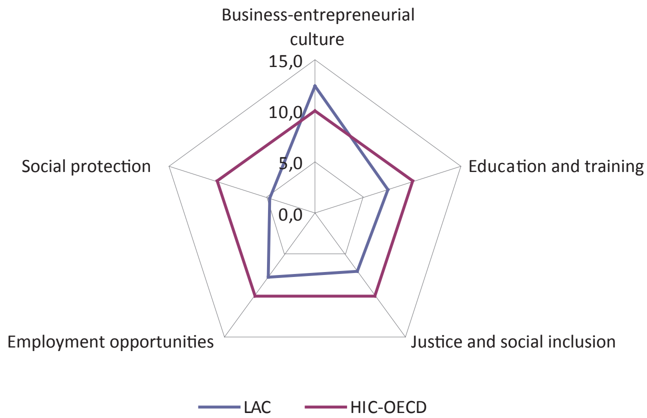
In the specific case of rural electrification, governments should strengthen professional, technical and administrative associations of service providers with a view to either extending networks based on existing lines or to creating separate renewable energy systems. In addition, they should define an administrative scheme that guarantees project sustainability and, to the extent possible, that promotes community participation where installations exist. It should also strive to charge service rates in accordance with users' ability to pay..

# Chapter 4: Social context

Of the 17 conditions for an enabling environment for sustainable enterprises, four are associated with the social context. The indicators presented in this chapter measure basic components of human development, such as education level of the population, social inclusion and social protection. Countries with positive social context indicators have populations with high education levels and demonstrate high development indexes, which also favour social cohesion, enable workers to better satisfy the work demands of enterprises, improve productivity and generate increased benefits for society as a whole.

**FIGURE 28**

**LAC and HIC-OECD. Aggregate social indicators**




**Source**: ILO, based on data from World Bank, ECLAC GEM, WHO, UNDP and WEF.

## 4.1 Entrepreneurial culture

> Governmental and societal recognition of the key role of enterprises in development and strong support, both public and private, to entrepreneurship, innovation, creativity and the concept of mentorship, particularly for start-ups, small enterprises and targeted groups such as women and youth, are important determinants of a conducive business environment. Respect for workers' rights should be embedded in programmes targeting entrepreneurial culture.[58]

Data of the Global Entrepreneurship Monitor (GEM)[59] demonstrate that LAC countries outperformed the HIC-OECD in terms of perceived opportunities and percentage of people who plan to open a business. Conversely, the HIC-OECD surpassed LAC countries with respect to density of formal enterprises per 1,000 inhabitants.[60] These findings suggest that in most cases, the intention to open a business does not result in the establishment of a formal enterprise. In LAC countries, few new entrepreneurs open a business motivated by opportunity rather than need. This indicator is more favourable in the case of the HIC-OECD. Most entrepreneurs in LAC have become so due to a lack of other opportunities; in other words, because they cannot find employment, their earnings are very low or employment conditions precarious.[61]

Study results confirm the need to improve the entrepreneurial culture in the region, with an emphasis on entrepreneurship by vocation. Weaknesses persist in the institutional framework that facilitates the establishment of enterprises in their planning, creation, development and consolidation phases. The evidence reveals that SME-promotion programmes have difficulty achieving a real impact on enterprises with growth potential.[62] Workers with an entrepreneurial spirit are in the best position to contribute to increasing productivity and innovation in enterprises. Although there is greater awareness of this in recent years, the inclusion of entrepreneurship in the curricula of schools and universities is still incipient in the region. Strategies to promote an entrepreneurial culture in the region should focus first

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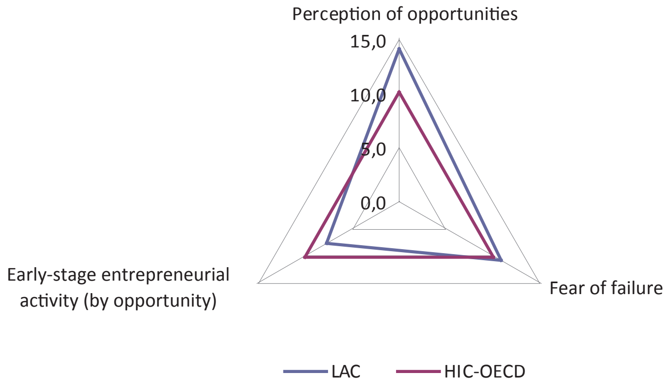
[59] The Global Entrepreneurship Monitor monitors entrepreneurial activity of countries. It was established in 1999 by the London School of Economics and Babson College.
[60] Eurostat (2009). *European Business: Facts and Figures 2009*. Luxembourg: European Commission, Eurostat.
[61] ILO (2010b). *Decent Work and Youth in Latin America*. Lima, Peru: ILO/ Promotion of Youth Employment in Latin America Project.
[62] See, for example, Bonilla C. A. and C. A. Cancino (2011). *The Impact of the Seed Capital Program of* SERCOTEC *in Chile*. Working paper series, 279. Washington, D. C: IDB; and Kulfas, M. (2008). *Las pymes argentinas en el escenario post convertibilidad. Políticas públicas, situación y perspectivas*. Santiago, Chile: ECLAC.
[63] ILO (2008a). *Op. cit*.

**FIGURE 29**

**LAC and HIC-OECD. Entrepreneurial culture**




**Source:** ILO, based on GEM data.

on reducing the level of risk facing those who start a business for the first time, as well as the levels of uncertainty in the economy for facilitating an enabling environment for new enterprise development. Second, governments should eliminate constraints to starting a business, which will complete the work begun in several countries to simplify business procedures.

Areas that require strengthening include mechanisms to facilitate starting a business, such as access to business development services, conventional and unconventional financing and in general mentoring activities to reduce the failure rates of new businesses. Public policies to promote SMEs need to be more specific in terms of support to enterprises with greater potential. The assessment of capacities of promotional institutions in LAC countries and capacity building should be integral parts of a strategy to vitalize entrepreneurship.

## 4.2 Education, training and lifelong learning

> Human talent is the single most important productive factor in today's economy. Focusing on the development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning is important for helping workers to find good jobs and enterprises to find the skilled workers they need. Financial support should also be made available to enhance access of poor workers to training and skills upgrading. In this way, society can achieve the twin goals of economic success and social progress.[63]

Education is essential for a country's economic and social development. The development of an appropriate education and training system capable of training qualified professionals and which can be adapted to the constant changes in the labour market is crucial for enterprises to achieve their objectives and to become globally competitive.

Productivity increases are directly related to investment in human capital, among other factors. Consequently, the poor education levels in LAC countries are a serious limitation to development since demand for knowledge increases in a global economy characterized by continual technological advances.

The region has made significant progress in secondary education enrolment, which rose from 81% to 90% on average between 1999 and 2007. However, this average hides gaps between countries.[64] Education rates begin to decline with age: by age 17, a third of youth no longer attend school and only 51% complete secondary school in the region.

Countries of LAC need targeted medium- and long-term policies to promote and facilitate youth's secondary school completion. Secondary school is considered a basic condition for their entry and successful permanence in the labour market. It is essential to create more integrated education systems that better link basic education, vocational training, labour market entry and lifelong learning.[65]

Increased education coverage has not been accompanied by a substantial quality improvement,[66]

[64] UNESCO (2010). *Education for All Global Monitoring Report* 2010. *Reaching the marginalized*. Oxford, UK: Oxford University Press.

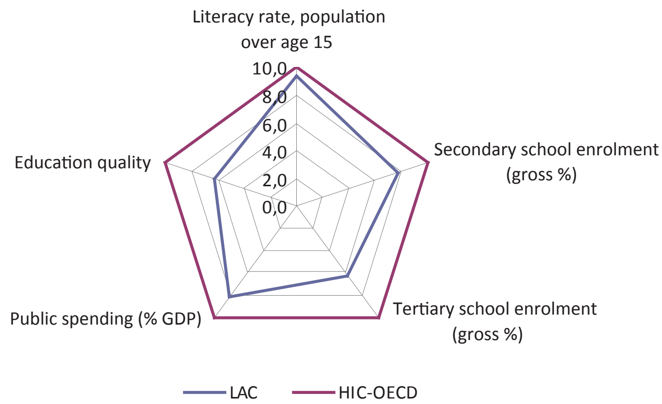
[65] ILO (2008b). *Conclusions on skills for improved productivity, employment growth and development*. *International Labour Conference*, 2008. Geneva: ILO.

[66] World Economic Forum (2011). *Global Competitiveness Report* 2011-2012. Geneva, Switzerland: WEF.

[67] Programme for International Student Assessments of the OECD

## FIGURE 30

### LAC and HIC-OECD. Education, training and lifelong learning




**Source:** ILO, based on World Bank and WEF data.

although a slight improvement in PISA test performance has been reported in the past 10 years.[67] Available data on results of standardized testing systematically demonstrate that private school students perform better than those from public schools in some countries of the region.[68]

In LAC countries, average public spending on education as a percentage of GDP continues to be lower than in the HIC-OECD, but spending has increased over the past decade. Argentina, Bolivia, Brazil, Colombia, Costa Rica, Mexico and Uruguay have education expenditure levels higher than the regional average.[69]

It is crucial to improve the relationship between education and the labour market. Solid agreements and associations among governments, employers and workers is essential for developing an effective link between the world of work and that of learning, with tripartite participation in the design, implementation and evaluation of skills development policies.

In the region, enterprises in some sectors frequently encounter difficulties in finding sufficient human resources with the skills they require, particularly for export-related enterprises. Sector business associations, governments and academia should join forces to gradually remedy this deficit.

A wide range of public and private professional and technical training programmes exist in the region, whose services vary in terms of quality and real correspondence with labour market demands. Professional and technical education institutions face the daunting challenge of permanently updating their services, taking into account the demands of the productive world and new user profiles. Enterprises of the region have become increasingly aware that a well-trained labour force is essential for achieving a competitive advantage in a context of rapid technological and market changes.

The percentage of enterprises that train their workers in LAC approaches that recorded for industrialized countries.[70] Nevertheless, a gap exists between large and medium-sized enterprises, on the one hand, and micro and small enterprises on the other, since the latter have difficulties in devoting time and resources to training and take less advantage of existing programmes and subsidies. These programmes, which in some cases are implemented by governments, have advanced toward national systems for skills recognition based on professional profiles and qualifications. However, these attempts to adapt training to the real needs of enterprises and workers are limited by inefficient monitoring and evaluation systems, as well as by the limited availability of labour market information and job skills in demand in the market.

Another area for action is to create conditions so that enterprises of different sizes can generate lifelong learning opportunities, whether in the workplace or through training providers. New approaches and good practices – such as internships, joint enterprise-technical institute programmes, shared training coverage and subsidies clearly targeting

(PISA).
[68] ECLAC (2010). *Time for equality, closing gaps, opening trails*. Santiago, Chile: ECLAC.
[69] OECD/ECLAC (2012). *Latin American Outlook 2012: Transforming the State for Development*. France: OECD Publishing.
[70] Márquez G. (2001). *Training the Workforce in Latin America: What Needs to be Done?* Washington, D. C.: IDB; Bassanini, A. et al. (2005). *Workplace Training in Europe*. IZA Discussion Paper N° 1640. Bonn, Germany: Institute for the Study of Labor (IZA).
[71] ILO (2008a). *Op. cit.*

skills development, among others – should be more actively promoted. Flexible internship programmes are needed that also offer the necessary protection to students training in enterprises. Equally necessary are new strategies to support worker training in informal enterprises.

Temporary or per job labour contracts in productive sectors such as agriculture and construction reduce incentives for enterprises and workers to invest in the development and acquisition of new skills. This situation is compounded by the problem of the informal economy, where job training policies and subsidies do not reach. Women and vulnerable groups continue to face additional barriers to accessing job training.

In LAC, significant advances have been made in gender equality in education. Women's educational levels surpass those of men, but enormous gaps persist in terms of socioeconomic, geographic and/or ethnic factors. To reduce segmentation of learning and to narrow future wage gaps among different socioeconomic groups, geographic regions, sexes and ethnic groups, governments must expand access to quality education and training to disadvantaged populations. Recommended policies include those designed to further advance girls' education in rural areas and indigenous and African-descendent communities.

Governments should facilitate access of all workers to equal opportunities for professional training and quality training in the workplace, as well as tailor training to the needs of youth and workers with atypical work relationships. Policies are needed to promote and facilitate the training of young women in non-traditional careers in economic sectors with growth potential. Job training deserves solid public regulatory institutions responsible for establishing and applying quality and relevance standards for training programmes. Social partners should be actively involved in the training system, preferably through local or sectoral councils that can develop training policies in accordance with the needs of enterprises and workers.

