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EDITORIAL NOTE

2020 was a year in which the world took a most unexpected turn. Unfortunately, those that suffer the most and that take longer to bounce back are always the ones that are more vulnerable. Latin America got caught in dealing with a pandemic while handling large fiscal deficits in most countries, low healthcare capacity and having very high rates of participation in the informal economy. These conditions might be a recipe for disaster.

At the Latin American Policy Journal we set out to understand how the different countries had handled the emergency and what were the challenges ahead. We received some insightful articles about xenophobia in the midst of a pandemic in Costa Rica, digital divide in Latin America, fiscal response in Peru, and how education in general had been affected in the region, among others. This edition of the Latin American Policy Journal sought to highlight voices of senior policy makers and deep dive into their handling of the pandemic, we are proud to highlight interviews with Maria Antonieta Alva, former Minister of Finance of Peru, Claudia Lopez, current Mayor of Bogota, Colombia and Juan Daniel Oviedo, Director of Statistics Department of Colombia (DANE). These stories should fill us with hope of how these policy makers made the best possible usage of resources available and how they managed to innovate. The road towards recovery is long and with the current vaccine distribution in Latin America we can see that there are still major hurdles to overcome.

In this edition we are also very grateful to present interesting research pieces about informality in Costa Rica, political crisis in Argentina, energy shifts in Mexico, and Rio's identity crisis. We are very thankful for everyone who believed in our idea for this edition and that contributed to it. More than anything, we are grateful to our team with whom, even though we did not share one single in-person meeting during the entire academic term, brought their A-game during the entire year.

It is our hope that this edition serves as a time capsule in the future so that we can all reflect on the obstacles that 2020 brought to the world but particularly to our beloved Latin America.

Thank you and enjoy this edition.

Mayra Delgado and Ana Maria Garcia Osorio

INTERVIEW OF MARIA ANTONIETA ALVA

Former Minister of Economy and Finance of Peru

Interview by Mayra Delgado

Co-Editor of the *Latin American Policy Journal*

MAIN CHALLENGES AND LESSONS LEARNED

What are the main problems that make it difficult to manage COVID-19?

The initial conditions in which the pandemic found us matter. On March 15th, Peru had less than 100 ICUs for 33 million inhabitants. We needed time to strengthen the health system, so one of the most aggressive quarantines was decreed.

In the case of Peru, there are structural factors that conditioned the results we have observed. In the beginning of the pandemic, Peru ranked 144 out of 149 countries in health capacity, had the lowest number of ICUs and mechanical ventilators in the region, had one of the highest rates of informality, high levels of overcrowding, low financial inclusion that affected the speed with which we wanted to give liquidity to households, and a high self-medication rate. Unfortunately, there is no country with Peru's characteristics that had a successful experience in containing the pandemic.

Of course, the strength of the state also matters. Let's just make a quick assessment of how the Peruvian state delivers services in regular contexts. That definitely affected responsiveness as well. We applied strategies to counteract that such as assigning Delivery Units like Peru Purchases, Reconstruction with Changes, and Pan-American Legacy.

Another factor that is not talked about but that also had an influence was the political instability during a full emergency. Many ministers who should have been focused on facing the emergency had to participate in endless congressional

sessions. In my case, I was summoned more than ten times and questioned twice.

The spread of COVID-19 has definitely presented an important challenge for the economic policy of Peru and the rest of the world since the spread of the virus continues to generate a series of negative effects on daily life and economic activity. The crisis generated by COVID-19 has demonstrated the importance and urgency of working on microeconomic aspects that are complementary and not exclusive to the macroeconomic ones, such as high informality, low levels of financial inclusion, closing the digitalization gaps, the deficit in the quality of public services, among others, which have limited the effectiveness of public policies.

What are the most important effects of the pandemic? Looking forward, in what should Peru invest to prepare for potential pandemics?

This crisis is unique, if we compare it with recent crises that Peru has experienced. The main difference is that its origin and nature is a health, not economic, phenomenon. For countries without a sufficient health response, the policy instrument was to close the economy. It is an abrupt and self-imposed closure to save lives. This meant that people and companies could not generate income. This is relevant to understand why the crisis hit us so hard despite macroeconomic strength.

That said, the crisis due to the global expansion of COVID-19 has had significant negative effects on economic activity and fiscal accounts. In 2020, Peru's GDP contracted 11.1 percent, despite the necessary measures implemented to stop the spread and safeguard the lives of the population.

Thus, stopping nonessential activities and the compulsory social immobilization negatively impacted economic activity during the first semester of 2020.

However, activities began to restart in May and the implementation of the economic plan against COVID-19 favored the rapid recovery of economic activities in the second half of 2020. As a consequence of the economic contraction and the measures approved to combat the pandemic last year, the fiscal deficit increased from 1.6 percent of GDP in 2019 to 8.9 percent of GDP in 2020, bringing the public debt to 35 percent of GDP. COVID-19 has had notable negative effects on public finances in the world that are reflected in the significant decline of financial indicators such as country risk and credit ratings. However, Peru stands out for continuing to maintain these indicators at favorable and stable levels since before the pandemic, which shows the confidence of financial markets in the country's macro-fiscal strengths.

Unfortunately, the crisis caused by COVID-19 has been a setback for the economic and social progress achieved in recent years. Therefore, the government must work to strengthen some structural factors that are essential to face future pandemics. These factors are (1) the consolidation of fiscal accounts and strengthening of public finances, (2) informality as a complex structural and multidimensional problem, (3) the low level of financial inclusion even with respect to Latin American standards, (4) inefficiencies in public spending, (5) a fragmented and inefficient health service, (6) a pension system with low coverage and sustainability problems, and (7) gaps in the digitization of public services and databases, and (8) gaps in internet services.

The reforms of the 90s showed us two things: (1) that we can agree as a society on some principles (that are respected regardless of who is in power) such as macro stability and sustainability of public finances and (2) that we can build institutions that support those bets, like the Central Bank, the Banking and Insurance

Superintendency (SBS), and the Ministry of Economy and Finance (with all the improvements they can have).

However, we have not created the institutions that improve the daily life of Peruvians. And there are two types of institutions: those that provide direct public services like education and health and those that protect market competition since competition guarantees that Peruvians can access the best quality at the lowest price. Peru needs to be more aggressive in implementing these reforms.

VISION OF PERU'S RECOVERY POTENTIAL IN THE MIDST OF THE CURRENT COMPLEX POLITICAL SITUATION

What areas could be stimulated to promote economic growth?

In the short term, it is essential to mitigate the adverse effects of the expansion of the second wave of COVID-19 infections. It seems right to me that with the experience gained over the past year, the government has implemented a geographically and economically targeted quarantine, which would significantly temper the impact of the pandemic. Economic activity has been restricted, but not to the levels of previous episodes. The productive apparatus is almost intact.

In addition, within the framework of the current targeted quarantine, the government will continue to implement support programs for vulnerable sectors of the population, and economic support measures have been provided for businesses and families.

Undoubtedly, the implementation of the vaccination process will be key in improving expectations and the optimism of the population and, above all, accelerating the economic recovery since it will reduce the probability of implementing restrictive measures again. Unfortunately, due to the recent political scandals, we have started on the wrong foot. We have to quickly regain the confidence of the population in this process.

In the medium and long terms, it is essential to focus all efforts on measures aimed at improving the efficiency and competitiveness of the economy. Peru should continue in the path outlined in the National Competitiveness and Productivity Policy. As with everything, it can be improved, but it presents an articulated and consensual synthesis of a prioritized set of policy measures that aim to advance the country's vision established in the nine priority objectives.

An interesting experience that Peru has implemented are the executive tables that collect important aspects of what Harvard professors like Dani Rodrik and Ricardo Hausmann teach about productive diversification and coordination failures. They are spaces where the private and public sectors interact, identifying binding constraints and developing action plans for strategic sectors, such as agriculture exports in recent years, that could constitute new growth engines.

At the household level, what strategies could be proposed to alleviate the household economy and avoid an increase in the number of families with limited resources?

In the current context of the targeted quarantine to contain the expansion of COVID-19, the government implemented support measures for families by granting 600 soles (approximately US\$162) bonuses to the most vulnerable households in the quarantined regions, food support, tax measures, among others. Likewise, social policies continue to be active, in particular the cash support programs for households such as Juntos and Pensión 65, and other social programs remain active.

MAJOR BATTLES AND RISKS FOR 2021

Will the fiscal position continue to be a strength? Is it possible to continue borrowing to finance the expenses of the pandemic?

The country has a long history of commitment to fiscal responsibility, which makes it credible that the deficit will converge

toward sustainable levels. In fact, between 2016 and 2019, there was compliance with all the current macro-fiscal rules, even when facing El Niño phenomenon and the subsequent need for reconstruction after disasters during that period. In recent years, the government worked on increasing permanent tax revenues by fighting tax evasion and avoidance, increasing spending efficiency, among others.

It should be noted that for 2020, in the 2021–2024 Multiannual Macroeconomic Framework, the fiscal deficit is expected to be at 10.7 percent of GDP and public debt at 35.5 percent of GDP. The final result of the execution shows that these fiscal objectives were clearly met, despite being in a fairly complex context. The fiscal deficit closed at 8.9 percent of GDP, while the public debt closed at 35 percent of GDP.

The fiscal consolidation process began in 2021. Thus, in the 2021–2024 Multiannual Macroeconomic Framework of August 2020, the fiscal deficit was forecasted at 6.2 percent of GDP. However, considering the more favorable than expected result in 2020, according to the updated projections presented in the pre-electoral report published in January, the deficit would amount to 4.8 percent of GDP in 2021.

In addition, we must point out the good outlook from credit rating agencies. In December 2020, Fitch Ratings maintained the country's long-term foreign currency credit rating at BBB+ and changed the outlook from stable to negative. Fitch's decision came only a few days after two other prestigious rating agencies in the world, Standard and Poor's (ratifying Peru's rating with a stable outlook) and Moody's (in a periodic report), deemed the impact of the coronavirus as extreme, but temporary, and perceived the future of Peruvian politics and the return to normalcy with optimism.

Is the policy of printing dollars and reducing the interest rate of the United States beneficial for the economic recovery of Peru?

To date, the United States Federal Reserve

(FED) maintains its interest rate close to zero [0.00–0.25 percent] and its expansion program through purchase programs and credit advantages.

This US expansive monetary policy, accompanied by other developed countries, has positive economic impacts for Peru because it allows for a faster global economic recovery for trading partners and benefits key markets like raw materials. Likewise, it favors emerging countries like Peru through (1) a greater flow of capital into economies with solid macroeconomic foundations like ours or preventing a greater outflow of capital from them, (2) contributing to the reduction of external financing costs for domestic agents, and (3) reducing depreciation pressures.

However, this context is temporary, and in the future, it may involve price and financial stability risks, especially in economies with significant internal and external macroeconomic imbalances (high public debt and fiscal deficit, high current account deficit, among others).

VISION ON LATIN AMERICAN AND THE CARIBBEAN

An important factor for economic recovery is vaccinating the population. How will differences in vaccination rates across countries impact their economies?

I think the current development challenge is the vaccination process against COVID-19. It is estimated that the world has to vaccinate ten times the share of population that vaccinates every year and in record time compared to the time the world has taken to implement other vaccines. It's an unprecedented effort in scale and time. Governments face technical, logistical, and political challenges. Now, we are concerned about the supply of vaccines, but there is a huge concern of what will happen to the demand for vaccines when there

is sufficient stock in the world. And the anti-vaxxers definitely have smarter and more efficient communication strategies than many governments. The situation is aggravated by the loss of citizens' confidence in the state due to the handling of the pandemic and by shameful scandals like what happened in Peru. Privilege in the delivery of services to citizens as a *modus operandi* in many Latin American countries is also being seen in vaccination, which affects legitimacy or increases citizen's indignation for the entire process.

Vaccination campaigns are an important factor for the economic recovery of the region because they will make social-distancing measures more flexible and start the process of reopening the most affected sectors like tourism, commerce, restaurants, among others. However, the start of vaccination in the region has been slow and heterogeneous, compared to other economic blocs. On the one hand, in Chile more than 2.9 million doses of vaccines have already been distributed (to around 16 percent of its population) and its objective is to immunize 80 percent of its population by the end of the first semester of 2021. On the other hand, Caribbean countries such as Honduras and Nicaragua have not received any doses, while Cuba has decided to develop its own vaccine.

Under this scenario, the Latin America and Caribbean region is expected to go from contracting 7.4 percent in 2020 to growing 4.1 percent in 2021 unevenly across countries due to improvements in the terms of trade, the greater growth of trade partners, and the positive statistical effect. However, the slow vaccination rates and logistical problems in distribution could delay the economic recovery of the region. Actually, according to *The Economist*, most countries will achieve widespread vaccination coverage in 2022, and some in 2023.



Author Biography

María Antonieta Alva Luperdi is a Peruvian economist and public administrator who served as Minister of Economy and Finance from October 2019 to November 2020. Alva previously served at various departments in the Peruvian government, mainly the Ministry of Economy and Finance and the Ministry of Education. In 2017, she was appointed General Director of Public Budget at the Ministry of Economy and Finance. Between 2014 and 2017, she was the Chief of Strategic Planning and Budget at the Ministry of Education. Previously, she worked at the General Directorate of Public Investment and the General Directorate of Public Budget at the Ministry of Economy and Finance.

María Antonieta Alva holds a master's in public administration in international development (MPA/ID) from the John F. Kennedy School of Government at Harvard University (USA) and a bachelor's in economics from Universidad del Pacífico (Peru).

INTERVIEW OF CLAUDIA LÓPEZ

Mayor of Bogotá

Interview by Ana Maria Garcia

Co-editor of the *Latin American Policy Journal*

Madam Mayor Claudia López, we are very grateful for your participation in the *Latin America Policy Journal* of the John F. Kennedy School of Government at Harvard University.

What do you think has been the greatest success in managing the pandemic and economic recovery in the District?

I would highlight several things. First, I am a woman who comes from academia, so I think that Bogotá's greatest success was listening to science from day one. As soon as we learned about the pandemic, we got started. As soon as we had the first case in Bogotá, we formed a team of health professionals, epidemiologists, and scientists who helped us understand the pandemic; we knew practically nothing about it; we did not know the risks. The team helped us model how the pandemic could develop in Bogotá, which informed our decisions to face the pandemic. I believe that the first success was listening to science and making decisions based on data from day one.

Second, it was always applying the principle of prevention and precaution, always, precisely because the virus knows much more about us than we do about it. So in the face of enormous uncertainty, we always applied the principle of prevention and precaution, being cautious, not taking unnecessary risks, and on the contrary—and I think that was the third success—leading with the information we had available. We led difficult decision making in the country. Bogotá was the first one to propose a general quarantine in Colombia. We did a four-day quarantine drill during March 16 to 20—Bogotá's first confirmed case was on March 6. We began to do something that is in the DNA of Bogotá's

citizens, which is to use civic culture as a pedagogical conviction for collective care.

Third, I think it was very useful to create a public and open data system for the management of the pandemic. Bogotá is the only city in Colombia and, as I understand it, one of the few in the Americas that has had a public and open data system since April, since the beginning of the pandemic. As Mayor I said, if we are going to make life and death decisions for citizens, then citizens need to know the information that we are basing our decisions on. Scientists can download our data and run their own models, verify our information, dispute it if necessary, and build a public and open data system.

The fourth success has been to build a social and economic protection network along with a health protection network. I would say that these are the four greatest successes Bogotá has had in handling the pandemic throughout this year.

We have talked about the successes, but what would you have done differently? How would you have done it, and why didn't you do it?

Today I see that we have missed several things. Colombia has a mixed health regime—health is not 100 percent public, nor is it 100 percent private. The health authorities have jurisdiction, meaning we do inspection and surveillance, but we do not have the capacity to control private health agencies. The national government, the national health superintendency, is the one that can sanction private agents, not the municipalities. I believe that one thing we lacked from the beginning and that we are going to ask for now is the delegation of power from the national government to

control private agents and health providers in our region. There is a debate which I won't get into about whether or not the health system should be completely public or private. As Mayor, I have to operate within the existing public health care system. I don't think that health care in Colombia fails because of the mixed system, because during the pandemic I have worked closely with the public and private systems. Bogotá has led four alliances with Bogotá's health services, and we had good collaboration and coordination. But I am missing one piece of the puzzle: the local government needs control when EPSs (private health-promoting entities) and IPSs (private service-providing institutions) are not complying with the protocol. Today, the mayor's office can inspect these companies and report noncompliance, but we cannot sanction it, so we are left without leverage. Why does this weigh so heavily on me? Because in this mixed system, almost 70–80 percent of the patients who are affiliated with the health system are affiliated with EPSs. EPSs have to take the COVID-19 tests, for example, and the efficiency of EPSs is very heterogeneous. Some are very efficient and deliver results in 48 hours or less, but some of them take more than a week to deliver results, which is deadly in pandemic management.

EPSs have to track cases, which is critical to develop timely epidemiological barriers to prevent the pandemic from spreading. There are some that do it, but others do not track their patients, and some don't even contact their positive cases, much less follow up. In a pandemic, this is dire because having 99 percent of the tracking work is not enough if the 1 percent that is left out can enlarge the pandemic. So now I regret not having the faculty to control and sanction EPSs and IPSs, and not having asked for this faculty. If having that faculty is needed for testing and tracking, it will be even more needed during vaccinations, especially since the national government announced that the first vaccines would begin to arrive between February and

March—although it's February 2, and the first vaccine has not arrived in Colombia, which is a bit dire; we are late. The president announced that vaccinations will be through IPSs and EPSs, and I am a little concerned about that. One of the first things that worked for Bogotá is coordination between the public and private sectors. We called the private sector from day one and told them to accept centralized coordination with us (the mayor's office) as health authority, and we aggregated public and private resources to improve coordination among agents—it was a collective action problem.

We proposed four things to EPSs that we have been doing well:

1. First is home care. A little more than 9–10 patients or 9.5 out of 10 positive patients we identify receive care at home; we do not take them to a hospital. The first thing was to set up home care teams, regardless of what EPS people belonged to. We pooled teams and distributed coverage to provide home care for all the positive cases regardless of which health system they belonged to. That was the first agreement.

2. The second agreement was for tracking, but as I have mentioned, 90 percent of the tracking is done by EPSs, and it does not work well—that has been difficult.

3. The third was for chronic care. People with diabetes, uncontrolled hypertension, did not have their medicines on time. We made a third agreement to do preventive care for chronic patients so that their treatment was controlled, they had access to an oximeter, and they had their medications and glucose tests on time. People with uncontrolled comorbidities have a high risk of mortality if they get infected with COVID-19.

4. The fourth was for the centralized regulation of ICUs. ICUs are in hospitals; it is impossible to have an ICU outside of a hospital. Most hospitals are private, and most people affiliated with the health system will go to private hospitals. Bogotá had 935 ICUs when the pandemic began; half

of those were dedicated to COVID (about 450). First we made a plan to expand that capacity, and today we already have 2,448—we went from 935 to 2,448, and we allocated more than 2,000 to COVID. The Secretary of Health is the regulatory center for emergencies and receives requests from hospitals about patients who require an ICU and assigns patients to an ICU regardless of the hospital or system it belongs to. So there is a centralized coordination, which is a very critical and very scarce resource.

We believe that we will need the same centralized regulation to carry out mass vaccinations, vaccination without barriers, regardless of which EPS a person belongs to. But the difficulty is that the national government is doing a very centralized management. The National Vaccination Plan is super centralized, and that can be a difficulty. Since the tracking and isolation of patients is managed by EPSs and it did not work, and since we (the mayor's office) cannot control and sanction them, I have no way to improve that, and that is what my handling of the pandemic depends on. That is what we lacked in the past, and if we do not get that now for vaccinations, we run the risk that vaccinations will be done as badly as the PRASS (testing, tracking, selective sustainable isolation system), and that would be a disaster. That is one thing I believe we have to achieve now, an additional factor to correct—well, more to include than to correct.

Interesting, I would think that the centralized ICU and home care management would be more difficult to achieve than having control over tracking and monitoring of patients.