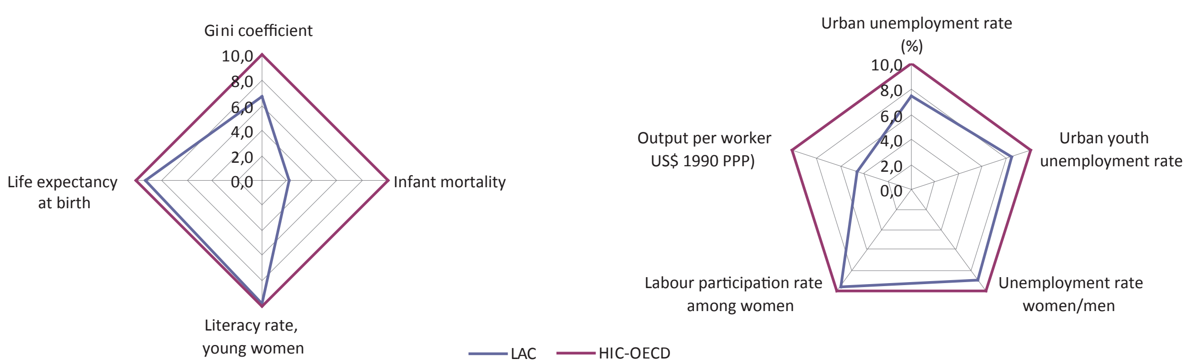
Contributory or deduction systems should be developed in national job training systems to address the disincentives that enterprises face for investing in their workers, who could seek new employment opportunities outside the enterprise once they are trained. Likewise, a rigorous cost-benefit analysis of job training programmes in the region is recommended, with a view to improving the impact of public and private investments and adapting programmes to the needs and challenges of micro and small enterprises. The good practices of some countries of the region with respect to national qualification frameworks should be shared to ensure that workers' skills and knowledge are recognized in an effort to favour increased productivity, employability and social equality. The job skills certification systems created in Chile and Mexico are two examples.

## 4.3 Social justice and social inclusion

Inequality and discrimination are incompatible with sustainable enterprise development. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed. Effective exercise of the right to organize and bargain collectively is also an effective means to ensure fair distribution of productivity gains and adequate remuneration of workers.[71]

### FIGURE 31

### LAC and HIC-OECD. Social justice, social inclusion and labour




**Source:** ILO, based on data of the World Bank, WHO and UNDP.

[72] ILO (2011b). 2011 *Labour Overview, Latin America and the Caribbean.*

The improvement in economic growth conditions in recent years also enhanced social indicators. Poverty declined significantly, from 44% in 2002 to 30.4% in 2011. Extreme poverty fell from 19.3% to 12.8% in the same period. These improvements led to significant increases in indicators such as life expectancy at birth and women's literacy rates, in addition to a sharp decline in infant mortality, although rates varied between countries.

These achievements are clearly associated with the sustained increase in social public spending recorded in the region since the 1990s. However, despite the advances made, inequality and exclusion continue to be a reality for many Latin Americans. Latin America is the most unequal region in the world (with 10 of the 15 most unequal countries in the world) in terms of per capita income, as measured by the Gini coefficient. The average per capita income for households belonging to the wealthiest stratum is 17 times higher than the 40% belonging to the poorest households, although figures vary significantly by country.

According to information from ILO and ECLAC, there has been a trend toward less informal employment in the labour market in the past decade.[72] Despite this positive trend, approximately 50 of every 100 employed persons had informal employment in 2010. Statistics demonstrate that the labour market still does not fulfill its basic function of promoting inclusion and social cohesion in the region.

Between 2002 and 2008, in 13 of the 21 LAC countries with available information, the wage share of GDP declined.[73] Wages increased moderately in the region, by 14.8% in real terms during 1999-2009.[74] Inequality in the region is closely related to productive diversity: large productivity gaps between sectors and enterprise sizes persist[75] -- on the one hand, micro and small enterprises, and on the other, medium-sized and large enterprises. The former segment generates more than half of total employment but just 17% of GDP.[76] This asymmetrical production reflects the inequality and social exclusion in the region.

Gaps and problems with entry in labour markets persist, particularly for women and youth, who continue to have unfavourable unemployment rates and other labour indicators. Youth have the highest incidence of informal employment in its different forms. In the group of 16 countries in the region with available information, 60 of every 100 youth have informal jobs.[77] Historically, youth of the region face greater difficulties in entering and remaining in the labour market, tend to access precarious employment and are more vulnerable to the effects of economic crises. In 2011, the simple average of the youth unemployment rate tripled that of adults.[78] The incidence of informal employment is higher among women (53.7%) than among men (47.8%), a difference largely explained by the high level of informality in domestic service.

The average regional unemployment rate among men in 2011 was 5.9%, as compared with 8.3% among women.[79] Despite an overall positive trend in women's employment, the labour participation rate of less-educated women from low-income households continues to be highly precarious. A significant wage gap exists between men and women in the region, due both to the concentration of women in low-wage jobs and to discriminatory wage practices. Women's monthly earnings relative to men's ranged from 72% in Brazil and Peru to 102% in Honduras. The simple average of women's wages as compared with men's in 12 countries with available information is 85%.

Conditional cash transfer programmes have played an important role in reducing poverty in different countries of LAC. These programmes are currently implemented in 18 countries and benefit over 25 million households (approximately 113 million people), in other words, 19% of the LAC population, at a cost of approximately 0.4% of the regional GDP.[80] The decline in national poverty rates among the unemployed from these transfers ranges from 0.4 to 2.5 percentage points, depending on the scope and transfer amounts. Even so, the region needs more inclusive development, which would imply benefits not only for enterprises, but also for society as a whole. Likewise, research should be conducted to determine whether these cash transfers impede the formalization of the labour force.

Reducing inequality should be a central theme on the public agenda of all LAC countries. Governments should focus on increasing the participation of excluded and vulnerable sectors in the benefits of growth. Social dialogue is an important medium for achieving social inclusion.

Closing this gap requires strengthening mechanisms to ensure that wages reflect productivity changes in the countries. To this end, it is essential to implement

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Lima, Peru.

[73] ECLAC/ILO (2012). *The Employment Situation in Latin America and the Caribbean: Labour productivity and distribution issues*. Bulletin N° 6. Santiago, Chile.

[74] ILO (2010a). *Global Wage Report 2010-2011. Wage policies in times of crisis*. Santiago, Chile: ILO.

[75] ECLAC/ ILO (2012). *Op. cit*.

[76] ECLAC (2010). *Time for equality, closing gaps, opening trails*. Santiago, Chile: ECLAC.

[77] ILO (2011b). *Op. cit*.

[78] Simple average of 10 countries with available information. [ILO (2011b). *Op. cit*.].

[79] Weighted average of 14 countries with available information. [ILO (2011b). *Op. cit*.].

[80] Cecchini S. and A. Madariaga (2011). *Conditional Cash Transfer Programmes: The Recent Experiences in Latin America and the Caribbean*. Cuadernos de la CEPAL, 95. Santiago, Chile: ECLAC, Asdi.

[81] ILO/UNDP (2009). *Work and Family: Towards new forms of reconciliation*

measures to formalize enterprises and workers in the informal economy, to develop schemes to link earnings directly with changes in productivity and to offer initiatives to strengthen collective bargaining. In order for the labour market to become a source of opportunities and benefits in inclusion processes, governments should take into account that its proper functioning depends on public policy options, which should be developed in a participatory manner with a view to achieving consensus and commitments on the part of actors in the world of work. Labour legislation should focus on progressively achieving equilibrium and harmony in labour relations by establishing basic guarantees for social-labour well-being on the one hand and promoting the development and growth of sustainable enterprises in an environment of openness and global competitiveness on the other.

New and improved programmes to support productivity gains and the linkage of SME activities are sorely needed. This involves a qualitative leap in tools for productive and local economic development and strengthened promotional institutions that are better linked with SME associations. The construction of an inclusive financial system that offers adequate financing for the different enterprise segments, both large and small, requires policies to diversify financial intermediaries and risk administration.

In addition, governments should work to improve the quality and effectiveness of other policies for industrial development and promotion to support innovation-intensive sectors. This requires increased investment in applied technological innovation and its dissemination to SMEs. All countries have programmes to promote innovation, but they need to improve their quality and targeting in light of the diversity of enterprises and their different technological stages. Moreover, linkages are needed with efforts of social actors to improve the incorporation of youth in the formal labour market through employability and job training policies, schemes designed to facilitate the school-work transition, strengthening of labour subcontracting and, where applicable, incentives for youth hiring.

Reducing the gap in wages and labour participation of women requires anti-discrimination policies and reconciliation of work and family life, with an emphasis on less-educated women from low-income households, as well as the increased insertion of women in high productivity sectors. The availability of care facilities for small children increases women's labour participation rates and job earnings. These measures should be accompanied by the promotion of new types of work organization that favour social co-responsibility, and by improvements in the capacity of social security to meet care needs.[81]

Governments should work to define and implement policies and programmes to reduce vulnerability and exclusion of marginalized economic units and workers through their incorporation in the formal economy; address the issue of informality through programmes in education, training, lifelong learning, security, microfinance and promotion of business initiative; and support the implementation and enforcement of rights and protections through improved systems of labour inspection and easy, rapid access to legal aid and the justice system.[82] Efforts should focus on giving coherence to and integrating urban and rural development policies, sectoral objectives and overall growth plans. Social integration objectives, quantitative employment targets and effective monitoring and evaluation mechanisms should also be defined.

## 4.4 Adequate social protection

> Sustainable tax-based or other national models of universal social security that provide citizens with access to key services such as quality health care, unemployment benefits, maternity protection and a basic pension, are key to improving productivity and fostering transitions to the formal economy. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development.[83]

The countries of LAC have a variety of public and private contributory and non-contributory social protection mechanisms, both mandatory and voluntary. These mechanisms co-exist with social assistance policies, conditional and non-conditional cash transfer programmes and different types of social services.

Social protection coverage in both health and pensions made important gains in the period 2000-2010. However, social security services still demonstrate deficits associated with quality, coverage and financing. Given the strong link between employment and social protection, a large percentage of people are excluded from social security systems.

Health coverage improvements outweighed those in pension coverage. In 2010, 60% of the urban employed population had health coverage whereas just 43% of this population had pension coverage.[84] Coverage rates for both were similar among men and women,[85] but lower among women in lower-wage

*with social co-responsibility*. Santiago, Chile: ILO and UNDP.

[82] ILO (2002). "Resolution concerning decent work and the informal economy." International Labour Conference, 90th session. (2002)". Geneva, Switzerland: ILO, Governing Body.

[83] ILO (2008a). *Op. cit.*

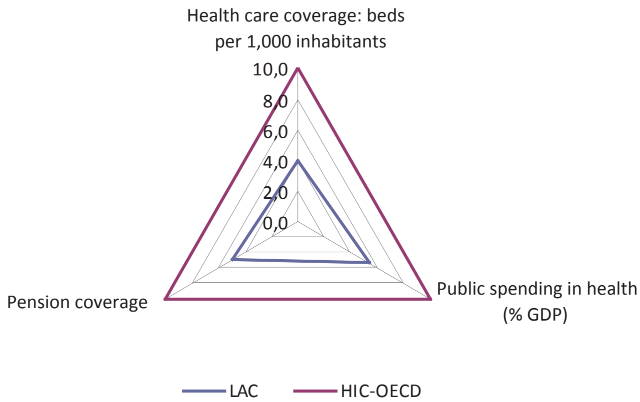
[84] Based on a group of 12 countries with available information. [ILO (2011b). 2011 *Labour Overview, Latin America and the Caribbean*. Lima, Peru].

[85] ILO (2011b). *Op. cit.*

[86] ECLAC (2011b). 2011 *Social Panorama of Latin America and the*

## FIGURE 32

### LAC and HIC-OECD. Social protection




**Source:** ILO, based on ILO and WHO data.

sectors.[86] In 2009, an average of 36% of households in countries with available information did not have social security coverage and did not receive retirement or other pensions of public welfare transfers.[87]

Wage and salaried workers of the public sector and those of the private sector working in larger enterprises have the highest levels of coverage. Non-wage workers, including employers, had lower coverage rates, at 37% and 11% for health and pensions, respectively, in 2010. Own-account and domestic workers have coverage rates ranging from 33% to 36% for health and from 9% to 16% for pensions, respectively. In these two last categories, women are in a more precarious position than men, especially those employed in domestic service, where the difference is up to 13 percentage points lower for pension coverage.

Social protection among own-account workers is a particular concern. In the region, own-account workers account for one of every four employed individuals, approximately. A large share of these workers has informal employment without social protection coverage. Several countries of the region have made strides in the design and implementation of policies to incorporate these workers in social security systems, with varying levels of success.

Argentina, Brazil, Chile, Ecuador, Uruguay and Venezuela have unemployment insurance based on contributory mechanisms and formal employment relationships. Even though the duration of benefits tends to be limited and benefit payments are low in these incipient systems, their creation is considered an important advance for the region. The main protection mechanism in the case of dismissal without just cause continues to be severance pay, which has serious limitations, both in terms of the cost to enterprises and coverage. With regard to health coverage expressed in the number of beds per 1,000 inhabitants, there is a large gap between the region and the HIC-OECD. Public health spending as a percentage of GDP is substantially lower in LAC, with marked differences between countries.