The issues of coordination and tracking have been difficult because all the data and money are very decentralized. I do not want to get into the discussion of whether the health regime should be public or mixed—I have to work with what is there. What is the problem? In Colombia, the mixed regime means that affiliates pay a price per patient attended. In that per

capita price there is a preventive health component, such as isolation and tracking, and there is a curative care component, such as hospitalization or the ICU. I am certain that EPSs, meaning the private regime, are quite good at curing and very precarious at prevention. It does not have the economic or operational incentives to be good at prevention and healing at the same time, and since healing is more profitable, there is more government investment in resources for healing than prevention. However, one of the main elements of pandemic management is prevention, which includes case tracking and isolation, and that is exactly what EPSs do not know how to do well. We would like a centralized control of resources. If I was asked what I would change in the Colombian health care system, I would not be for complete nationalization. That would be a mistake because there have been important gains under the existing mixed health care system. Colombia did not have a health system 30 years ago, but no one remembers that anymore. Back then doctors only served a very small portion of the population, and today we have more than 92 percent of the population affiliated and insured, so that is a great victory of the mixed regime that we cannot disregard. I would, however, advise that every actor stick to what they are good at. We know that the private regime we had for 20 years is not good at prevention, so they should not be paid for that. Instead, prevention efforts should be delegated to us, the regional entities. During the pandemic, the regional agencies should be responsible for the ICU, home care, tracking, and vaccination, and once the pandemic is over, the regional agencies should have centralized coordination and other types of critical resources.

Bogotá is paying a high price; Colombia is as well. Bogotá, despite being the capital of Colombia and producing almost a third of its GDP, has fewer hospital beds per capita than Medellín. We have a hospital system, public and private, that does not have the ideal number of beds, hospital beds or

ICU beds. We made a mega-monumental effort in seven months, to go from 935 to 2,448 ICU beds. Still, that is insufficient, so that is the price Bogotá is paying. How are we going to catch up? In this four-year period, one of the goals in our development plan is to strengthen the public health and hospital system. To summarize, we are going to build six new public hospitals. Without counting the private hospital network's expansion, we'll have a new wing in Kennedy, a new wing in Meissen, a new hospital in Usme, the new San Juan de Dios in the city center, the new hospital in Bosa, and an expansion of the hospital in Engativá. That is the expensive price Bogotá is paying, and we have to catch up in this four-year period.

The expensive price Colombia is paying, apart from its regional and economic inequality, is that Colombia produced vaccines until 2001, but then stopped investing in science, knowledge for laboratories, and vaccine production. We are now paying for that bad karma! So, I think that Colombia should go back to being a vaccine producer, even if it takes ten years to consolidate. We should make agreements not only to purchase vaccines but also with some pharmaceutical companies that produce a vaccine type that we could replicate. We should give ourselves the task of transferring knowledge and technology. AstraZeneca, for example. It is not that the AstraZeneca vaccine is better—the one from Pfizer is also very good—but the method it uses has a better chance of allowing for technology and knowledge transfer and scientific investment from Colombia so that it can be replicated in Colombia. In fact, AstraZeneca reached a production agreement with Argentina and Mexico, and with the tools we have in Latin America, that can be done. It is absolutely strategic, and one of Bogotá's goals is not only to support the national government in vaccine procurement but also engage in knowledge and technology transfer mechanisms to rebuild vaccine production capacity in Colombia, particularly in Bogotá.

The last question is, what voices do you listen to in your decision making regarding the apparent tradeoff between economic reactivation and public health? Who do you listen to?

First, the tradeoff is not apparent. I wish it were apparent, but it is quite real, and unfortunately, it is global. Because of the pandemic, everyone had brutal economic and employment crises because the sacrifice for saving lives is to stop interactions since this disease is transmitted by breathing, and we cannot stop people from breathing. Although we can't stop breathing, we can lower interactions, but that has a mental health cost and a brutal economic and labor cost. So what do I do? I understand businessmen and their concerns, so I listen and meet with them, but I also meet with doctors, epidemiologists, and hospital managers in public and private networks. I meet with everyone. My job and my duty are to listen to all voices and understand their legitimate concerns; I have to mediate that. I also have to face the not so apparent conflicts between the formal and informal sectors of employment. We mostly restrict the formal sector, which provides Bogotá with 90 percent of the resources needed for pandemic management. On the other hand, 60 percent of people's work and jobs are in the informal sector, so there is a struggle. There are businessmen who say, no, do not shut us down, do not restrict entrance to shopping malls but rather control informal workers who continue working and disregarding every safety protocol, while the informal workers say that they're the humble ones who need to work and that is the only option they have so let others make a sacrifice. So it is not only having to listen to everyone but also try to not encourage conflict. On the contrary, we try to make people understand that their interests are legitimate and that we all have to make some level of sacrifice for the collective good, everyone without exception. This pandemic does not discriminate—it kills the richest and kills the poorest. I clarify—it kills the poorest more because they are poor and

they have worse health conditions, making them much more vulnerable to the virus. I listen to everyone, but I have to make decisions from a distance, decide at all times the level of care and contribution for each so that we can get through the different stages of the pandemic. That's my job: I listen to epidemiologists and scientists, but I also have constant and permanent forums with businessmen, I have constant meetings with the informal sector that I have to try coordinating with, and above all, I have enormous pedagogical work with the whole city. There are countries that have controlled the pandemic better, but they are authoritarian countries that control information and manipulate the data of their citizens. That is not the price we are going to pay for handling the pandemic. In a democracy, the only thing that saves us is collective action for care—nothing else can save us. In order to have collective action, you have to build trust, not fear; you have to be transparent with information, which is why it is so important to have an open public health system with public data and transparent information. You have

to build trust, and you have to engage an enormous level of pedagogy and conviction. Bogotá is a city of 8 million inhabitants, it is one of the densest cities in the world, and unfortunately, it is also a super unequal city. Only with citizen collaboration, in a few weeks Bogotá managed to get 95 percent of its citizens to adopt the mandatory use of masks, through conviction alone. Bogotá has 17,000 police officers, and only 4,500 per shift, so there's no way this could have been imposed. Everything has been done through public conviction and with an enormous pedagogical effort from our part. I have to listen to the public and all the actors, without encouraging conflict and, on the contrary, building trust because providing care during the pandemic, with science, vaccines, cures, fundamentally depends on. . . . Collective action for care is what saves lives, even more than the vaccine. Even to vaccinate—without collective action for care, there are no vaccinations. That is my job.

Thank you very much, madam Mayor.



Author Biography

Claudia López is the Mayor of Bogotá. She was elected with more than 1,108,000 votes, thus achieving the largest vote in the history of the city, for the coalition made up of the Alianza Verde, Polo Democrático, and the Activista movement parties.

She studied government and finance, public administration, and political science at the Externado de Colombia University. In addition, she has a master's degree in public administration and urban policy from Columbia University and a PhD in political science from Northwestern University in the United States.

At a very young age, she joined the student movement for the seventh ballot that led to the 1991 Constitution. She directed the Department of Community Action in Bogotá and was mayor of the town of Santa Fe, advisor to the Ministry of Housing, and consultant to the UNDP.

She was a senator for the Alianza Verde Party during 2014–2018. From there, she promoted important laws such as the Pro-bici Law, the premium for domestic workers, a guarantee of resources for the state policy of early childhood "From Zero to Always," and an education degree without a military passport. In addition, she managed to be recognized as the best senator throughout these years.

She was the leader of the Anticorruption Consultation, the most voted citizen initiative in the history of Colombia with 11,671,420 votes throughout the country.

In 2017, she was a candidate of the Alianza Verde party for the presidential elections, and in March 2018, she was linked as vice-presidential candidate of candidate Sergio Fajardo for the Colombia Coalition.

In her career she has also worked as a journalist, researcher, and political analyst.

INTERVIEW OF JUAN DANIEL OVIEDO

Director of the National Administrative Department of Statistics of Colombia (DANE)

Interview by Ana Maria Garcia Osorio

Co-editor of the *Latin American Policy Journal*

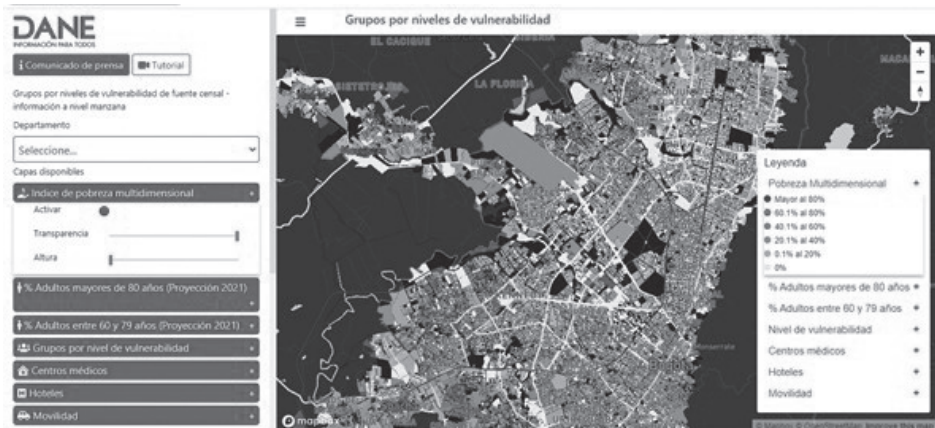
What do you think has been the national government's greatest success in handling the pandemic and the country's economic recovery?

I believe that the most successful decision the national government has made so far regarding the management of the pandemic is the extensive use of the available information from different sources, such as administrative records and the National Population and Housing Census, as well as enhancing the use of different tools that allowed to prioritize the vulnerable population for the different public policies aimed at mitigating the impact of the pandemic (such as monetary transfers).

The COVID-19 response is anchored on a set of policies which were based on statistical information. In various cases, it has been possible to identify how information from the DANE's Population and Housing Census, the Social Security register (PILA, for its acronym in Spanish) record, the System for Identification and Classification of Potential Beneficiaries (SISBEN, for its acronym in Spanish), the

National Identification File as well as the household surveys have been a game changer for developing an adequate pandemic response. With this information, DANE alongside with the National Planning Department (DNP) built a set of tools that enabled the very fast design of a targeting strategy for nationwide policies like the Solidarity Income and VAT refund programs and helped to streamline strategic information for decision makers at the municipal and state (department) level. Additionally, DANE in partnership with DNP and IETS designed the per block vulnerability index, which was then launched as a geovisor that contained the population's comorbidities, age distribution and the Multidimensional Poverty Index (MPI) per block (see a screenshot of this geovisor in Image 1). This geovisor enabled local programs like *Bogota Solidaria* or *Medellin Me Cuida* to target their grocery deliveries and public health I think that the pandemic was a very important opportunity to highlight the catalytic power of using the

Image 1: Geovisor of Bogota including MPI



adequate data to target social policy and create modern and impactful social policy.

What would you have done differently? What data were missing?

An updated Economic census is one element that would have been great to have before the pandemic as to have accurate, comprehensive and timely statistics to inform policy makers and generate business resilience. Why? Because the regular census is a statistical operation, not an administrative or fiscal operation. An economic census has the benefit of being inclusive in a country like ours where, in the 23 main cities, almost half of the economy is informal. Part of the difficulty we face as a national government is how we knock on the doors of the informal sector without knowing where they are. We know that they exist in large aggregates, and we know that they are part of the hidden economy. One of the elements we needed the most was to have that information from the economic census to know how to ensure economic sustainability of the formal and informal sectors. This year, we are beginning to collect the information in the pre-census phase.

What is the main use of the DANE data for the economic recovery?

We have a very clear position regarding the use of our information for the country's economic recovery. Throughout 2020 we continuously estimated labor market indicators for each of the country's 23 main cities, and that was fundamental for us. We did this by learning very quickly how to apply phone surveys. These labor market indicators are key, particularly in urban areas where we managed to use disaggregated information with reference criteria and differential affectation. With this information, we can know the exact effects of the pandemic on the labor market.

What happened to the country's labor market in 2020? Out of the 2,4 million people who lost their jobs throughout the country 1,1 million became unemployed.

In 2020, the unemployed in the 13 main cities account for 56,2 percent of the total unemployed nationwide, and the 47,7 percent of the employed population. That is, there was a stronger effect on the 13 main cities, even stronger than the global effect. In terms of the volume of the employed population, the pandemic put us at a very similar level to 10 years ago.

We believe that this individualized use of information on the labor market and (and the information on poverty that will be soon released) is essential to design recovery strategies that are relevant for each city, and it is very important to use the information we have on informality for each city.

How do you think the demographics of the country will be affected post-pandemic? For example, in the United States, there is migration. Highly skilled workers are emigrating from the big cities of New York and Boston. Are we seeing this phenomenon in Colombia, and do we have that information?

In order to answer this question, it is important also to recognize the existing urbanization trends under which there is a rapid growth of conurbations on the country. Some examples are Soacha near Bogota, and Soledad in the surroundings of Barranquilla. I mention this as out of the 55,271 COVID-19-related deaths that we have registered in Colombia, 64.1 percent occurred in capital cities, in addition to Soacha.

There was a study published by *The Lancet* that established that the greater contagion factor or the higher mortality rate is due to the metropolitan nature of urban infections, not due to higher population density...If this premise is correct, then migrating to the conurbation is not necessarily the most profitable decision and does not make sense considering the socioeconomic conditions of that process in Colombia.

The Barranquilla conurbation leans toward Soledad, and a high-income person is not going to live in Soledad. The

Medellín conurbation leans toward Bello. In Medellín, for example, there is a possibility for this type of phenomenon to exist because there are much more balanced urban conditions between the municipalities of the conurbation. In Colombia, migration from big cities usually happens because low-income people cannot afford to live on the city anymore; that is still the case. Therefore, we probably will not see the deconcentrating of cities due to high-income migration like you see in England or in the United States.

For us, the most important focus is the imbalance that the excess mortality from COVID-19 is generating on the ratio between yearly births and deaths. In Colombia, in 2018, there were 649,115 live births and 236,851 deaths, with a ratio of about 2.7:1. The pandemic drastically affected that ratio. The indicator tells you that at least 2.7 people were being born for every person, but the pandemic caused that indicator to drop to 2.1, meaning that for each death, now there are only 2.1 births. That imbalance will be seen in approximately 30–40 years when we enter the demographic bonus period. People were afraid of a baby boom during the pandemic, but that just has not been the case.

Another important aspect to consider is how the causes of death have changed during the pandemic. For example, we expect a considerable increase in deaths from heart-related ailments. We expect this to be the second-most common cause of death in men over 60. According to

epidemiologists, stress is really getting to people, and people have not been going to their check-ups due to the pandemic, so there will be consequences. This is key information for public health decision making during the COVID-19 pandemic.

How will the post-pandemic job market be affected? What changes are you expecting?

I believe that this is one of the most important problems because of the impact of the COVID-19 pandemic on urban dynamics was so strong that it made visible elements that were historically present but that need new solutions. That is the case with gender gaps in the labor market and failures in terms of educational relevance to the needs of the labor market.

The informally employed population only grew one point, so people might wonder what is the problem of informality in the context of the pandemic? Well, logically that one point increase in a contraction means that the blow was much stronger on the formally employed population. That means that in the 13 main cities we saw a decrease of 1.561.000 employed people between May-December 2019 and the same period of 2020, of which almost two-thirds are formal, and one-third are informal. This shows that the pandemic took people out of the labor market, mostly from the formal sector, and that they have entered informal activities.

Women fared worse in informality, while men fared worse in formality. That means women face double vulnerability

Table 1: Variation of formal and informal population from December 2019 to December 2020

Occupied population	13 cities and their metropolitan areas					
	Men			Women		
	Dec-20	Dec-19	Absolute variation	Dec-20	Dec-19	Absolute variation
Occupied population	5699	5992	-293	4402	5009	-607
Formal	2980	3345	-365	2214	2497	-283
Informal	2718	2647	71	2188	2512	-324

because they are leaving the formal sector workforce and they have not been able to become integrated into the informal economy. Men, on the other hand, have been able to use informality for individual economic recovery. This will have dire consequences on poverty, because more women have left the workforce and female heads of household will face challenges to reintegrate into the economy. As it is, on average, a household is almost 2 percentage points more likely to be poor if the head of household is a woman (See Table 1).

How do you think the general interest in statistics in Colombia is going to affect everything that has happened with the use of data?

I believe that the only way to get past the crisis or to turn the aftermath of the crisis into recovery or survival criteria is to know, through information, what was affected. So, I do believe that embracing statistics

will be important. One positive aspect is that the pandemic allowed people to trust official statistics, not necessarily me, but to trust an institution that has been doing this work for 67 years. We have, of course, made mistakes, but we have corrected and revised them and made updates.

People value information and statistics a little more, and people are a little surprised that they can go to the vulnerability visualization tool in the DANE website and access exact georeferenced data. For example, we know the age distribution and multidimensional poverty index per block in the major cities. This has been key to identify the vulnerable populations in the pandemic. On the other hand, it is truly empowering for people to feel identified and seen. I think that technology has also allowed these visualizations to bring people closer together and make people identify with what is happening.



Author Biography

Juan Daniel Oviedo Arango holds a PhD in economics from the University of Toulouse 1, and he is an economist from the Universidad del Rosario in Bogotá. Since 7 August 2018, he was appointed by the President of the Republic as director of the National Administrative Department of Statistics (DANE). His doctoral dissertation entitled "Essays on the regulation of regional natural gas markets" under the direction of Farid Gasmî studies the impact of transportation capacity on the structure of the natural gas industry and the exercise of market power, through the use of theoretical regulatory models accompanied by numerical simulations. This work has been of great relevance for the natural gas industry in Europe, since certain sections of this dissertation constitute a research project for the French state gas company, Gaz de France (GdF) initially conceived by Jean-Jacques Laffont. The articles that originate

this dissertation are published in indexed international journals, as well as working documents of the renowned Institute of Industrial Economics (IDEI) of Toulouse.

Juan Daniel has international professional experience in economic consulting for energy markets and national experience in government and teaching. More particularly, he served as director of institutional planning and research (2016–2018) and director of the doctoral school of economics (2013–2016) at the Universidad del Rosario in Bogotá. Additionally, he was a founding partner and executive director of LEICO Consultores, a consulting firm that became an expert opinion for the public and private sectors in regulated markets in Colombia and Latin America. Juan Daniel has preserved his academic position as a career professor at the Universidad del Rosario in Bogotá since 2005.

EDUCATION CAUGHT COVID-19

Eleno Castro

Before the pandemic, education in Latin America and the Caribbean (LAC) was highly unequal. Although the primary-school attendance rate has improved considerably, large attendance gaps remain in secondary school. In many cases, schools continue to exclude the poorest children. Now, the pandemic threatens to intensify the educational challenges of LAC.

In 2018, approximately four out of ten people did not finish school, and this was especially worse for countries like Honduras and El Salvador where the number increased to seven and six, respectively. Socioeconomic status also determines the chances of graduating from the educational system; in the poorest quintile, six out of ten young people do not graduate, compared to only two in the wealthiest quintile. After leaving school, many of these young people do not find job opportunities and join a group of young people who do not study or work in the region. Approximately 16 percent of young people between ages 15 and 24 do not work or study.¹

The education system was also of low quality. According to the Programme for International Student Assessment (PISA), in mathematics Latin America obtained an average of 100 points less than OECD countries. The difference in scores is equivalent to an educational gap of 2.5 school years.²

THE EFFECTS OF COVID ON EDUCATION

Remote Models Have Not Been Effective for Children's Learning

COVID-19 forced countries around the world to provide remote education; however, some

studies show that this new emergency model has not improved learning. In the Netherlands, it was found that eight weeks of confinement resulted in a decrease of approximately 3 percentile points in expected learning, and the losses were larger among students from less-educated homes.³ In Belgium, the results are similar; standardized tests show that 2020 students perform worse when compared to previous cohorts, especially in Dutch. In addition, the inequality of quality between schools increased between 17 and 20 percent for math and Dutch.⁴

In Latin America, studies on learning loss have been more limited. However, it is difficult to imagine that results could be better, considering European countries outperform LAC in PISA and also have better educational infrastructure than many LAC countries.

Many Students Will Not Return to School

A recent study by the Inter-American Development Bank (IADB) predicts that, in LAC, approximately 1.2 million boys and girls between 6 and 17 years old will drop out of school mainly for two reasons: (1) the inability to adapt to the new learning conditions at home and (2) the economic crisis, which will force many families to take their children out of school.⁵

This number hides great social inequalities since, out of all students who will be excluded from the school system, 38 percent and 44 percent will be poor and from the lower-middle class, respectively. In terms of age group, young people between 15 and 17 years old will be the most affected by the crisis. In this group, the school non-attendance rate will increase to levels similar to those

in 2012, the equivalent of going back eight years in school coverage policies.

COVID-19 Will Leave a Scar on the Working Life of Young People

On the other hand, young people about to graduate of high school will enter a depressed job market. It is estimated that the number of young people between the ages of 18 and 23 who neither study nor work will increase by 3 million in the Latin American region, an increase of 21 percent compared to before the crisis. It is estimated that, in relative terms, the most affected countries are Bolivia, Peru, and Ecuador.