In accordance with national circumstances, countries should establish and maintain their social protection floors, which should include basic social security guarantees. The guarantees should ensure at a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level.[88]

The current economic situation in the region represents a window of opportunity for making the reforms necessary to ensure that these systems become more effective tools for reducing poverty and inequality.

Financial coverage of social protection should rely on social solidarity mechanisms, separating the provision of social benefits from the status of each individual in the labour market. To this end, the benefits of low-income youth and women should be subsidized. Existing solidarity pensions should be expanded in several countries of the region, without abandoning the idea of advancing toward a universal

*Caribbean*. Santiago, Chile: ECLAC.

[87] *Ibid*.

[88] ILO (2012e). "Text of the recommendation concerning national floors of social protection." PR No. 14A
101st Session. Geneva, May-June.

[89] Bertranou, F. (2009). *Trajabadores independientes y protección social en*

transfer system for older adults. Unemployment benefits require special attention. Countries that still do not have unemployment insurance should evaluate the possibility of including it in their social protection systems. In those that already have this system in place, the funding base should be expanded and progress should be made in developing this instrument, in light of its role as an automatic stabilizer.

To reduce gaps in social protection coverage between wage and salaried workers and own-account workers and to extend it to the latter, the following is needed: (i) determining whether enrolment in the social protection system should be mandatory for own-account workers; (ii) identifying the regime under which own-account workers will be covered (regular or special regime); (iii) defining the contingencies that will be covered by the social protection system; and (iv) defining benefits that will be delivered to beneficiaries in the short and long terms.[89]

The pending task of improving social protection coverage among women requires reforms designed to ensure that systems acknowledge intermittent contribution periods, as well as unpaid work. ILO Convention 189 on domestic work, which stipulates that the working conditions of domestic workers should be no less favourable than those applicable to other workers, provides an opportunity to achieve increased inclusion of this group of workers.

In addition to the need for reforms of social protection systems, many countries should also strengthen oversight of compliance with social security contributions on the part of employers, workers and authorities. These initiatives should go hand-in-hand with policies to address the low level of benefits, which is a disincentive to enrolment and an incentive for formality. In this context, it is essential to advance toward a more effective health financing system that ensures access to quality health services that are also fiscally sustainable. Without negating the important contribution of conditional cash programmes in reducing poverty in the region, governments should focus on linking these programmes with an integrated social protection system with strong solidarity pillars. Moreover, institutions should be strengthened for improved programme management and efficiency. The idea is to advance toward a comprehensive social protection system with a view toward the future, while avoiding the automatic growth of fiscal spending.

*América Latina: Argentina, Brasil, Chile, Colombia, Costa Rica, Uruguay.* Santiago, Chile: ILO, BPS-Uruguay.

[90] ILO (2008a). *Conclusions concerning the promotion of sustainable*

# Chapter 5: Political-institutional context

The political-institutional context of a country is fundamental for sustainable enterprise development. Without the security afforded by a stable political and institutional context, enterprises will not have the confidence to set up operations in a specific country. This chapter assesses levels of democratic stability, freedom of expression, respect for human rights, government effectiveness and absence of violence in the two regions. It includes the following pillars for an environment conducive to sustainable enterprise development: peace and political stability, good governance, social dialogue and respect for universal human rights and international labour standards.

Within the pillar respect for universal human rights and international labour standards, no significant differences exist between countries and regions in the ratification of fundamental conventions of the ILO. These conventions have been ratified by the great majority of countries in both LAC and the HIC-OECD. The results for the indicators included in Figure 33 demonstrate that in the political-institutional context, the largest gap between LAC countries and the average for the HIC-OECD is in the social dialogue pillar. Although data are incomplete, trade union density and collective bargaining coverage rates are higher in the HIC-OECD than in LAC countries. In other areas, which are more difficult to quantify, such as the existence of national social dialogue mechanisms, the gap is narrower. Differences are also considerable in the good governance pillar: LAC still falls short in terms of transparency, public policy efficiency and accountability of the public sector. Corruption remains a major problem. Indicators for the peace and political stability pillar had similar results, which suggest that political and institutional security is still lacking in the region.

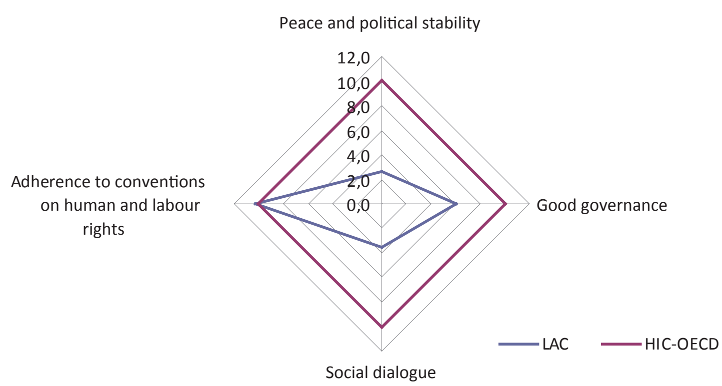
## 5.1 Peace and political stability

> Peace and political stability are basic preconditions to nurture the formation and growth of sustainable enterprises while war and civil conflict are major deterrents of investment and private sector development.[90]

In terms of peace and political stability, LAC is currently experiencing the longest period of democracy in its history. Although improvements are evident in election transparency, macroeconomic policy and institutional capability, capacity building is still needed for solid, sustainable democracy and political stability.

**FIGURE 33**

**LAC and HIC-OECD. Political and institutional context**




**Source:** ILO, based on information from the databases of the World Bank, Freedom House, Fundar, ILO, the United Nations and Transparency International.

The analysis of statistical indicators and the qualitative assessment have identified the most problematic aspects of this issue, including corruption, citizen insecurity and limited freedom of the press. In several countries, there is concern regarding the consolidation of the rule of law, which has a direct impact on the functioning of enterprises.

Although levels vary by country, the following scenarios occur in the region: political intolerance, lack of autonomy between the executive branch and the other branches of government; restrictions on freedom of expression and peaceful protest; existence of a hostile environment for the free

*enterprises*. International Labour Conference, June 2007. Geneva, Switzerland: ILO.

[91] Latinobarómetro Corporation (2011). 2011 *Report*. Santiago, Chile.

exercise of political dissent; and high levels of citizen insecurity. In addition, in some countries, property rights are routinely violated through confiscation and criminal acts. The Inter-American Commission on Human Rights has issued specific statements on these concerns.

Several countries have a high level of citizen insecurity, which hinders enterprise operation and dissuades investment, thereby negatively affecting the economy. According to the 2011 Latinobarómetro report, 28% of Latin Americans believe that a lack of citizen security is their country's worst problem.[91] The region has one of the highest levels of criminal violence and the highest homicide rate in the world. Violence and insecurity are associated with social exclusion and the lack of opportunities, as well as with drug trafficking.[92]

One of the most serious repercussions of this situation on the political, economic and social development of LAC is the potential deterioration of democratic and civil institutions, which may lead to authoritarian responses and the weakening of the state's ability to enforce the law. The region has high insecurity costs, calculated based on lives lost, health problems, medical costs and public and private security costs, among others. A 2000 study on the economic impact of criminal violence in LAC found that associated costs amount to 12.1% of the total GDP of Latin America, in other words, approximately US$ 250 billion.[93]

Freedom of the press is another indicator associated with peace and political stability. The media have the responsibility to inform citizens and to help ensure public accountability by monitoring political activities. This makes freedom of the press, together with freedom of expression and of opinion, a crucial liberty in every country. Despite advances in this area, important weaknesses remain. The Reporters without Borders Press Freedom Index, which attempts to identify limitations to freedom of the press (the higher the note, the more limitations) ranks LAC countries four times higher than the HIC-OECD. The main problems identified included: a lack of regulation and transparency in government control of media ownership and financing; weak mechanisms for public oversight of government action; legal obstacles to media access to public information; and the lack of media diversification. In other words, an increased number of media and their democratization through mechanisms of regulation, management and financing would serve to boost media pluralism and therefore improve mechanisms for public oversight of the government administration.

The analysis of data on peace and political stability in LAC confirms the continued validity of the recommendations concerning the role of the government and social partners set forth in the Conclusions concerning the promotion of sustainable enterprises (Geneva, Switzerland: ILO, 2008). To this end, efforts should be made to strengthen the rule of law and governance institutions and systems. These measures should strive first to strengthen institutions to remedy weaknesses in government and those in control systems of institutions, as well as to address citizen insecurity issues. Moreover, legal obstacles to media access to public information should be removed and media should be diversified.

## 5.2 Good governance

> Democratic political institutions, transparent and accountable public and private entities, effective anti-corruption measures and responsible corporate governance, are key conditions for making market economies and enterprises perform in superior ways and be more responsive to the values and long-term goals of society. [94]

The good governance pillar measures government efforts to fight corruption, the clarity with which they inform on their management and the effectiveness of their policies. In general, governments that are held accountable to citizens tend to be less corrupt and more effective since more control is exercised by the relevant institutions, as well as by citizens, thereby creating an environment of greater security for investors.

Some LAC countries are plagued by high levels of corruption due to the lack or ineffectiveness of oversight mechanisms. These high corruption levels are associated with a lack of clarity in government accountability systems, which have repercussions on the improper use of public funds and the perception of governments' limited effectiveness. Corruption imposes an additional cost to enterprise operation. Corruption adds up to 10% to the cost of doing business.[95]

Major deficits exist in terms of budget transparency and government effectiveness in LAC. In this area, the region lags behind others. Knowing how the taxes citizens and enterprises pay are used is essential to demand increased spending efficiency and

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[92] A recent study on Chile estimates that the economic cost of illegal drug consumption totals 0.45% of GDP. This cost is mainly attributed to the control of drug and associated crimes (47%) and productivity decreases caused by lost years of healthy life (46%). [See Fernández, M. (2012). "The socioeconomic cost of illicit drug consumption in Chile." In: CEPAL *Review*, N° 107, August. Santiago, Chile: ECLAC, pp. 93-114].

[93] Londoño, J. (2000). *Asalto al desarrollo: violencia en América Latina*. Washington, D. C.: IDB.

[94] ILO (2008a). *Op. cit*.

[95] International Chamber of Commerce (ICC); Transparency International, United Nations Global Compact and the World Economic Forum Partnering Against Corruption Initiative (PACI) (2008). *The Business Case against Corruption*. Paris, France: ICC.

[96] ILO (2008a). *Op. cit*.

appropriate resource allocation. A common criticism of the checks and balances systems in some countries of the region is the limited power of legislatures in budget monitoring. This is partly due to the excessive power of the executive branch. In many cases it is difficult to apply the law stipulating that the executive branch requires prior legal authorization from the legislature to increase spending levels or reallocate budget items, among other actions.

The region also lags behind others with respect to the government effectiveness index. In addition to public spending transparency, spending effectiveness should be measured since it is a determinant for establishing the bases of development. Citizen participation and transparent accountability mechanisms can contribute to the design and implementation of coherent, sustainable and effective public policies.

Measures are needed to provide solid, institutionalized instruments as well as effective monitoring of public policies and the resources available for their implementation.

Moreover, it is important to continue strengthening institutions in an effort to reduce levels of corruption.

The participation of citizens and social actors can contribute to increasing budget transparency and reducing corruption.

## 5.3 Social dialogue

> Social dialogue based on freedom of association and the right to collective bargaining, including through institutional and regulatory frameworks, is essential for achieving effective, equitable and mutually beneficial outcomes for governments, employers, workers and wider society. [96]

Social dialogue, including all types of negotiation, consultation and the simple exchange of information among government, employers' and workers' representatives with regard to economic and social policy issues of mutual interest, is pivotal for creating a favourable environment for sustainable enterprises.

Several quantitative indicators can be used to measure this pillar, including: trade union density and collective bargaining rates or the existence of social dialogue channels.[97]

The scant development of statistics in several countries of the region hinders a global vision of this issue. An analysis of available information on trade union density and collective bargaining coverage indicates low levels in comparison with the HIC-OECD, despite recent gains in some countries. The simple average of trade union density in LAC (4 countries) is 12.3% of wage and salaried employment whereas it is almost double (23.3%) in the HIC-OECD (16 countries). The gap is even wider in terms of collective bargaining coverage: 5.3% of wage and salaried employment in LAC (6 countries) versus 23.2% in the HIC-OECD (5 countries).

Despite the difficulty in measuring the exercise of freedoms, percentage differences in indicators of the two groups of countries should be considered with caution, among other reasons due to the high incidence of informal employment, the high level of own-account employment and the lack of dialogue culture in LAC countries with respect to the HIC-OECD. Additionally, given the broadness of the concept of social dialogue, measures based on specific data on membership rates or collective bargaining coverage refer only to a small part of what the concept implies, according to the traditional definition coined by the ILO.