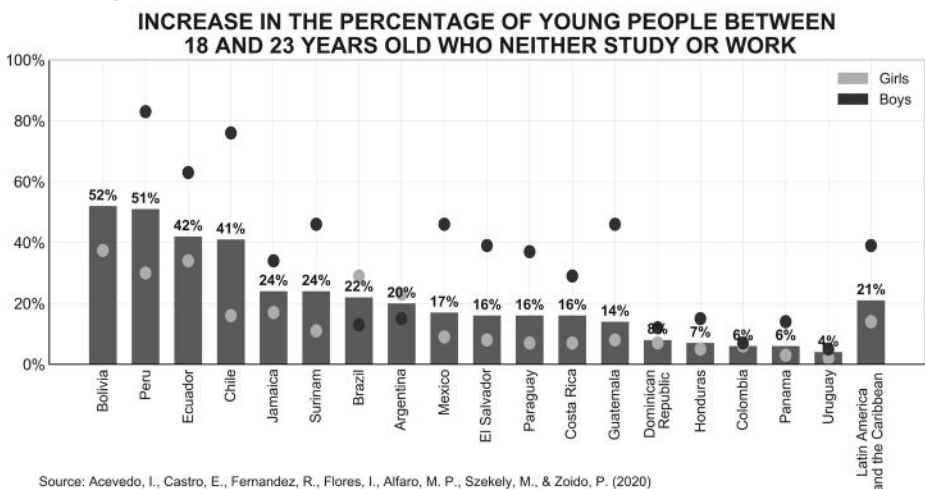
These young people will face worse opportunities compared to their peers. It is estimated that this poor entry into the labor market will affect their income level throughout their lives. Furthermore, this loss of income could be the equivalent of an estimated 8.7 percent for men and 3.4 percent for women in LAC during the next 20 years.

WHAT CAN COUNTRIES DO TO MITIGATE THE EFFECTS?

The most appropriate policies will depend on the current conditions of the educational system and the particular effects of COVID-19 in each LAC country. Each country will have to measure and identify the educational costs of the pandemic, adapt the school content, train its teaching staff, and stimulate the educational demand with pre-existing social programs such as conditional transfers whenever possible. However, there is a series of points that each country should consider:

- Maintain the bond with students and parents. Due to the high vulnerability of some students, it is recommended that teachers and other teaching support personnel focus on accompanying learning through digital and personalized means. This type of support and guidance must be adapted to the contents of the curriculum and the most vulnerable households. In addition, the bond between the teacher and the parent should be strengthened so that both can mentor and monitor the children's learning. A recent study in Mexico showed that providing information to parents on how helping their children promotes

Figure 1. Increase in the Percentage of Young People between 18 and 23 Years Old Who Neither Study nor Work



Source: Acevedo, I., Castro, E., Fernandez, R., Flores, I., Alfaro, M. P., Szekely, M., & Zoido, P. (2020)

Source: Acevedo, I., Castro, E., Fernandez, R., Flores, I., Alfaro, M.P., Szekely, M., and Zoido, P. (2020).

better student learning, a program that also appears to be cost-effective and especially useful for low-income families.⁶

- Ensure minimal conditions at the school for a gradual reopening. In the next school year, school re-openings will be reconsidered, and it is expected that LAC countries will eventually have access to the COVID-19 vaccine. However, it will be difficult for all people to have immediate access. School re-openings should therefore be gradual and guarantee biosecurity conditions. For this, countries must invest in and guarantee the supply of water, adequate spaces for social distancing, and hygiene products in schools.
- Integrate and strengthen the use of technology to improve learning. This is an opportunity to integrate new technologies in educational processes, especially of those platforms that allow adapting to the challenges of each student. In addition, many countries have invested in television and radio programs that could allow the transition to a hybrid education model until the crisis is overcome. In turn, this will require training for teachers to make the most of the technologies.



Author Biography

Eleno Castro is a Salvadoran candidate for a master in public administration in international development and an economist from the Escuela Superior de Economía y Negocios of El Salvador. Before starting his studies, he worked for three years as an economic consultant at the Inter-American Development Bank in the education division. He worked on projects that promote the reduction of school dropouts and better early childhood practices. During 2020, he was in a team of specialists evaluating the educational costs of the pandemic in Latin America and the Caribbean.

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BRIDGING LATIN AMERICA'S DIGITAL DIVIDE FOR INCLUSIVE RECOVERY

Marta Camiñas and Soulange Gramegna

2020 has been the year of confinement; 2021 needs to be the year of economic recovery. While the pandemic accelerated digitalization, the benefits from increased digital connectivity have not been equally distributed across Latin America and the Caribbean (LAC). Digital infrastructure enabling fixed and mobile broadband access remains qualitatively and quantitatively uneven. To close the estimated US \$69 billion investment gap,¹ governments and regulators need to promote effective infrastructure sharing and flexible regulations that enable sustainable business models. Overlooking the increasing digital divide may negatively impact access to basic needs and disproportionately hinder advances in employment, education, and healthcare. Overall, inclusive digitalization promotes higher GDP, productivity, and job creation while preventing the exacerbation of social unrest in the region.

The COVID-19 pandemic has affected everyone but especially the poor. The importance of connectivity became evident as COVID-19 led to remote work, businesses, schools, and health care. However, not everyone had access to broadband connection at home, computers, or the basic technological skills and environment to continue these activities digitally. In Latin America and the Caribbean (LAC), many have been left out of the “new normal” as 67 percent of urban households are connected to the Internet versus just 23 percent of rural households.² An analysis based on Google mobility data shows that during the crisis, work commutes fell by 48 percent on average across LAC, mainly in urban areas. However, a small share of the population continued to work remotely; for example in Peru, only 8 percent of

people worked remotely in the first months of the pandemic.³

Poor digital infrastructure, particularly in rural areas, excluded millions from productive activities or access to essential services. Despite the considerable progress in recent years in the development of fixed and mobile broadband networks, approximately 200 million people in LAC still do not have access to mobile networks, based on Inter-American Development Bank (IADB) estimates. The pandemic has made this population even more vulnerable with inter-generational consequences: students in marginal and rural areas are missing school and allegedly learning through television or radio programs. Unequal access to online learning tools has the potential to augment the negative effects of the “summer slide,”⁴ increasing the inequality between high- and low-income households.⁵

To boost socioeconomic recovery, governments in the region could leverage broadband infrastructure development and the proven gains from digitalization.

WELFARE AND POVERTY REDUCTION

A recent World Bank–GSMA empirical assessment in Nigeria shows that having at least one year of mobile broadband coverage increases total household consumption by about 6 percent in the first year and 8 percent in the second year. Likewise, the share of households below the extreme poverty line (\$1.90 per day) drops by about 4 percentage points after one year and by about 7 percentage points after two or more years of broadband coverage. This is equivalent to lifting approximately 2.5 million

people out of extreme poverty.⁶ Moreover, access to mobile broadband creates the opportunity to close the gaps in access to education, facilitating student access to teachers or enabling access to massive online courses (MOOCs). Investing in digital skills will help tackle unemployment in the region that is at an estimated 11.5 percent.⁷ It will also help narrow the gender gap in the workforce, where women make up only 30 percent of the workforce despite being 50 percent of the population. Conditions are more difficult for migrants, who, in addition to unemployment and lack of digital skills, face regulatory barriers such as device-registration requirements that hamper their access to connectivity.

Economic recovery: Beyond the impact on employment, mobile broadband provision has the potential to increase access to essential services, reduce transaction costs, and improve productivity. The IADB estimates that, in many countries, the cost of providing broadband to a household where telework would be possible with broadband connectivity is likely to result in a fivefold increase in GDP (based on the lower GDP levels due to the pandemic) compared to the cost of deployment.⁸ In addition, empirical evidence suggests that improvements in internet infrastructure can boost exports in developing countries between 7.1 percent and 8.3 percent.⁹

The gap in broadband speed and coverage cannot be closed without private investment and major rethinking of infrastructure sharing regulations and policies.

The 10 percent infrastructure gap is mainly located in rural areas, which leads to more challenges in financial sustainability and incentives to invest. The Global System for Mobile Communications (GSMA)¹⁰ identifies three challenging factors. First, the lower population density in remote areas, by definition, makes the cost per capita of covering these areas higher. Second, the terrain in these areas makes the implementation of physical infrastructure much more difficult and expensive. Third,

lower levels of household income restricts the consumer purchasing power and, thus, limits the demand for mobile devices, services, and commerce.¹¹ The net results are high investment costs with limited profit potential. Still, a 2019 UK government report concluded that a digital strategy for public services that did not address poor connectivity in rural areas worsened the digital divide.¹²

Public investment alone is not the answer. Although there are differences at the national and subnational levels, the demand gap of fixed broadband infrastructure in the region is on average 45 percent. Governments filling this gap is fiscally unfeasible. Thus, governments and private actors should find better mechanisms to collaborate and regain trust.

ALTERNATIVES GOING FORWARD

Infrastructure sharing¹³ enables operators to deploy networks more efficiently, optimize asset utilization, and lower operating costs compared to a standalone deployment.¹⁴ Voluntary passive sharing has been the preferred approach in LAC, with a predominant role for independent tower companies. Hence, there is potential for active sharing opportunities, especially in urban areas where sharing all or part of a RAN helps meet network densification requirements.¹⁵ For rural areas, countries like Mexico and Peru have developed a single wholesale network (SWN) or backbone with government support to facilitate entry into the market for new carriers. However, both countries have struggled to attract carriers to use these networks, mainly due to regulatory and price conditions.

Simplified, evidence-based, and more flexible regulation can promote investment and boost competition. Regulatory uncertainty, overlapping and obsolete regulation, onerous obligations, and potential sanctions can deter investment and infrastructure sharing agreements. For example, Colombia's telecom regulator (CRC)¹⁶ eliminated 203 obsolete norms in 2019 and is leading the first regulatory sandbox in

the region. Peru's telecom regulator OSIP-TEL¹⁷ allowed Internet para Todos (IpT)¹⁸ to become a rural mobile infrastructure operator, deploy digital infrastructure, and expand mobile broadband services to over 800,000 people in over 5,300 rural communities. Finally, it is key that regulators revisit spectrum regulations, which are often costly and burdensome for operators due to high fees and uncertainty about assignment criteria (e.g., license renewal, auction design, etc.), among others.

Regional interconnectivity and intersectorial agreements can complement infrastructure sharing by enabling more efficient network deployments. Regional initiatives such as the Mesoamérica Project¹⁹ are often challenged by the lack of homogenized legal and regulatory frameworks across sectors. Governments need stronger coordination to address regulatory barriers such as infrastructure sharing within the electricity sector and across national frameworks and to overcome administrative barriers such as overlapping licenses and permits. Beyond intersectorial infrastructure sharing, mobile operators are increasingly partnering with other players that have alternative connectivity technologies—particularly airborne technologies such as satellites and other air connectivity solutions—to improve network coverage in remote areas.

Overall, private-public collaboration will be crucial for recovery. Recent regional scandals, like corruption in Odebrecht's procurement of large construction projects, and political turmoil across the region pose significant challenges that make it difficult to reach consensus and implement adequate reforms going forward. However, COVID-19 demands a special united efforts to find proper mechanisms for collaboration and take action toward recovery in 2021 and beyond. Coordination with the private sector and multilateral organizations, setting supranational bodies with effective competencies, and fostering collaboration between telecommunications, electricity, and transport

regulators and competition authorities in the region are paramount to generate business opportunities. LAC governments can close the investment gap to bridge the digital divide and enable the much-needed economic recovery in the region only by enabling financially sustainable models based on economic principles.

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HUMAN RIGHTS PROTECTION OF CHILDREN UNDER FIVE YEARS OLD IN COLOMBIA DURING THE COVID-19 PANDEMIC

Ana Maria Garcia Osorio

CHILDREN UNDER FIVE YEARS OLD

There are few things that the entire international community agrees on, but almost everyone supports the welfare of children. Therefore, it is no surprise that the 1989 United Nations Convention of the Rights of Children has been ratified by 195 countries, more than any other human rights treaty in history.¹ However, despite the convention's apparently laudable intentions, the number of human rights violations against children paints a bleak picture of the international community's efforts to protect children's welfare. One in four children under 17 years old has experienced a form of violence, but the statistic is more damning when examining young children. One in two children, aged two to four, regularly experience physical or psychological violence from their care givers.² Children under the age of four deserve special consideration from policymakers because, as the figures show, they need more help than any other age group, and they are also at the complete mercy of their caregivers without the ability to verbalize the horrors they experience.

THE HOLISTIC IMPORTANCE OF EARLY CHILDHOOD INTERVENTIONS

There are four main areas of early childhood education interventions: motor (physical), language and communication, cognitive (nonverbal components), and socio-emotional skills development. Adequate stimulation in these domains, in addition to appropriate nutrition and a safe and protected environment, has proven to be a very cost-effective intervention (data not shown). It has been proven that these

types of interventions have the highest return on investment compared to investing in any other age group. Impact evaluations in the United States have shown that access to quality early childhood development (ECD; cognitive, socio-emotional, physical, nutrition, and health) has a 13 percent higher return on investment than preschool.³ These returns are seen in an increase in education achievement and income and a reduction of criminal offenses. In conclusion, access to quality ECD has the potential to break intragenerational poverty traps.⁴ Furthermore, recent literature has confirmed that access to ECD also improves mental and physical health in adults, reducing obesity, cardiovascular illnesses, and depression.⁵

Importance of ECD in Colombia

In Colombia, there is a significant gap in cognitive attainment for children under five years old based on their socioeconomic standing. The Longitudinal Study from the Universidad de los Andes (ELCA), shows that children in the lowest socioeconomic quartile score around 20 percent lower than the highest quartile when tested for language skills; the gap does not diminish during the two-to-five age range.⁶ Also, children's access to early childhood interventions is very varied as children in the low-income quartiles are often cared for by people with very low education attainment compared to their privileged peers. Furthermore, there's a significant nutrition and safety gap among these children.

Heckman's (2013) theory about high return on investments for ECD interventions was confirmed by Bernal & Camacho (2012) who calculated that in Colombia,

for every dollar invested in early childhood, the return for the population is 0.3 USD,⁷ which is higher than returns on any other investments in education. In a country with high inequality like Colombia, this is particularly relevant since significantly increasing access to quality ECD services might be the foundation for achieving future income equality (data not shown).

ABOUT COVID-19 AND YOUNG CHILDREN IN COLOMBIA

The COVID-19 pandemic has threatened the most aspects of daily life. The education and health sectors have been hit particularly hard, making young children more vulnerable to declining education, health, and nutrition outcomes as well as human rights violations. As of late April 2020, schools were closed in 180 countries and 85 percent of students were out of school.⁸ The shocks of school closures coupled with the economic global recession could have long-term costs by diminishing learning gains, increasing the number of dropouts, and lowering lifetime productivity and earnings. Moreover, health indicators will worsen, as most students will lack the nutritional support provided by schools and families face potential income loss due to the pandemic (data not shown). Unfortunately, the added stress in households can create the perfect storm to increase human rights violations for young children (understood as physical, emotional, and sexual abuse); there is evidence already of increases in domestic violence.⁹ The exposure to violence and neglect can have long-term consequences on children's lives due to toxic stress, which can lead to poor educational outcomes and poor mental and physical health throughout their lives.¹⁰

Unfortunately, these risks disproportionately affect vulnerable populations. Low-income families are more vulnerable to economic shocks because they are also more likely to be part of the informal sector labor force, the most affected sector in the pandemic (data not shown). This is particularly relevant in Latin American countries

with high rates of informality such as Colombia at 62 percent.¹¹ The COVID-19 pandemic is expected to widen existing gaps in educational attainment and infant socio-emotional skills based on household income.¹² Furthermore, parents might have fewer resources to provide adequate nutrition and shelter, which could aggravate the situation with consequences for years to come.

The Instituto Colombiano de Bienestar Familiar (ICBF) is the institution responsible for supporting ECD by promoting and guaranteeing children's rights to early education, care, health, nutrition, protection, and participation. The ICBF is responsible for foster care and addressing human rights abuses, so it is often seen as a last resort for children in vulnerable situations. The institution's scarce resources limit the support it can provide to prevent child abuse or help children in the aftermath. The 1991 Colombian Constitution makes education free, mandatory, and universal from first to ninth grade, but Colombian law does not guarantee ECD initiatives. That means that while ICBF is responsible for ECD efforts, those efforts do not provide universal coverage and do not include significant participation from the private sector and local government initiatives. Since ECD efforts fall in a legal gray area, there are significant efforts led by major cities to support this young population, creating an asymmetry between cities with high resources and cities with low resources. For example, Bogotá, the country's capital, only makes up around 20 percent of the country's population but produces almost a third of the country's GDP, making Bogotá a city rich in technical and financial resources¹³ and a case that is very different from the rest of the country.

Unfortunately, because of the COVID-19 pandemic, ECD programs (private and public) across Colombia were instructed to close on 19 March 2020. Since then, the Ministry of Education recommended that schools follow safety guidelines and reopen starting in September 2020. However, the

Ministry could not enforce the reopening of schools because school reopening was a local decision due to the decentralization of the Colombian education system.¹⁴

The question of how to protect the human rights of young children remains unanswered. Thus far, we have shown that, based on statistics, this population is in more need of protection than older children, that the Colombian government doesn't fully cover this population, and that the COVID-19 pandemic is putting stress on households, resulting in a greater potential for violence against children. Also, the Colombian government has lost track of these children due to school closures. What can the Colombian government do to mitigate these consequences and become more proactive rather than reactive regarding human rights violations?

SIDICU: A BOGOTÁ EXPERIMENT

The Bogotá mayor's office has significant technical and financial resources. Since Claudia Lopez became mayor, her agenda has promoted gender equity and the protection of human rights as evidenced by the launch of the Sistema Distrital de Cuidado (SIDICU) in the middle of the pandemic. In October 2020, the experiment started in a low-income part of the city, Ciudad Bolívar, with the first *manzana del cuidado* (roughly translated to "care block") offering childcare for young children, elderly care, community laundry centers, legal counseling for women, job skills for women, and parenting classes for both men and women, among other services. In the future, these *manzanas* will also offer housekeeping courses for fathers with the goal of redistributing housework between genders. Getting this *manzana* off the ground was extremely challenging not only because it happened in the middle of a pandemic but also because it required a coordinated effort inside the mayor's office. SIDICU offers an integrated and revolutionary approach that seeks to empower the entire family, integrating concepts of

the economy of care and gender empowerment¹⁵ while keeping the protection of human rights, with an emphasis on those who are often forgotten, like children and women, front and center.

SIDICU includes six institutions that together developed an intervention for the entire family: the Secretariat for Women, the Secretariat for Economic Development, the Secretariat for Education, the Secretariat for Health, the Sports and Recreation Institute, and the Secretariat for Social Inclusion. The family interventions have been shown to be more effective in improving early childhood human rights protection outcomes as well as cognitive and socio-emotional skills. According to Dr. Shonkoff, interventions for the entire family unit are also thought to be key in correcting race and class-based disparities that children face.¹⁶ The Bogotá mayor's office is taking a leap of faith with an experiment that has incurred high coordination and personnel costs to keep the *manzanas* running in the middle of the pandemic.

An experiment by the Turkish Child Protection Crisis and the Mother Child Education Foundation (ACEV) has been implementing a similar integrated approach since 1994. Their most well-known program, Mother Child Education Program (MOCEP), integrates a semester-long course for mothers that teaches literacy skills, parenting techniques, and sexual education. MOCEP operates under the premise that mothers want what is best for their children. Therefore, recruitment for MOCEP is easy, but what is revolutionary is that, in addition to teaching mothers numeracy and literacy skills (so they can help their kids with homework), they also teach positive methods for disciplining and to recognize gender-based discrimination. External evaluations of MOCEP have found reduced household violence and improved socioeconomic status of participants.¹⁷ In 2010, following a series of dreadful events featuring abuses to children's human rights in Turkey, the ACEV adapted all of its programs to prominently

include child protection, domestic violence prevention, and peace building. One of the salient aspects of the Turkish program is its focus on community, building a community of parents to discuss positive methods for disciplining children and creating a network of positive parenting support.¹⁸

Bogotá officials should pay close attention to the Turkish example. Turkey is similar to Colombia in education levels, GDP per capita, and its family-oriented culture. SIDICU is probably going one step further than Turkey by including a police station and legal counseling within the same *manzana de cuidado* so that mothers feel safe pressing charges against their aggressors. The Bogotá example also serves as a beacon of hope during this pandemic as it is an effort elevate the family in terms of gender equality and domestic violence prevention to protect the youngest children. Bogotá is also offering mobile *manzanas de cuidado* as vans that go around vulnerable neighborhoods offering legal counseling and daycare services for children, people with disabilities, and elderly.