Another interesting finding is that despite the lower trade union density and collective bargaining rates observed, the number of workers participating in strikes and lockouts as a percentage of the workforce is higher in LAC than in the HIC-OECD. Nevertheless, these conclusions are heavily influenced by the extremely high values of a few countries. To obtain more definitive conclusions requires an analysis of a sample that includes more countries.

With respect to national social dialogue channels, in the 2000s, as compared with more isolated efforts of the 1990s, there is a trend toward the institutionalization of social dialogue. This has occurred through the creation of economic and social councils or other dialogue bodies or agreements as well as through the strengthening of unions and workers' organizations. Different tripartite social dialogue channels have been implemented in 20 LAC countries: 11 of these are part of national decent work programmes whereas other specific mechanisms were created in the remaining nine countries (Table 7). Although many of these mechanisms are recent, they reflect employers' and workers' desire for dialogue on general and specific issues of labour relations.

These represent important advances in the strengthening of workers' and employers' organizations as social partners. However, the mere existence of these channels, regardless of whether they are permanent or ad hoc, does not guarantee good functioning or concrete results. Despite the growing promotion of social dialogue agreements and spaces, the region faces the challenge of promoting substantive, efficient social dialogue that

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[97] ILO (2012b). *Decent Work Indicators: Concepts and Definitions*. Geneva, Switzerland: ILO. Indicators recommended by the ILO for the social dialogue dimension include the rate of enterprises affiliated with employers' organizations and the rate of collective bargaining coverage. Associated legal indicators include tripartite consultation. No data could be collected on the rate of enterprises affiliated with employers' organizations.

[98] World Values Survey Association (2009). *World Values Survey* 1981-

fosters agreement on major issues concerning social and labour policies and especially with respect to compliance with the terms of the agreements signed. Moreover, social dialogue should not be limited to the institutionalization of spaces that serve as a channel for collective bargaining. It is essential to provide structural support to these efforts – some are consolidated whereas others are new – strengthening both the processes to adopt agreements and the capacity to implement those agreements. For this reason, these spaces should have increased executive authority and closer ties with legislative bodies.

Social dialogue entails the creation of a true culture of trust and a willingness to build consensus among social partners (workers and employers) and governments. Specifically, governments' respect for the representativeness and legitimacy of trade unions and workers' organizations enables relevant organizations to engage in dialogue processes and to generate agreements, not only in terms of collective bargaining but in general in facilitating consultation processes and defining and implementing social, economic and labour policy frameworks that will continue in effect regardless of the political administration in power. The region demonstrates several deficits in this area. Also essential is mutual respect between governments and social partners and among social partners, promoting their strengthening and autonomy. This is a pre-requisite for generating a culture of trust among social partners. Although no specific data exist on levels of trust among these actors, recent data reveal a considerable gap in levels of trust between Latin Americans compared with those of high-income countries of Europe, for

### TABLE 7

**Social dialogue mechanisms and agreements in LAC**

| Country | Year | Mechanisms (s) | Agreement |
|---|---|---|---|
| Argentina | 2008 | Labour Ministry; the Argentine Industrial Union and the General Labour Confederation | Memorandum of understanding for the implementation of the Decent Work Programme for Argentina, 2008-2011 |
| Barbados | 2007 | Government, Employers' Confederation, Congress of Trade Unions, Barbados Staff Associations | Protocol Five of the Social Partnership |
| Belize | 2006 | Labour Ministry, Chamber of Commerce, National Trade Union Congress, AIDS Commission, NGOs | Belize Policy on HIV/AIDS and the World of Work |
| Brazil | 2006 | Tripartite Commission on International Relations (CTRI) | National Decent Work Agenda adopted in tripartite by the CTRI |
| Chile | 2008 | Government, Workers' United Center of Chile, Production and Trade Confederation | Tripartite Agreement on Decent Work to implement the National Decent Work Programme |
| Dominican Republic | 2007 | Labour Secretariat, Employers' Confederation, trade unions | Tripartite Agreement for the National Decent Work Programme |
| Ecuador | 2005 | National Labour Council | Tripartite Social Dialogue Agreement |
| El Salvador | 2007 | Ministry of Labour, National Private Enterprise Association, workers' organizations | Tripartite Agreement for the Adoption of the National Decent Work Programme of El Salvador. |
| Guatemala | 2008 | Tripartite Commission of International Labour Affairs | Tripartite Agreement – Reforms or Guidelines for the Application of ILO Conventions 87 and 98. |
| Guyana | 2008 | Ministry of Labour, Consultative Association of Guyanese Industry and Guyana Trades Union Congress | National Tripartite HIV/AIDS Workplace Policy |
| Honduras | 2007 | Secretary of Labour, Honduran Private Enterprise Council, workers' organizations | Tripartite Agreement for the Adoption of the National Decent Work Programme of Honduras. |

| País | Año | Instancia(s) | Acuerdo |
|---|---|---|---|
| Jamaica | 2005 | Labour Ministry, Employers' Federation, Confederation of Trade Unions, Youth Employment Network on behalf of local youth organizations | Memorandum of Understanding for the Establishment of a Youth Employment Network |
| Mexico | 2004 | Council for Dialogue with Productive Sectors of Mexico | Commitment for Competitiveness, Employment and Social Justice |
| Nicaragua | 2008 | Ministry of Labour, Union Liaison Committee and Higher Private Enterprise Council (COSEP) | Tripartite Agreement for the Adoption of the National Decent Work Programme of Nicaragua |
| Panama | 2007 | Ministry of Labour, National Private Enterprise Council, National Council of Organized Workers | Tripartite Agreement for the Adoption of the National Decent Work Programme of Panama |
| Peru | 2007 | National Inter-sectoral Commission to Eliminate Forced Labour, National Council on Labour and Employment Promotion | National Plan of Action to Eliminate Forced Labour; Tripartite Agreement: Institutional Strategic Plan 2007–2011 |
| Paraguay | 2009 | Government, employers' and workers' organizations | National Decent Work Programme |
| Trinidad and Tobago | 2008 | Labour Ministry, Ministries of Health, Education, Employers' Consultative Association, National Trade Union Centre, NGOs-people living with HIV | Cabinet-approved National Workplace Policy for HIV/AIDS |
| Uruguay | 2008 | Social Security Commission, ministries of the Economy, Labour, Social Development and Health, the Planning Office, Social Protection Bank) supported by the Universidad de la República, UN, Spain. | Final conclusions concerning the dialogue process prepared by the Executive Committee of National Dialogue on Social Security in Uruguay. |

**Source:** ILO (2006). *Trabajo decente en América Latina y el Caribe 2006-2010: un balance de las políticas laborales con relación a los propósitos y objetivos de la Agenda Hemisférica de Trabajo Decente*. Geneva, Switzerland: ILO.

example. According to the World Values Survey, in LAC, 17% of individuals trusted in others whereas the figure was 41% for the HIC-OECD.[98] Annex 7 presents the distribution of countries according to the percentage of individuals who trust in others. This distribution reveals the concentration of LAC countries in the lower percentages and several countries of the HIC-OECD in the highest range.[99]

From a public policy perspective, the legal and institutional context should be improved to facilitate effective development of social dialogue, including collective bargaining, consultation processes and other manifestations of social dialogue.

## 5.4 Respect for universal human rights and international labour standards

> Competitiveness should be built on values. Respect for human rights and international labour standards, especially freedom of association and collective bargaining, the abolition of child labour, forced labour and all forms of discrimination, is a distinctive feature of societies that have successfully integrated sustainability and decent work.[100]

Most of the countries of the region have ratified all the main United Nations conventions on human rights as well as the ILO's fundamental conventions on labour rights, in some cases even surpassing HIC-OECD ratification levels.

Nevertheless, despite the large number of human rights conventions signed by LAC countries and the advances with respect to political rights, significant deficits remain. The region also made progress in economic and social rights but the equity gap between rich and poor continues to be a key challenge in the region. Some groups, such as indigenous populations, women, children and migrants, continue to suffer discrimination.

The persistent drug violence and insecurity in LAC leads to violations of the most basic rights, including

2008. *Official Aggregate v.* 20090901. Stockholm: World Values Survey Association.

[99] As the World Bank has stressed, trust and social capital can create an economic and political environment conducive to economic growth. At the same time, factors such as distrust, discrimination, fragmentation or inequality can influence whether jobs will be created and the type of jobs. [World Bank (2012b). *World Development Report* 2013. *Jobs*. Washington, D. C.: World Bank].

[100] ILO (2008a). *Op. cit*.

[101] Buckley, G.; M. Henriques and J. M. Salazar-Xirinachs (2011).

the right to life, the right to personal safety and to liberty, as well as economic losses. The region still has a long way to go to consolidate the rule of law and to uphold citizens' basic rights.

In terms of labour rights, especially the fundamental principles and rights at work, nine countries in the region have made significant strides in ratifying fundamental conventions and adopting concrete measures for their application. Progress has been more limited in the other countries. Notwithstanding, serious violations of these precepts continue.

With respect to freedom of association and collective bargaining, LAC is one of the regions with the most ratifications of the respective conventions; however, it is not possible to measure respect for the principles set forth in the conventions or the conditions in which these are exercised. Beyond the statistics, an enabling environment for sustainable enterprises requires workers' and employers' organizations that are solid, representative and relevant, not only in terms of services provided to members but also in their role as social partners participating in the design and implementation of proposals and initiatives generated by government entities and that have an impact on the socioeconomic and labour life of the countries. Nevertheless, there is evidence that both workers' and employers' organizations of the region have routinely violated the principles and rights set forth in Conventions N° 87 and N° 98. Latin America is the region with the largest number of complaints of violation of freedom of association, a fact which the social partners interpret in different ways.

With respect to gender discrimination, all countries of the region have ratified conventions on equal pay and against discrimination in employment and occupation. However, important gaps between men and women remain (see the chapter on social context for a discussion of these gaps).

Regarding child labour, available quantitative data indicate that the practice continues, despite important progress towards its eradication in some countries. Advances have materialized with the creation of national committees, memoranda of understanding with the ILO and the development of public policies to address the problem. Likewise, practically all the countries of the region have ratified fundamental conventions concerning child labour in the past decade. In addition, a wide knowledge base has been developed and employers, workers, civil social and the media have forged an alliance against child labour. Colombia and Venezuela, where approximately 5% of children between the ages of 7 and 14 work, have made significant progress; whereas in other countries, such as Bolivia and Peru, the percentages are 32% and 42%, respectively. These figures indicate that eliminating child labour is a pending challenge in the region.

Regarding forced labour, there are no updated statistics that reveal improvements in this area, although one advance was the creation of more effective institutional mechanisms and labour inspections. The countries of LAC are among those taking the lead to combat forced labour. Initiatives to this end represent a national commitment to the prevention and eradication of this problem. Several countries of the region have created tripartite commissions to implement measures to eradicate child labour and forced labour.

In many areas discussed in this section, the informality of the labour market poses serious constraints to the full exercise of workers' rights. Among other things, informality implies that the regulations established to safeguard the rights of all actors in the world of work are not applied or only partially so.

Given the central role of universal human rights and international labour standards in the creation of an enabling environment for sustainable enterprise, efforts should focus on achieving these objectives. These actions should include the ratification and implementation of ILO conventions, especially the fundamental conventions. For their implementation, guidance from ILO supervisory bodies is recommended for adopting specific measures in the countries to help narrow gaps between the content of these conventions and reality. To this end, governments should review and adapt their national legislation, preferably before or immediately after ratifying all ILO conventions. Close monitoring of freedom of association is recommended given the large number of complaints regarding violations of this liberty in the region.

In light of the negative impact of informality on the full exercise of rights, the progressive formalization of the economy will greatly contribute to increasing respect for universal human rights and international labour standards. To achieve this, it is advisable to foster the formalization of enterprises through improvements to the regulatory environment, including increasing benefits and lowering costs of complying with legal obligations, such as the simplification of regulations and the establishment of single window service systems.[101] This could reduce the unfair competition of all informal activity with respect to those entrepreneurs and owners of small, medium-sized and large businesses that comply with current legislation in their countries.

Tripartite mechanisms should be created and strengthened to achieve full respect for universal human rights and international labour standards.

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*Promotion of Sustainable Enterprises*. Chapter 5. Geneva / Madrid: ILO, Ministry of Labour and Immigration, pp. 157-189.

[102] OECD/ECLAC (2012). *Latin American Outlook 2012: Transforming the*

# Chapter 6: Environmental context

Natural resources are vital for economic activity and Latin America is one of the world's richest regions in terms of natural resources and biodiversity. Therefore, the region should strive to strike a balance between economic growth, sustainable enterprise development and environmental protection. The private sector and enterprises play a pivotal role in the development and application of sustainable production and consumption processes.