The *manzanas* are promising for increasing human rights protection and leveling the playing field between privileged and underprivileged children in Bogotá. This is key because it has been shown that better parenting leads to better future outcomes, and evidence shows that caregivers providing early childhood stimulation can improve a child's ability to think, communicate, and connect with others. Overall, these programs change how parents interact with their children and improve the environment for children.¹⁹

Even though the SIDICU example seems promising, there are several factors that should be considered. (1) The experiment only started in October 2020, and there are probably significant implementation hurdles to overcome. (2) It's unclear whether or not the people responsible for childcare have human rights training and are on the lookout for signs of abuse. (3) The mayor is a divisive political figure, and since this program is one of her flagship programs, it

might not survive political change. (4) The program is new, so there is no evidence of its effectiveness in reducing human rights violations against young children.

In conclusion, it is probably too early to say how effective the *manzanas* are going to be in protecting human rights of young children during the pandemic, but they are definitely a step in the right direction. Furthermore, vaccination plans in Colombia project that the country will start vaccinations in early 2021. That makes these efforts even more crucial if the COVID-19 conditions that have increased the human rights violations against children will prevail for the foreseeable future.

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ALL EGGS IN THE MACROECONOMIC BASKET: A SHORT RECAP OF THE COVID-19 EXPERIENCE IN PERU

Alex Contreras and Claudia Bravo

The COVID-19 pandemic arrived in Peru in March 2020, revealing several strengths and weaknesses that have developed over the last 30 years. On one hand, the country's macroeconomic indicators were remarkable—low public debt, low fiscal deficit and inflation, and high international reserves. As a result, in 2019, the World Economic Forum's Global Competitiveness Index scored Peru 100/100 points in macroeconomic stability. On the other hand, the country experienced several shortcomings in its capacity to provide quality public services, such as health, as shown by the critically low number of ICU beds, well below other countries in the region. In fact, according to the Global Health Security Index, at the beginning of the pandemic, Peru's health system capacity was ranked 147 (out of 195 countries).

The current crisis is a health crisis; still, the economic impact of the policies to contain the virus means that there is a dichotomous effect that needs to be considered for every policy. The harsher the health policy, the steeper the fall is for the economy. Additionally, the situation is constantly changing with the virus spreading throughout the country and the challenges in vaccine development. Without a foreseeable end to the pandemic, decisions had to be made based on the available information.

WHAT WAS DONE

The government's response capacity was limited by its own structural problems. In that context, difficult decisions were made, such as implementing one of the strictest and most continuous quarantines in the world despite the negative economic

impact of this decision, so the country could strengthen its sanitary capacities.

To counteract the negative impact on the economy, the government worked on one of the biggest economic plans in Peru's history, and one of the biggest in the world, that encompassed around 20 GDP points and included credit guarantee programs, tax measures, and public spending, among others.

The plan focused was on three areas: first, improving the health system capacity by increasing the number of ICU beds and scaling COVID-19 testing; second, providing assistance to the most vulnerable families through cash transfers for 60 percent of Peruvian families and temporary employment programs; third, supporting the private sector through programs such as Reactiva Peru and Fondo de Apoyo Empresarial (Business Support Fund), aimed at providing liquidity so companies could meet their payment obligations to their employees and suppliers. As part of the third component, the gradual reopening of the economy was also included to prevent businesses from going bankrupt while minimizing the risk of contagion for the population.

WHERE PERU IS NOW AND WHAT IS EXPECTED

Peru's ICU capacity has grown tenfold, and there has been a strong recovery of the economy and employment over the past few months. This supports the expected 10 percent GDP growth for 2021.

Despite the crisis, Peru has maintained fiscal strength, but the job is far from done; there are still some concerns, and there is less flexibility to implement new relief measures. A second wave of COVID-19 in the

first quarter of 2021 threatens the expected recovery. Family spending is sustained by temporary income, such as cash transfers, anticipated retirement fund withdrawals, credit programs, and personal savings, not employment income. Mass vaccination poses another risk since approximately 40 percent of the population will refuse to vaccinate, according to an Ipsos poll. Furthermore, given the context of an election year, populist measures could jeopardize the progress made with laws such as those that limit interest rates and the withdrawal of pension funds.

On a positive note for 2021, the recovery in commodity prices and demand for products like copper and gold will boost economic growth. Additionally, even if businesses are more cautious with their investments, higher consumption is expected, driven by the recovery of employment income and private investment in mining and infrastructure.

Peru's fiscal behavior over the past

decades made the economic plan to face the current crisis feasible. That's why fiscal consolidation over the next few years will be key for Peru as it endeavors to reach pre-crisis levels in its macroeconomic indicators. Still, this cannot be the only goal. Efforts also need to focus on addressing structural issues and ensuring that basic services are accessible to the public. The country will then be able to face other crises with strong macroeconomic conditions and quality public services.

The current crisis emphasized the importance of macroeconomic strength and responsible fiscal policy. However, the crisis also showed the high costs of overlooking structural issues such as poor access to quality services for all Peruvians despite yearly systematic increases to the social spending budget. The structural issues range from limited public services to inadequate financial inclusion. Working on structural problems will not be easy, but that is the challenge.



Author Biography

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2021: A YEAR FOR INNOVATION

Ángela Flores

People's efforts to strengthen Peru's health sector institutions will continue to be a priority in the COVID-19 pandemic, with impacts at a national level.

Peruvian citizens continue to learn more about the importance of prevention, clinical trials and research, and efficacy and safety of drugs and vaccines. However, there are other new challenges that the public and private health sectors must face. Considering the serious economic impact of the pandemic, these challenges must be tackled with creativity, resiliency, and above all, innovation.

One of the latest statements from the Pan American Health Organization (PAHO) representative Carissa F. Etienne was that "the shortage of medical products can cause disruptions in medical care and put health and life at risk. That is why it is a priority that health, science and technology, and industry work together to guarantee equal access to medicines and other essential technologies in times of peace, but also during future emergencies."

Now more than ever, the health sector is critical and we have the challenge of incorporating social objectives. It is essential to have integrated health, science, technology, and industrial policies under permanent public-private partnerships with a single focus: the patient at the core of care. This requires establishing indicators that make visible an adequate and sustainable financing of the public health sector, the impact on the quality of care, citizen satisfaction, and the efficacy of the treatments that the state and private sector acquires.

The COVID-19 pandemic has revealed structural weaknesses in the health systems in the region. To effectively assess how far

we are from the development objectives and universal coverage, it is important to compare the contexts in many countries. For example, to assess how fast our citizens gain access to treatments with new technologies, a relevant indicator would compare the average time it takes to obtain sanitary registration. According to an IQVIA study, a company in Peru takes approximately 24 months to register a new molecule. As a result, many patients with devastating diseases are still suffering on the waiting list. Unfortunately, long wait times have serious consequences:

- Delay in access to innovative treatment therapies for diseases with high mortality rates, such as cancer or diabetes.
- Lack of options for patients with rare or orphan diseases who cannot access therapies that would improve their quality of life.
- Possible health risks due to lack of stock because the regulations do not simplify the filing procedures.

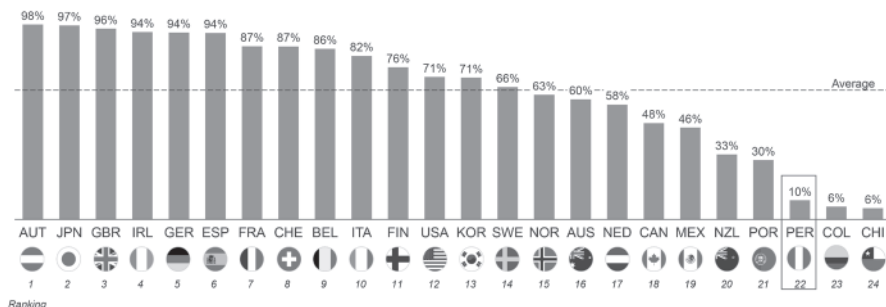
In terms of financing and coverage, a 2019 IQVIA study¹ revealed that "from 247 molecules registered by agencies such as the FDA and the EMA in Europe, only 45 percent of them would have been registered in Peru. And only 18 molecules had reimbursement or were under the cover of the public system. This means that the percentage of innovative medicines reimbursed in Peru is 10 percent, significantly lower than 65 percent in OECD countries." A similar reality with few exemptions is present across Latin America.

If the public budget for the service provided (health care) does not flow efficiently, then it is time to rethink the system's model to one where there are clear functions

Figure 1. Peru's Proportion of Innovative Medicines Reimbursed (1%) Is Significantly Lower than Average of OECD Countries (65%)

The percentage of innovative medicines reimbursed in Peru is 10%, significantly lower than 65% of the OECD countries

Proportion of innovative medicines reimbursed of those launched in each country



Note: Peru's launch and registration data were obtained until September 2018. The data for the launch and registration of Chile was obtained until October 2017. The launch data for Colombia were obtained until December 2015 and the registration data until February 2016. Data from Mexico was collected until December 2015. The proportion of drugs reimbursed in Peru is a weighted average of the proportion of MINSA* and the proportion of EsSalud* taking into account the coverage of the population 10% of Peru includes the 17 molecules included by authorizations from the IETSI* of EsSalud*.

Fifarra - Analysis of access to innovative medicines in Peru compared to other OECD countries - April 2019



and objectives of financing, accountability, and other sources of financing and an efficient execution of the national budget.

There are specific models from Africa and Europe that are trying to be implemented in Latin America, such as risk-sharing models for access. Risk sharing between the government and industry would facilitate faster access to innovation and new therapies for the benefit of the patient and the calibration of medication expenditures to achieve a sustainable deal in the health system. Countries that are focused on cost containment are difficult to turn around,

but better health results can be seen in the low levels of hospitalization or re-hospitalization and quality service in terms of the productivity of the patient. These are all variables we propose as part of a mid-level strategy that encompasses value, level, and price as well as a more holistic view of health care.

The public-private dialogue becomes more urgent each day because #EveryDay-Counts for all patients.

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Author Biography

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THE DANGER OF IGNORING MEXICO'S ENERGY POLICY SHIFT

Valeria Mendiola and Óscar Ocampo

In May 2020, Mexico's President Andrés Manuel López Obrador posted a video on social media while visiting the town of La Rumorosa in Northern Mexico. He stood in front of several windmills and criticized former governors for granting permits to install wind power infrastructure. The president claimed that the windmills generated little electricity and attacked them for being privately owned. The video is not an isolated incident but a constant reminder of López Obrador's long-standing views about the direction of Mexico's energy policy.

Until recently, Mexicans only cared about electricity when paying their bills. These days, however, the electricity sector makes the headlines in national news outlets on a daily basis. The sector's increased relevance can be explained by López Obrador, a long-time opponent to Mexico's energy reform, and his administration that began in December 2018.