The global economy is integrated in such a way that LAC is heavily dependent on economic activities based on the intensive exploitation of natural resources such as mining, agriculture and forestry, among others. According to OECD/ECLAC (2012), natural resource–intensive sectors still make up 60% of manufacturing value-added in Latin America. Primary goods and manufactures based on natural resources represent up to 50% of LAC's exports. By comparison, in the United States, 60% of manufacturing value-added is concentrated in knowledge-intensive sectors.[102]

In addition, LAC is highly vulnerable to the effects of climate change and natural disasters in both rural and urban areas. According to estimates by the Intergovernmental Panel on Climate Change (IPCC, 2007), LAC may suffer temperature increases, which will affect biodiversity (including the extinction of species in several tropical areas) and will imply changes in the productivity of important crops, among other effects.[103]

Other environmental challenges facing the region include: extensive deforestation, the loss of land and marine biodiversity, waste management and urban water and air pollution. According to the *Global Outlook on Biological Diversity*,[104] LAC has made progress in some environmental areas, for example by establishing protected areas rich in biodiversity. Nevertheless, the dramatic impact of deforestation resulting from the expansion of agriculture, the increase in extractive activities and spreading urbanization in the region have led to a 7% loss of woodlands between 1990 and 2005, despite measures to protect them.

According to the FAO, South America was among the regions with the largest net loss of forests between 2000-2010, with an annual loss of four million hectares.[105] This is extremely serious given the importance of forests for conserving ecosystems and biodiversity, as well as for their significant contribution to GDP in countries such as Brazil, Mexico, Guyana, Paraguay, Bolivia and Chile.[106] Thus, unsustainable exploitation not only poses grave ecological risks, but economic ones as well.

These vulnerabilities are interrelated. For example, according to the IPCC (2007), deforestation accounts for up to 20% of the greenhouse gas emissions that contribute to global warming. The impact of climate change on the Amazon basin could imply changes in rainy seasons in areas of high agricultural productivity, with a heavy export component, in the south-central part of the continent. A reduction in snow and glacier coverage in the Andes produced by increases in average temperatures directly affects water availability on the western coast of South America. The FAO estimates that up to 80% of potable ground water on the planet originates in the mountains. Latin America is also the most urbanized continent on the planet, for which reason the high levels of air and water pollution in urban areas will affect a large percentage of the population.

Findings for key indicators underscore the environmental situation in LAC. Greenhouse emissions, measured as CO2 per capita, are associated with global emissions to track trends, which should follow annual globally sustainable per capita trends. Energy efficiency, which measures the energy intensity of GDP, is a proxy variable of the eco-efficiency of the economy as a whole and at the same time reflects the productivity of the enterprises comprising an economy. Average particulate matter concentrations (MP10) in the air in urban areas measure local pollution levels, which have a direct impact on human health and are affected by business activity in the industrial and transport sectors. This last indicator is crucial for the region given that the IDB estimates that over 100 million people in LAC are exposed to air pollution levels exceeding World Health Organization (WHO) guidelines.[107] Indicators on water consumption and pollution are equally pertinent given the importance of this resource in many key sectors of the region's economy. Unfortunately, there are no consistent data to construct this indicator.

Results based only on indicators of CO2 per capita, energy efficiency and average MP10 in the air in urban areas measure a very specific reality and therefore do not adequately reflect the complexity of the environmental situation and the interrelated challenges the region faces in this area. Therefore, the analysis of the environmental context diverges from the methodology used to examine the other contexts in this study. The environmental context is analyzed in a more comprehensive manner, covering environmental institutions, potential job creation

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*State for Development*. France: OECD Publishing.

[103] IPPC (2007), *Climate Change* 2007: *Synthesis Report*. Geneva: IPCC.

[104] Secretariat of the Convention on Biological Diversity 3 (2010). *Global Outlook on Biological Diversity. Third edition. Montreal*.

[105] FAO (2010). *Global Forest Resource Assessment* 2010. *Key Findings*. Rome: FAO.

[106] FAO (2008). *Contribution of the Forestry Sector to National Economies*, 1990-2006. Forest Finance Working Paper FSFM/ACC/08. Roma: FAO.

[107] Cisources, L. A. et al. (2005). *Urban Air Quality and Human Health in Latin America and the Caribbean*. IDB Publication, 25378. Washington, D. C.: IDB.

[108] ILO (2012d). *Working towards sustainable development: Opportunities for*

in the transition to a greener economy and the environmental management of enterprises.

## 6.1 Environmental institutions

In response to the challenges described above, governments in the region have implemented a large number of environmental protection policies. First, LAC countries have signed the main environmental multilateral agreements, such as the Convention on Biological Diversity, the United Nations Convention on Climate Change, the Stockholm Convention on Persistent Organic Pollutants and the United Nations Convention to Combat Desertification. Several of the trade integration agreements signed by the countries of the region also address environmental issues.

Second, at the national level, countries have advanced in the development and strengthening of public institutions for the design of environmental and control policies. Nevertheless, in many LAC countries, the institution responsible for environmental affairs is hierarchically below others responsible for issues considered to be higher priorities. In addition, they generally have smaller budgets. There is often little coherency among economic, social and environmental policies given the lack of coordination in the state apparatus. Whatever the cause, or as a consequence of this fact, the environment is not considered a priority for many of the region's governments. For example, none of the countries took advantage of the counter-cyclical policies implemented to mitigate the 2008-2009 economic crisis to invest in environmental infrastructure or to establish strategies to promote sustainable enterprises.

Third, several policies have been implemented to reduce the environmental impact of the private sector. Some countries have created incentives for clean production, sustainable natural resource management and renewable energy investments, although these tend to be nascent experiences.

Colombia and Brazil are two LAC countries that make use of incentives for solid waste management. Colombia has recognized traditional recyclers as entrepreneurs. In Brazil, the recent Basic Sanitation Law regulates the collection, final destination and treatment of urban waste. Brazil produces 161 million tons of urban solid waste and despite a 97% collection rate, much of this waste is disposed of inadequately. The goal of the law is to encourage shared responsibility and provide economic incentives for recycling activities and adequate waste disposal.

## 6.2 The transition to a greener economy

As a result of the weakness of environmental institutions, potential job creation of environmental policies has not been fully exploited, despite the gradual recognition of the impact that the environmental crisis and climate change will have on the labour market. A 2012 ILO report states that the shift to a sustainable, greener economy can create jobs.[108] The report stresses that the resource-intensive development model will lead to rising costs and loss of productivity.

In countries of different levels of development, the shift to a sustainable, greener economy has created millions of jobs. In the United States, for example, there were 3.1 million jobs in environmental goods and services in 2010. In Brazil, 2.9 million jobs were recorded in sectors dedicated to reducing environmental damage. Figures for many countries demonstrate that the claim that the transition to a greener economy will have a negative impact on employment levels has been exaggerated. In fact, developing countries are the ones that can most benefit from job creation in clean-technology and renewable-energy sectors. Mexico and Brazil are at the forefront of LAC countries in adopting measures to address environmental issues, particularly in national strategies for low-carbon growth. A World Bank study in Brazil found that a one-third reduction in carbon emissions by 2030 is compatible with GDP and economic growth. Thus, the country has a major opportunity to mitigate and reduce its carbon emissions in agriculture, energy, transport and waste management without negatively affecting its economic growth.[109]

To tap into potential job creation in the transition to sustainable, greener economies requires an investment in developing appropriate job skills. According to the ILO (2012d), without skilled workers and competent enterprises, the shift to a greener economy will be neither technically feasible nor economically viable. Therefore, in LAC, anticipating and developing adequate skills are a priority. Some LAC countries have interesting experiences in this area. In Costa Rica, initiatives such as the National Climate Change and Peace with Nature Strategy were developed in an effort to maximize the green job creation potential of transition strategies. A case study commissioned by the ILO found evidence that many private enterprises in Costa Rica are advancing toward the increased environmental sustainability of their operations.[110] These changes are influenced by the government's goal of sharply reducing carbon emissions and by the preferences of consumers

*decent work and social inclusion in a green economy.* Geneva, Switzerland: ILO.

[109] World Bank (2010). *Brazil Low-carbon Country Case Study.* Washington, D. C.: World Bank.

[110] ILO (2010c), *Skills for green jobs in Costa Rica*, Geneva, Switzerland: ILO.

[111] UNEP (2004). *Cleaner Production and Sustainable Consumption in Latin*

in trading countries such as the United States and several European countries. Although these are still isolated initiatives in the region, the growing concern of tripartite constituents in preparing the labour force for new environmental demands is noteworthy.

## 6.3 Enterprises and environmental management

The region has made some significant advances in terms of the environmental management of enterprises. For example, a growing number of enterprises have received ISO 14001 certification, which was developed to help companies monitor and reduce their environmental impact. Progress has also been observed in terms of environmental information delivered by enterprises in the framework of their corporate social responsibility strategies.

Small and medium-sized enterprises generally face more difficulties than large enterprises in improving their environmental management. The lack of familiarity with environmental codes, the relative cost of environmental investments and certification processes and the distance from export markets hinder progress toward increased environmental sustainability for this enterprise segment. Small and medium-sized enterprises in construction, energy, resource-intensive industries, recycling, transport, agriculture and fishing are well positioned to take advantage of opportunities in the switch to a greener economy. For this reason, they should be the target of support policies that take into account their strengths and weaknesses.

Although there are few effective public policies to support SMEs, some initiatives do exist. The Service to Support Small and Medium-sized Enterprises of Brazil (SEBRAE) has developed several initiatives to foster increased environmental sustainability in smaller enterprises, such as the creation of the Brazilian Network for Cleaner Production (PML). This network, developed in collaboration with the National Centre for Clean Technologies and the Brazilian Business Council for Sustainable Development, operates through PML units in six states linked to local industrial federations. These units provide environmental assessment, technical assistance and PML training services to enterprises in a variety of sectors and activities. SEBRAE has also participated in the promotion of energy efficiency in Rio de Janeiro by raising awareness of more than 3,000 SMEs. Pilot programs of this initiative led to energy savings of more than 50% (UNEP 2004).[111]

*America and The Caribbean*. Mexico, D. F.

The aforementioned weaknesses in institutional frameworks of the private sector in terms of increased respect and protection of the environment have resulted in the lack of equal conditions among private enterprises. This is because their progress on environmental issues is strongly dependent on their size and the sector in which they operate. Neither have the necessary conditions been developed for private enterprises to adequately prepare for a world in which environmental demands increasingly determine the competitiveness of these enterprises.

In summary, in recognition of the key role of the government and enterprises in environmental protection, the following actions are recommended to simultaneously advance toward more solid environmental institutions and a more environmentally responsible enterprise management:

- Align social and enterprise promotion policies with environmental policies through coordination mechanisms for decision-making in these three areas.
- Stimulate the generation of knowledge on the impact of a green economy on the private sector and the labour market, as well as initiatives to build capacities of tripartite constituents in the design of policies for sustainable enterprises and creation of green jobs.
- Advance toward the development of clear, predictable standards for assessing environmental and social projects and involve tripartite constituents in the definition of standards and in evaluation processes.
- Eliminate barriers, generate favourable regulatory frameworks and develop fiscal incentives for environmental sustainability (prices reflect environmental costs and environmental benefits that are currently externalized) and promote investment in the efficient use of energy, raw materials and water, as well as in the generation of renewable energy.
- Advance in the design and application of fiscal and economic incentives to stimulate investment in green technology and to promote environmentally responsible preferences in productive processes.
- Encourage the development of green research and technology projects.
- Gradually establish crosscutting environmental criteria in public procurement programmes to avoid these becoming possible barriers for participating enterprises.
- Strengthen activities to monitor environmental standards, thereby promoting clarity and fair competition among private sector enterprises.

- Implement programmes to foster clean production in SME to encourage their increased participation in green value chains and markets.
- Advance in the design and implementation of policies to create green jobs based on investments in renewable energy, efficient construction and transport, sustainable agriculture, sustainable forest management, recycling and others.
- Include the job skills required for green jobs in national job skill systems and build capacities of education and professional training institutions to design and offer sustainable enterprise management programmes.

# Conclusions

In addition to the recommendations made in each chapter, there are some crosscutting issues that require significant efforts to achieve substantial improvements in the environment and promotion of sustainable enterprises.

In general, the environment for sustainable enterprise promotion in LAC has become more favourable in the past decade. Many problems and challenges remain, however. The positive aspects of increased economic growth in conditions of macroeconomic stability, declining poverty levels, increased global market participation and a strengthening of institutions and political stability have enabled increased investment in and growth of LAC enterprises. However, the region suffers endemic problems of low productivity, widespread informality in the economy, the co-existence of modern sectors with more backward sectors, high poverty and social inequality rates, poor governance and citizen insecurity. The region's wealth and the new conditions of increased economic, political and social development demand more ambitious efforts to promote sustainable enterprise development.

The fact that LAC has advanced toward intermediate development levels with improved economic and social growth is a historical achievement. However, this may also pose considerable risks of getting too accustomed to what has already been achieved. In a globalized context, these risks can rapidly lead to a loss of the improved conditions ("middle-income trap"). The achievements made are no guarantee for the successful transition to higher income, change and growth in the future. The risk should not be taken lightly because there is evidence that other countries around the world have lost their productive impetus, external competitiveness and improved income levels achieved.

To confront these and other challenges, LAC needs more strategic policies to support the productive transformation of the region's economies. This approach will require, among other measures, more appropriate policies for improving institutions and the capacity to design, implement and evaluate policies; promote technological modernization; build skills of the workforce; develop more appropriate social interventions to eliminate obstacles and enable the exploitation of comparative advantages; and implement reforms to eliminate barriers to the enterprise participation in markets and measures to support increased productivity and link enterprises to value and supply chains. These actions should be expanded in a context of economic and political processes supported by more active participation, dialogue and increased consensus among economic and social actors.

Therefore, enterprises, governments and social partners should not assume that economic growth is guaranteed and that LAC can continue growing without renewed efforts. Counter-cyclical policies are important, as are the accumulation of reserves from raw material price booms. These efforts should be part of integrated medium- and long-term strategies for growth and productive transformation as well as sustainable enterprise promotion.

**Analysis of sustainable enterprise promotion.** This study uses the concept of sustainable enterprise promotion to specifically examine the sustainable enterprise environment in LAC. The central themes are the four contexts examined (economic, political, social and environmental) containing the 17 pillars for an enabling environment for enterprises. This framework offers an overview of the different factors that influence sustainable enterprise development.

This study compares the situation in LAC countries and that of the HIC-OECD. To conduct this analysis, single quantitative indicators were defined for each of the 17 pillars. The exercise enabled the pragmatic, imperfect calculation of the values for the 17 indicators of the two regions to assess the sustainable enterprise environment in LAC countries as compared with that of the HIC-OECD. Despite the limitations of this methodological approach, the exercise did provide a base for evaluation, which was complemented by the review of other important studies in each area. This approach permitted researchers to quantitatively and qualitatively assess the central themes of the sustainable enterprise environment in LAC.

**Economic performance.** Over the past decade, the economic performance of LAC has been positive in terms of growth, increased macroeconomic stability and private investment, reduction of poverty rates and a growing presence in the global economy. Economic growth and the other developments were favourable for an increased investment in and development of enterprises, although these did not occur at optimal levels. Forecasts for the coming decade are positive overall, in contrast with the less encouraging scenario for advanced economies in the context of the global crisis.

Nevertheless, LAC has significant weaknesses given the chronic problem of low productivity of the economy overall, and especially at the level of SMEs, which have high levels of informality and poverty. Key opportunities and challenges for sustainable enterprise promotion include: continuing the promotion of economic growth in equilibrium with macroeconomic stability; expanding reforms in the enterprise environment; improving productivity levels; incorporating and formalizing more enterprises in better organized, more competitive markets; reducing poverty levels and increasing consumption capacity, especially among the poorest sectors; and designing strategic public investments to efficiently support enterprise needs.

**Economic context.** In this context, LAC has been outpaced by the HIC-OECD in some areas whereas in others, it has advanced and demonstrated positive performance, especially in terms of more stable macroeconomic policies. For the other indicators, which measure more structural dimensions, LAC indexes are lower than those of the HIC-OECD, particularly with respect to information technologies, access to financial services, regulation and infrastructure. These elements are directly related to the environment that determines the competitiveness of enterprises and that contributes to making them sustainable.

Despite the positive performance in macroeconomic policy and stability, LAC also lags behind in tax collection and burden. It also has a poorly diversified productive structure and segmented, poorly developed markets. In domestic markets, LAC countries have few suppliers and in global markets, they depend heavily on exports based on natural resources. Most of the economies of the region have diverse productivity levels, where some highly-productive enterprises co-exist with others with below-average productivity. There are few linkages between these segments.

Public investment support to enterprise development is still weak in LAC compared with the HIC-OECD, especially in terms of pre-conditions for promoting business development, whether through specific programmes or incentives for research and technology development, infrastructure improvements, etc. For this reason, governments should strengthen and consolidate economic growth sustained by strategic public investments to support enterprise development. Guaranteed rule of law and secure property rights are also essential.

Effective, flexible regulations that promote productive investment and that are consistent with a stable macroeconomic environment are also needed. Clear, counter-cyclical fiscal regulations could help reduce volatility of aggregate demand. Also required are concrete mechanisms to evaluate the quality of public spending as well as to define spending priorities. In general, the region needs deliberate policies to diversify and consolidate its long-term growth.

Reducing the informality of LAC economies and labour markets would contribute to improving the sustainable enterprise environment in several areas analyzed in this report. Formalization contributes to upholding the rights of workers and employers.

**Social context.** Economic performance in LAC had a significant impact on reducing poverty and improving living conditions of citizens. Notwithstanding, the region remains the world's most unequal, with high levels of social exclusion. This is reflected in the large percentage of workers employed in the informal sector, where social protection schemes are hard to implement and vulnerability is widespread.

The promotion of an entrepreneurial culture and increased diversification of skills through professional and technical training are vital for the social inclusion of workers during a period of economic growth. The significant advances made by LAC in school coverage rates should be complemented with efforts to enhance education quality to adapt it to labour market needs.

Inequality gaps persist in the workplace, where women and youth are the most vulnerable groups. Discrimination against women is evident in the significant wage gap between men and women. Discrimination against youth is reflected in the fact that youth unemployment tripled that of adults in 2011.

Most LAC countries are in a position to build comprehensive social protection systems that guarantee basic protection of citizens – with or without a formal labour contract – and that complement individual contributions with financial benefits for solidarity pillars. Increased linkages of the different social protection mechanisms with conditional cash transfer programmes and other social services would provide benefits for all users, in terms of increased access, as well as for the government, in terms of greater efficiency.

Conditional cash transfer programmes significantly contributed to reducing poverty in the region; however, quality, coverage and financing of social security services fall short. To expand social protection, it is imperative to strengthen institutions associated with social security through a comprehensive system to improve programme efficiency and management.

Sustainable enterprise promotion in LAC requires the implementation of major reforms in the social issues mentioned. A socially just LAC is a basic, necessary condition both for addressing current gaps and for offering a more viable, sustainable context for enterprise development.

**Political-institutional context.** LAC has made important strides in this area, which have supported and contributed to economic growth, even though the region lags behind the HIC-OECD. Governance systems and political institutions still require urgent measures to ensure increased transparency and citizen participation in transparency mechanisms, as well as in efforts to combat corruption.

A particularly important advance in good governance is the trend toward democratic political stability in the region. Despite the many limitations in institutional capacities, this fact has contributed to a more enabling environment for sustainable enterprise development in a formal context, which is increasingly the result of tripartite negotiations.

The serious problem of citizen insecurity and violence hinders sustainable enterprise development. The different indexes demonstrate that violence in LAC is among the highest in the world. Insecurity and violence are associated with social exclusion and the lack of opportunities. Informal workers are often vulnerable to violence given their lack of access to formal jobs, since they are also excluded from exercising their legal rights.

Increased social dialogue combined with the increased organization and association of employers and workers in their respective channels and institutions will offer better conditions for expanding and strengthening sustainable enterprise promotion.

**Environmental context.** The economic dependence of LAC on its natural resources is not sustainable, for which reason governments must prioritize the adequate use of resources and actively apply efficient policies to guarantee that key actors abide by established regulations. A growing body of evidence suggests that these policies are compatible with industrial development and economic growth, which results in the establishment of new enterprises and therefore, job creation.

To this end, environmental policies should take into account social and enterprise promotion policies. Tripartite negotiations are essential in the development of environmental policies to define standards and evaluation processes.

Governments can offer fiscal and economic incentives to encourage investment in new green technologies where SMEs of different sectors can form value chains and participate in more sustainable new markets. This also requires national job skills systems and the building of capacities of educational and professional training institutions to design and offer sustainable business management programmes.

## ANNEX 1: Values obtained for the 17 pillars

| | LAC | HIC-OECD |
|---|---|---|
| | (Rescaled HIC-OECD = 10) | |
| **TOTAL** | **6.92** | **10.00** |
| **POLITICAL / INSTITUTIONAL CONTEXT** | **5.64** | **10.00** |
| 1 Peace and political stability | 2.65 | 10.00 |
| 2 Good governance | 6.07 | 10.00 |
| 3 Social dialogue | 3.49 | 10.00 |
| 4 Human rights and labour standards | 10.33 | 10.00 |
| **ECONOMIC CONTEXT** | **6.27** | **10.00** |
| 5 Stable macroeconomic policies | 9.04 | 10.00 |
| 6 Trade and economic integration | 6.08 | 10.00 |
| 7 Regulatory environment | 5.67 | 10.00 |
| 8 Rule of law and secure property rights | 7.31 | 10.00 |
| 9 Fair competition | 7.24 | 10.00 |
| 10 Access to information technology and Internet connectivity | 3.31 | 10.00 |
| 11 Access to financial services | 4.49 | 10.00 |
| 12 Physical infrastructure | 7.03 | 10.00 |
| **SOCIAL CONTEXT** | **7.88** | **10.00** |
| 13 Entrepreneurial-business culture | 12.42 | 10.00 |
| 14 Education and training | 7.51 | 10.00 |
| 15 Justice and social inclusion and employment opportunities | 7.36 | 10.00 |
| 16 Social protection | 4.75 | 10.00 |
| **ENVIRONMENTAL CONTEXT** | **7.90** | **10.00** |
| 17 Environmental contamination | 7.90 | 10.00 |

Source: ILO

## ANNEX 2: LAC. Annual GDP growth (%)

| Country | 1980-1989 | 1990-1999 | 2000-2003 | 2004-2008 | 2009-2011 |
|---|---|---|---|---|---|
| Antigua and Barbuda | 6.7% | 3.3% | 2.8% | 3.0% | -7.8% |
| Argentina | -0.9% | 4.4% | -2.1% | 8.4% | 6.2% |
| Belize | 5.4% | 5.7% | 8.1% | 3.4% | 1.6% |
| Bolivia | -0.5% | 4.0% | 2.3% | 4.8% | 4.2% |
| Brazil | 2.9% | 1.7% | 2.3% | 4.8% | 3.3% |
| Chile | 4.2% | 6.3% | 3.5% | 4.9% | 3.6% |
| Colombia | 3.4% | 2.8% | 3.1% | 5.4% | 3.8% |
| Costa Rica | 2.2% | 5.4% | 3.0% | 5.9% | 2.6% |
| Cuba | 3.9% | -2.3% | 3.6% | 8.0% | 1.2% |
| Dominica | 6.2% | 2.3% | 0.8% | 3.8% | 0.2% |
| Dominican Republic | 3.7% | 4.9% | 3.2% | 6.9% | 5.2% |
| Ecuador | 2.2% | 1.8% | 4.1% | 5.7% | 2.9% |
| El Salvador | -2.1% | 4.9% | 2.1% | 2.9% | -0.1% |
| Granada | 4.9% | 3.5% | 4.6% | 2.1% | -2.0% |
| Guatemala | 0.9% | 4.1% | 3.1% | 4.3% | 2.4% |
| Guyana | -2.9% | 4.7% | 0.2% | 3.0% | 2.5% |
| Haiti | 0.0% | -0.3% | 0.0% | 0.9% | 0.9% |
| Honduras | 2.5% | 2.7% | 4.2% | 5.9% | 1.3% |
| Jamaica | 1.7% | 2.1% | 2.0% | 0.9% | -0.6% |
| Mexico | 2.2% | 3.3% | 2.1% | 3.4% | 0.9% |
| Nicaragua | -0.9% | 3.0% | 2.6% | 4.0% | 2.5% |
| Panama | 0.7% | 5.6% | 2.4% | 9.1% | 7.3% |
| Paraguay | 3.9% | 2.4% | 0.6% | 4.8% | 4.8% |
| Peru | 0.0% | 3.1% | 3.0% | 7.6% | 5.5% |
| Saint Vincent and the Grenadines | 5.7% | 3.5% | 2.7% | 4.1% | -1.4% |
| Santa Lucia | 4.8% | 5.3% | 0.0% | 4.5% | -4.4% |
| Suriname | -1.5% | 0.6% | 3.8% | 5.3% | 2.4% |
| Uruguay | 0.5% | 3.6% | -3.2% | 6.0% | 5.6% |
| Venezuela | -0.3% | 2.4% | -2.6% | 10.4% | -0.2% |
| LAC (29 countries) | 1.9% | 2.9% | 1.6% | 5.2% | 2.9% |

**Source:** IMF (2012)

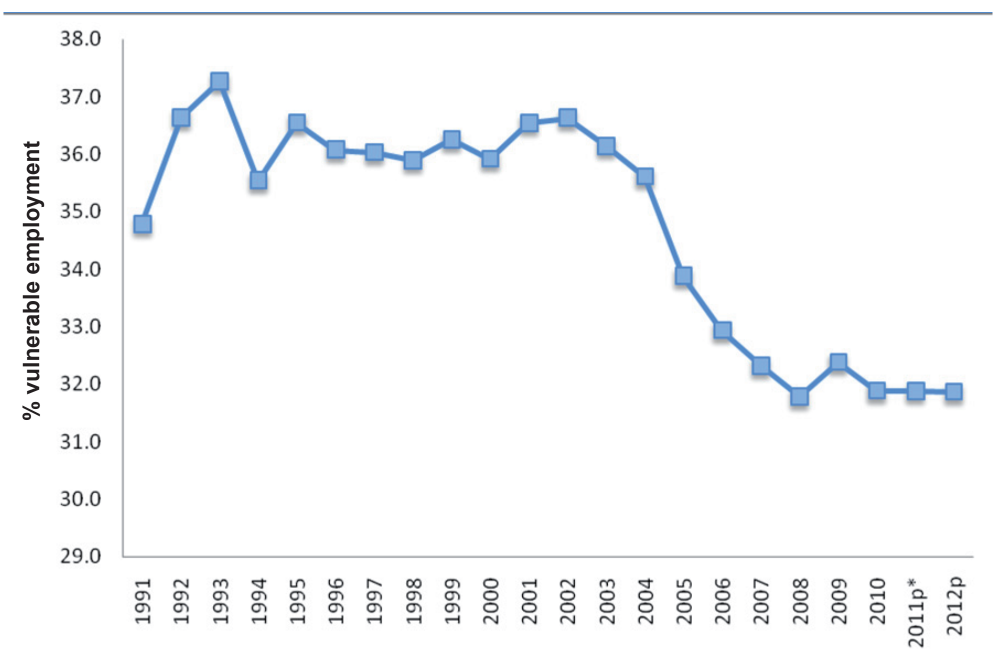
**ANNEX 3: Latin America. Characteristics of informal employment in selected countries**

| Countries | % Total informal employment | | % employment in the informal sector | | % informal employment in the formal sector | | % employment in domestic service | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 |
| **Argentina** | 49.8 | 49.7 | 30.3 | 31.8 | 13.1 | 11.7 | 6.3 | 6.2 |
| **Bolivia** | 72.5 | 69.5 | 49.7 | 48.0 | 19.8 | 18.4 | 3.1 | 3.1 |
| **Brazil** | - | 42.1 | - | 24.2 | - | 11.1 | - | 6.8 |
| **Colombia** | 58.4 | 59.6 | 48.3 | 49.7 | 6.4 | 5.9 | 3.7 | 3.9 |
| **Costa Rica** | 44.9 | 43.8 | 33.0 | 32.6 | 7.6 | 6.7 | 4.3 | 4.5 |
| **Dominican Republic** | 51.6 | 48.5 | 31.3 | 29.1 | 13.7 | 13 | 6.5 | 6.4 |
| **Ecuador** | 63.7 | 60.9 | 37.5 | 36.9 | 21.9 | 20 | 4.2 | 4.1 |
| **El Salvador** | 63.6 | 65.6 | 49.8 | 51.6 | 8.4 | 8.1 | 5.5 | 5.9 |
| **Honduras** | 71.6 | 73.9 | 52.6 | 56.9 | 15.8 | 13.5 | 3.2 | 3.5 |
| **Mexico** | 52.5 | 53.7 | 32.6 | 33.5 | 15.3 | 15.5 | 4.6 | 4.8 |
| **Nicaragua** | 65.7 | - | 50.7 | - | 8.1 | - | 6.9 | - |
| **Panama** | 45.1 | 43.8 | 27.7 | 27.5 | 12.0 | 11.4 | 5.4 | 4.9 |
| **Paraguay** | 72.9 | 70.7 | 39.6 | 37.9 | 23.2 | 23.3 | 10.1 | 9.5 |
| **Peru** | 71.9 | 69.9 | 49.1 | 48.2 | 18.8 | 17.8 | 4 | 3.9 |
| **Uruguay** | 39.4 | 38.8 | 30.1 | 30.0 | 4.4 | 4.1 | 4.9 | 4.8 |
| **Venezuela** | - | 47.4 | - | 35.7 | - | 10.7 | - | 1.1 |

**Source:** ILO (2011b)

## ANNEX 4

## LAC. Vulnerable employment, 1991-2012 (%)




**Source:** ILO (2012c)

## Annex 5: Comparison of values, LAC countries and the HIC-OECD

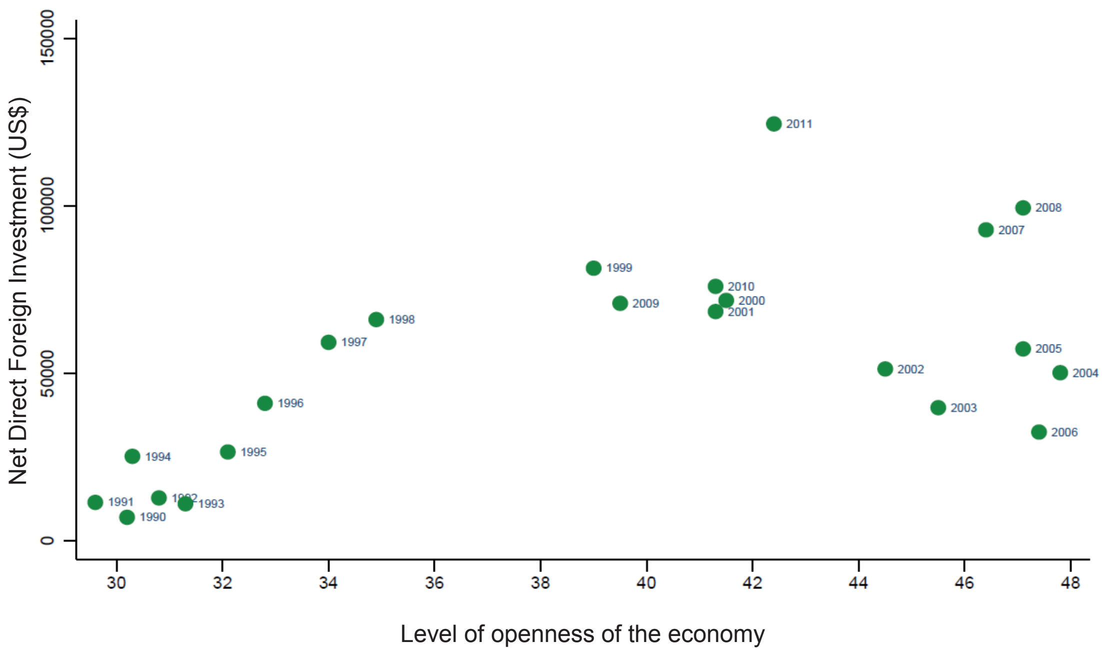
| | Source | Without rescaling | | Rescaled* (with averages) | |
|---|---|---|---|---|---|
| **TOTAL** | | | | **6.921** | **10.000** |
| **POLITICAL / INSTITUTIONAL CONTEXT** | | | | **5.638** | **10.000** |
| **Peace and political stability** | | | | **2.655** | **10.000** |
| 1 Index of political stability and absence of violence | WB | -0.299 | 0.848 | 2.655 | 10.000 |
| 2 Freedom of the press (the lower the number, the greater the freedom of the press) | RWB | 18.335 | 4.719 | 2.655 | 10.000 |
| **Good governance** | | | | **6.074** | **10.000** |
| 1 Index of perception of corruption | TI | 3.705 | 7.295 | 4.989 | 10.000 |
| 2 Index of budget transparency | Fundar | 46.667 | | | |
| 3 Index of government effectiveness | WB | -0.107 | 1.401 | | |
| 4 Index of participation and accountability | WB | 2.711 | 3.764 | 7.160 | 10.000 |
| **Social dialogue** | | | | **3.487** | **10.000** |
| 1 Rate of trade union density | ILO | 12.325 | 23.333 | 4.675 | 10.000 |
| 2 Rate of collective bargaining coverage | ILO | 5.333 | 23.200 | 2.299 | 10.000 |
| 3 Workers involved in strikes and lockouts as a share of the workforce (per 1,000) | ILO | 65.768 | 6.245 | | |
| **Adoption/ratification of conventions on human and labour rights** | | | | **10.335** | **10.000** |
| 1 Status of adoption of human rights | | | | | |
| Convention on the Prevention and Punishment of the Crime of Genocide. Paris, December 9, 1948 | UN | 1.000 | 0.952 | 10.385 | 10.000 |
| International Convention on Elimination of All Forms of Racial Discrimination. New York, March 1966 | UN | 1.000 | 1.000 | 10.000 | 10.000 |
| International Covenant on Economic, Social and Cultural Rights. New York, December 16 ,1966 | UN | 1.000 | 1.000 | 10.000 | 10.000 |
| International Covenant on Civil and Political Rights. New York, , December 16, 1966 | UN | 1.000 | 1.000 | 10.000 | 10.000 |
| Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. New York, December 10, 1984 | UN | 0.857 | 1.000 | 8.571 | 10.000 |
| 2 Status of adoption of fundamental labour conventions | | | | | |
| C029 - Forced Labour Convention, 1930 (N° 29) | ILO | 1.000 | 0.905 | 10.800 | 10.000 |
| C087 - Freedom of Association and Protection of the Right to Organise Convention, 1948 (N° 87) | ILO | 0.952 | 0.857 | 10.714 | 10.000 |
| C098 - Right to Organise and Collective Bargaining Convention, 1949 (N° 98) | ILO | 0.952 | 0.905 | 10.714 | 10.000 |
| C100 - Equal Remuneration Convention, 1951 (N° 100) | ILO | 1.000 | 0.952 | 10.385 | 10.000 |
| C105 - Abolition of Forced Labour Convention, 1957 (N° 105) | ILO | 1.000 | 0.905 | 10.800 | 10.000 |
| C111 - Discrimination (Employment and Occupation) Convention, 1958 (N° 111) | ILO | 1.000 | 0.905 | 10.800 | 10.000 |
| C138 - Minimum Age Convention, 1973 (N° 138) | ILO | 0.952 | 0.905 | 11.180 | 10.000 |
| C182 - Worst Forms of Child Labour Convention, 1999 (N° 182) | ILO | 1.000 | 1.000 | 10.000 | 10.000 |
| 3 Respect for human rights (the lower the number, the higher the level of respect for human rights) | Freedom House | | | | |
| 4 Child labour (% of population between ages 5-17 that works) | ILO | 10.047 | | | |
| **ECONOMIC CONTEXT** | | | | **6.271** | **10.000** |
| **Stable macroeconomic policies** | | | | **9.044** | **10.000** |
| 1 Rate of GDP per capita growth | IMF | 4.042 | 2.927 | 14.024 | 10.000 |
| 2 Rate of average growth of the Consumer Price Index | IMF | 8.294 | 2.748 | 3.875 | 10.000 |
| 3 Current account surplus (% GDP) | IMF | -1.552 | -0.301 | | |
| 4 Rate of total investment (% GDP) | WB | 21.062 | 22.567 | 9.233 | 10.000 |
| 5 Rate of public investment (% GDP) | WB | | | | |
| 6 Results of public sector | CEPAL | -1.687 | -0.539 | | |
| 7 S&P sovereigns rating list | S&P | | | | |

| | Source | Without rescaling | | Rescaled* (with averages) | |
|---|---|---|---|---|---|
| **Economic trade and integration** | | | | 6.083 | 10.000 |
| 1 Trade volume / GDP | OECD | 67.564 | 68.501 | 9.468 | 10.000 |
| 2 Net direct investment flows (% GDP) | WB | 5.504 | 12.470 | 4.767 | 10.000 |
| 3 Ease of international trade | WEF | 4.357 | 5.310 | 8.102 | 10.000 |
| 4 Effective tariff | WTO | 3.800 | 1.243 | 3.901 | 10.000 |
| 5 Tariff dispersion | WTO | 98.900 | 359.429 | | |
| 6 Concentration of export destination (Hirsch-Herfindahl) | Trade Map | 0.182 | 0.081 | 6.323 | 10.000 |
| 7 Concentration of export goods (Hirsch-Herfindahl) | Trade Map | 0.123 | 0.043 | 3.941 | 10.000 |
| **Regulatory environment** | | | | **5.669** | **10.000** |
| 1 Index of regulatory quality | WB | 2.508 | 3.924 | 6.392 | 10.000 |
| 2 Starting a business | WB-DB | | | 5.570 | 10.000 |
| Procedures | | 10.700 | 6.667 | | |
| Time | | 48.500 | 16.667 | | |
| Cost | | 38.430 | 6.790 | | |
| Minimum capital paid | | 18.610 | 36.376 | | |
| 3 Enterprise closing | BM-DB | | | 5.011 | 10.000 |
| Time | | 3.195 | 1.600 | | |
| Cost | | 16.000 | 8.571 | | |
| Rate of recovery (cents on the dollar) | | 29.875 | 68.824 | | |
| 4 Tax payment | | | | 5.704 | 10.000 |
| Payments (number per year) | WB-DB | 41.750 | 14.238 | | |
| Time (hours per year) | WB-DB | 542.200 | 212.429 | | |
| Rate of total taxes (% of profits) | WB-DB | 53.240 | 45.019 | | |
| **Property rights and rule of law** | | | | **7.306** | **10.000** |
| 1 Property rights | WEF | 4.148 | 5.862 | 7.012 | 10.000 |
| 2 Compliance with contracts | WB-DB | | | 6.799 | 10.000 |
| Time (days) | | 732.150 | 450.905 | | |
| Cost (% of amount established) | | 31.615 | 18.762 | | |
| Procedures (number) | | 37.150 | 31.762 | | |
| 3 Index of strength of investment protection | WB-DB | | | 8.107 | 10.000 |
| Index of transparency level (0-10) | | 4.150 | 5.905 | | |
| Index of responsibility of directors (0-10) | | 4.350 | 4.905 | | |
| Index of ease of shareholder legal action (0-10) | | 5.650 | 6.476 | | |
| **Competition** | | | | **7.240** | **10.000** |
| 1 Intensity of local competition | WEF | 4.648 | 5.562 | 8.267 | 10.000 |
| 2 Effectiveness of anti-monopoly policies | WEF | 3.500 | 5.205 | 6.641 | 10.000 |
| 3 Market dominance | WEF | 3.462 | 5.010 | 6.813 | 10.000 |
| **Access to information technologies and Internet connectivity** | | | | **3.308** | **10.000** |
| 1 Internet users (by 1,000) | WB | 253.265 | 715.513 | 3.530 | 10.000 |
| 2 Cell phone access (by 1,000) | WB | 897.304 | 1152.166 | 7.873 | 10.000 |
| 3 Spending in research and development (% GDP) | WB | 0.333 | 2.045 | 1.601 | 10.000 |
| 4 Patent applications (per 1 million inhabitants) | WB | 8.766 | 448.861 | 0.227 | 10.000 |
| **Access to financial services** | | | | **4.487** | **10.000** |
| 1 Average bank interest rate spread | WB | 10.260 | 1.433 | 1.126 | 10.000 |
| 2 Aggregate domestic credit (% GDP) | WB | 40.885 | 139.516 | 3.012 | 10.000 |
| 3 Level of sophistication of financial markets | WEF | 4.224 | 5.738 | 7.287 | 10.000 |
| 4 Stock market capital (% of GDP) | WB | 32.421 | 52.436 | 6.524 | 10.000 |
| **Physical infrastructure** | | | | **7.033** | **10.000** |
| 1 Index of overall infrastructure quality | WEF | 3.281 | 5.319 | 6.076 | 10.000 |
| 2 Index of transportation and communication infrastructure | WEF | | | 5.815 | 10.000 |
| Roads | | 3.343 | 5.100 | | |
| Airports | | 4.519 | 5.686 | | |
| Railways | | 1.537 | 4.815 | | |

| | Fuente | Sin reescatar | | Reescalado* (con promedios) | |
|---|---|---|---|---|---|
| 3 Index of port infrastructure quality | WEF | 3.643 | 5.233 | 6.912 | 10.000 |
| 4 Access to electricity | | | | 7.112 | 10.000 |
| Procedures (number) | WB-DB | 5.895 | 4.500 | | |
| Time (days) | WB-DB | 82.000 | 102.350 | | |
| Cost (% of per capita income) | WB-DB | 629.595 | 76.305 | | |
| 5 Percentage of households with access to potable water | WHO | 81.842 | 99.810 | 8.196 | 10.000 |
| 6 Percentage of households with access to electricity | ECLAC | 90.558 | | | |
| 7 Percentage of households with access to sanitation services | WHO | 80.684 | 99.842 | 8.085 | 10.000 |
| **SOCIAL CONTEXT** | | | | **7.857** | **10.000** |
| **Entrepreneurship** | | | | **12.421** | **10.000** |
| 1 Perception of opportunities | GEM | 52.273 | 36.133 | 14.016 | 10.000 |
| 2 Fear of failure | GEM | 36.455 | 40.800 | 10.825 | 10.000 |
| 3 Early-stage entrepreneurial activity (by opportunity) | GEM | 42.125 | 52.029 | 7.702 | 10.000 |
| **Education and training** | | | | **7.513** | **10.000** |
| 1 Literacy rate, population over age 15 | WB | 91.010 | 97.598 | 9.325 | 10.000 |
| 2 Secondary school enrolment (% gross) | WB | 80.619 | 104.460 | 7.660 | 10.000 |
| 3 Tertiary school enrolment (% gross) | WB | 41.422 | 66.630 | 6.247 | 10.000 |
| 4 Public spending on education (% GDP) | WB | 4.357 | 5.318 | 8.134 | 10.000 |
| 5 Education quality | WEF | 2.995 | 4.652 | 6.197 | 10.000 |
| **Justice and social inclusion** | | | | **6.967** | **10.000** |
| 2 Gini coefficient | UNDP | 49.239 | 31.909 | 6.629 | 10.000 |
| 3 Infant mortality | WHO | 21.524 | 4.429 | 2.203 | 10.000 |
| 4 Literacy rate, young women | WB | 97.779 | 99.592 | 9.818 | 10.000 |
| 5 Life expectancy at birth | WHO | 73.857 | 80.190 | 9.219 | 10.000 |
| **Employment opportunities** | | | | **7.746** | **10.000** |
| 1 Urban unemployment rate (%) | ILO | 7.110 | 5.876 | 7.378 | 10.000 |
| 2 Youth unemployment rate | ILO | 15.278 | 14.310 | 8.349 | 10.000 |
| 3 Women/men unemployment rate | ILO | 1.371 | 1.138 | 8.904 | 10.000 |
| 4 Women/men wage ratio | ECLAC | 67.700 | | | |
| 5 Women's labour participation | WB | 51.781 | 53.719 | 9.577 | 10.000 |
| 6 Poor workers | ILO | 2.825 | | | |
| 7 Output per worker (PPP, 1990 US dollars) | WB | 20,344 | 44,874 | 4.522 | 10.000 |
| **Informality** | | | | | |
| 1 Employment in the informal sector (% of total employment) | ILO | 58.620 | | | |
| **Social protection** | | | | **4.747** | **10.000** |
| 1 Health coverage: insurance | ILO | 61.857 | | | |
| 2 Health coverage: beds per 1,000 inhabitants | WHO | 2.150 | 5.462 | 3.962 | 10.000 |
| 3 Pension coverage | ILO | 34.410 | 69.287 | 4.966 | 10.000 |
| 4 Public spending in health (% GDP) | WB | 3.629 | 6.738 | 5.312 | 10.000 |
| 5 Health coverage, men/women | ILO | 0.982 | | | |
| **ENVIRONMENTAL CONTEXT** | | | | **7.898** | **10.000** |
| **Environmental pollution** | | | | **7.898** | **10.000** |
| 1 Average annual change (1990-2008) of CO2 emissions | WB | 4.318 | 0.714 | | |
| 2 CO2 per capita (MT) | WB | 4.177 | 9.107 | 48.955 | 10.000 |
| 3 MP10 (micrograms per cubic metre) | WB | 40.885 | 18.954 | 5.423 | 10.000 |
| 4 GDP per unit of energy use | WB | 8.109 | 7.736 | 10.372 | 10.000 |

## ANNEX 6

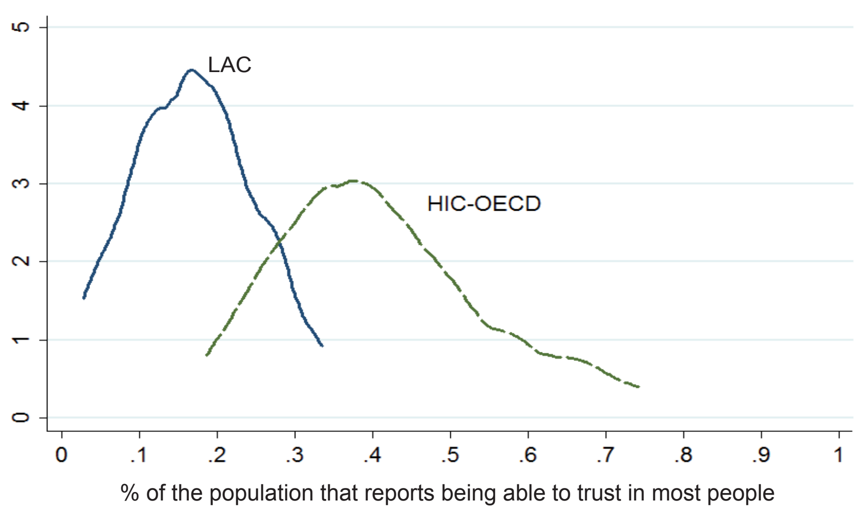
### LAC. Net direct foreign investment and level of openness of the economy, 1990-2011




**Source:** CEPALSTAT

## ANNEX 7

### LAC countries and the HIC-OECD. Trust in individuals.
### (Distribution of countries according to % population that can be trusted)




**Source:** ILO, based on World Values Survey Association (2009). *World Values Survey 1981-2008. Official Aggregate v. 20090901*. Stockholm: World Values Survey Association.

Elaboración propia.

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# Acronyms

| | |
|---|---|
| AFP | Pension Fund Administrators |
| CELADE | Latin American and Caribbean Demographic Centre |
| CEBDS | Brazilian Business Council for Sustainable Development |
| CNTL | National Clean Technologies Centre |
| EAP | Economically Active Population |
| ECLAC | Economic Commission for Latin America |
| EU | European Union |
| FAO | Food and Agriculture Organization |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GEM | Global Entrepreneurship Monitor |
| HIC-OECD | High-income Countries of the OECD |
| HHI | Hirsch-Herfindahl Index |
| IDB | Inter-American Development Bank |
| ILC | International Labour Conference |
| IMF | International Monetary Fund |
| ICT | Information and Communications Technologies |
| ILO | International Labour Organization |
| IOE | International Organization of Employers |
| IPCC | Intergovernmental Panel on Climate Change |
| ISO | International Organization for Standardization |
| ITU | International Telecommunication Union |
| LAC | Latin America and the Caribbean |
| MDG | Millennium Development Goals |
| OECD | Organisation for Economic Co-operation and Development |
| PISA | Programme for International Student Assessment |
| PML | Brazilian Network for Cleaner Production |
| SEBRAE | Service to Support Small and Medium-sized Enterprises of Brazil |
| SIALC | Labor Analysis and Information System for Latin America and the Caribbean |
| SME | Small and Medium-sized Enterprises |
| TFP | Total Factor Productivity |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| WB | World Bank |
| WEF | World Economic Forum |
| WHO | World Health Organization |
| WTO | World Trade Organization |

## ILO OFFICES IN LATIN AMERICA AND THE CARIBBEAN

**ARGENTINA**
ILO Office in Argentina

Av. Córdoba 950, Pisos 13 y 14
Buenos Aires 1054
Argentina

Tel: (54-11) 4393-7076
Fax: (54-11) 4393-7062
E-mail: **buenosaires@oit.org.ar**

**BRAZIL**
ILO Office in Brazil

Setor de Embaixadas Norte, Lote 35
Brasilia, D.F., 70800-400
Brazil

Tel: (5561) 2106-4600
Fax: (5561) 3322-4352
E-mail: **brasilia@oitbrasil.org.br**

**COSTA RICA**
ILO Subregional Office for Central America, the Dominican Republic, Haiti and Panama

Ofiplaza del Este, Edificio B, 3er. piso
Barrio Betania
San Pedro Montes de Oca
Apartado Postal 10170-1000
San José
Costa Rica

Tel: (506) 2207-8700 / 2253-7667
Fax: (506) 2224-2678
E-mail: **sanjose@oit.org.cr**

**CHILE**
ILO Subregional Office for the Southern Cone of Latin America

Av. Dag Hammarskjöld 3177
Comuna de Vitacura
Casilla 19.034, Correo 19
Santiago de Chile
Chile

Tel: (562) 580-5500
Fax: (562) 580-5580
E-mail: **santiago@oitchile.cl**

**MEXICO**
ILO Office for Cuba and Mexico

Comte No.35 Col. Anzures
11590 México, D. F.
Tel: (5255) 5250-3224
Fax: (5255) 5250-8892
E-mail: **mexico@oit.org.mx**
Web-page: http://www.oit.org.mx/

**PERU**
ILO Regional Office por Latin America and the Caribbean
ILO Subregional Office for the Andean Countries

Las Flores 275, San Isidro
Apartado 14-124
Lima 27
Perú

Tel: (511) 615-0300
Fax: (511) 615-0400
E-mail: **lima@oit.org.pe**

**TRINIDAD AND TOBAGO**
ILO Subregional Office for the Caribbean

Stanmore House, 6 Stanmore Avenue
P.O. Box 1201
Port of Spain
Trinidad and Tobago

Tel: (1-868) 623-7178 / 623-7704
Fax: (1-868) 627-8978
E-mail: **ilocarib@ilocarib.org.tt**

**URUGUAY**
Inter-American Centre for Knowledge Development in Vocational Training (CINTERFOR)

Av. Uruguay 1238
Casilla de Correo 1761
Montevideo 11.1
Uruguay

Tel: (5982) 902-0557 / 908-6023
Fax: (5982) 902-1305
E-mail: **dirmvd@cinterfor.org.uy** / and **montevideo@cinterfor.org.uy**

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