Despite a deeply ingrained history of nationalism in the energy sector, Mexico passed a constitutional reform in 2013 to promote private-sector participation and advocate for an orderly energy transition. The reform created incentives to attract investments in clean energy, such as long-term auctions and clean energy certificates (a scheme to incentivize the expansion of renewable capacity). The country committed to a goal in the Paris Climate Agreement and its domestic legislation to generate 35 percent of its electricity through clean sources by 2024. That goal now seems anything but achievable.

While in office, president López Obrador has openly attacked the energy reform, has sought to gradually dismantle the

institutional framework to favor the country's state-owned utility, Federal Electricity Commission (CFE), and has expressed his dislike for renewables. This shift in Mexico's energy policy will sooner or later have a direct impact on the energy transition.

The U-turn is easily depicted in the current administration's consistent actions. In February 2019, the president cancelled the auctions of long-term electricity contracts, which had also been the most successful in attracting private-sector investment in renewable generation capacity in Latin America. A few months earlier, during his campaign, López Obrador had vowed to invest in building a new refinery to boost gasoline production by the state-owned oil company, PEMEX. The refinery would increase residual fuel oil production, which Mexico would potentially have to use to generate electricity since it lacks storage capacity. Furthermore, thermal plants that operate with fuel oil are some of the most expensive electricity-generating plants.

The Energy Regulatory Commission, the sector's independent regulator, has withheld issuing new private generation permits and has established more stringent conditions for certain contract schemes. In October 2020, a commissioner who had been recently appointed by the president voted in favor of a memorandum that, among other things, called for changing the electricity-dispatch mechanism in order to lower the supply provided by the privately owned generation plants. During the vote, the commissioner claimed, "I vote in favor, in accordance with the instructions of the president."

As of February 2021, Mexico's Lower House is still discussing a bill that would

effectively eliminate private investment from the electricity sector by prioritizing CFE's more expensive and more polluting plants, discouraging new investments in renewable sources, and eliminating the CFE retail division's obligation to purchase energy through auctions or competitive processes. In other words, the bill would set the reversal of the energy transition in the law.

Not complying with international commitments and making a U-turn in the energy transition affects more than the environment. Sustainability is a competitive advantage, and countries that fail to acknowledge that will pay the consequences, becoming less attractive for international markets and reducing their ability

to attract and retain investment.

The recurrent changes to the country's energy-sector legislation—attempted and achieved—are simply overwhelming. Although it is said that a country's deterioration happens one small step at a time, the case of Mexico's energy industry is different. Deterioration is happening one large and conspicuous policy change at a time. A larger share of the population needs to become actively involved in the conversation to prevent president López Obrador from controlling the narrative of an issue in which Mexico is going against the current compared to the rest of the world. Otherwise, Mexicans risk looking back decades from now and wondering "how did we let this happen?"



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ARGENTINA OFFICIALISM: THE TWO POLITICAL TRADE-OFFS

Marco Primo

In the 2019 presidential election, then-candidate Alberto Fernández began his electoral race to Argentina's Government "Pink House," proposing the urgent need for a united Peronism to defeat the ruling party, at the time headed by Mauricio Macri.

During the campaign, Sergio Massa, the current president of the House of Representatives, claimed that ideological diversity and differences in opinions within the coalition would create a strong government, if they won the election. It is from there that the name *Frente de Todos Coalition* (FdT) was born, alluding to a widely diverse new political space: "Inside the political bloc, everybody and everything, but outside, nobody and nothing."

So, what happened? Well, one of the coalition's greatest virtues turned out to be *the* great flaw.

Before explaining the current contradictions, it is necessary to take a step back to the time when Peronism became divided after the left-wing Kirchnerism lost the 2015 presidential election against Macri's "Cambiamos" Alliance. This division was accompanied by crude criticism in the public arena, as Alberto Fernández harshly condemned Cristina Kirchner, even arguing that Peronism "was pathetic with Cristina [Kirchner]" and demanding that the former president explain the corruption scandals during her administration.

In 2017, Florencio Randazzo, Cristina Kirchner's former minister of the Interior, ran for a Buenos Aires national Senate seat, competing directly against Kirchner and with Fernández as his campaign manager. Fernández and Randazzo had been part of Kirchner's Cabinet, but that ended in conflict due to irreconcilable differences.

Similarly, Sergio Massa, Fernández's successor as chief of staff in the Kirchner administration, founded his own coalition to run for president in 2015 and harshly criticized Kirchnerism—and especially Cristina Kirchner—when he claimed that being in that space "was a finished period." In fact, when Massa dropped out of the race, he endorsed Macri, helping him gather the remaining votes needed to win the presidency. Then, when Massa dropped out of the 2019 presidential race, he instead endorsed Fernández and supported his efforts to unite Peronism in a move that was possibly one of the most important strategies to achieve such a union.

Even Matías Kulfas, current minister of Production, and Vilma Ibarra, President Fernández's legal secretary, each wrote a book criticizing Cristina Kirchner, and now they share the same coalition. All these differences were, allegedly, set aside during 2019 with one particular goal in mind: win the 2019 presidential election and obtain (regain) congressional majorities in both houses.

It surprised everyone that those who were constantly criticizing and fighting each other announced their candidacy as a single coalition, even without resolving their differences in the public arena. Unexpectedly, Cristina Kirchner announced her candidacy for vice president with Fernández as president, a pair who, as far as the Argentinean population knew, was still politically distanced. A short time later, Massa and Kirchner took a photo together to show "unity." The FdT ignored their unresolved differences and came together to win an election. During the 2019 campaign, Macri's then-ruling party *Juntos*

por el Cambio constantly brought up these contradictions. Still, in October 2019, the FdT won the election with 48 percent of the vote, while *Juntos por el Cambio* only obtained 41 percent.

The FdT win did not mitigate the coalition's internal conflicts, differences, or criticism. Instead, while the coalition is in power, there is constant public criticism and conflict among them, giving rise to disunity in the governing space of power within the coalition. However, it could be worse, since in past Peronist eras there was only a single voice, turning it into "the obedience party" (A. Fernández, 2017, regarding the Kirchner administration). Still, there are two main problems with these conflicts:

Peer-to-peer criticism: Due to the wide ideological spectrum within the coalition, it was—and is—inevitable to avoid all types of conflicts and criticisms within the coalition. To prevent conflict, the president has to explain to the press conflicts in which he does not even participate, which degrades and erodes his presidential image and image as the leader of the coalition.

An example of this are the public (published) letters by Vice President Cristina Kirchner that explicitly criticized President Fernández's cabinet, arguing that some members, though not naming them, "do not function." A few days later, President Fernández responded by backing the cabinet and claiming to the press that the letter was in "support" of him. In other words, he neither endorsed nor rejected the criticism by his vice president and even tried to soften the tone of the letter.

Criticism from the coalition toward the president, whether for his actions (friendly political firing): Once again, the diversity or plurality of voices during any administration—especially in the hyper-presidentialism present in Latin America—is healthy, but it seems some differences are irremediable and hinder political leadership.

For example, the FdT's position on the Venezuelan dictatorial regime is an

unresolved issue. Kirchnerism claimed that there are no human rights violations in Venezuela and outspokenly rejected the UN's report by High Commissioner Bachelet. On the other hand, Foreign Relations Minister Solá supported Bachelet's report, so Argentina condemned the human right violations in Venezuela.

This sparked a wave of criticism within the FdT to the point where Alicia Castro, former Argentine ambassador to Venezuela and to the United Kingdom under Kirchner's administration, immediately rejected Solá's official statement on Venezuela human rights and resigned her post as the new ambassador to Russia. She argued that "she did not agree with the current foreign policy" and detached herself from the president's official position and Solá, who had nominated her as ambassador. In turn, she continued to support Kirchnerism international alignment trying to impose on the Fernández administration.

Ultimately, the ruling coalition is hurting itself when disagreements arise and differences are not settled, which creates more distance among coalition members. Consequently, Fernández has the difficult task of leading the country in an economic crisis and getting Argentina out of a recession, all with a damaged presidential image due to the deepening recession (-12.9 percent GDP forecast by the OECD, 36.1 percent inflation, and 44.2 percent poverty, according to UCA, which is more recent than the official figures) and the poor management of the COVID-19 pandemic. It is crystal clear that the FdT has one goal in sight: the 2021 mid-term election. Though the economic outlook must improve, at least in the short term, so that officialism has a better electoral position.

In any case, in political terms, the FdT faces a tradeoff: (a) overcome its internal differences in order to win the October 2021 election or (b) repeat what they did in 2019 by ignoring and postponing their internal problems, a strategy that did not have positive results for Fernández's governance or leadership.

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SEARCHING FOR RIO DE JANEIRO'S MESSAGE OF AMBITION

Beatriz Vasconcellos, Ruth Huette, and Manuel de Faria

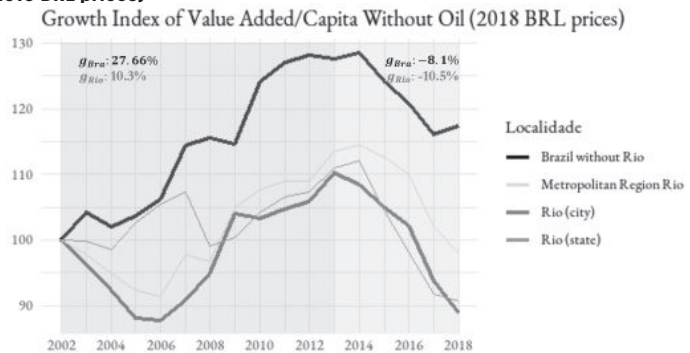
In 2008, the technologist and entrepreneur Paul Graham wrote an essay arguing that every large city sends a message of ambition.¹ In his words, great cities attract ambitious people. For example, New York City says “you should be richer,” Washington, DC, says “you should be an insider,” Cambridge, Massachusetts says “you should be smart,” and Paris says “do things with style.” These messages are powerful, as they attract people and businesses that identify with the city’s mission. In Brazil, São Paulo has long been saying “you should work very hard and be efficient, independently of what you do.” It is a place that is associated with opportunities, capital, and technologies. And, what is Rio’s message?

Although Rio is the third-richest state capital in Brazil, its main message does not reflect its presumed economic dynamics. Thinking of Rio, the first messages that come to mind are “you should have fun and enjoy the outdoors” or “you should have a beautiful body.” When it comes to work, one often hears “don’t take it too seriously” or “you can always wangle your way.” None of these express ambition. To become an engine

of growth, Rio must find, communicate, and constantly learn about its own message.

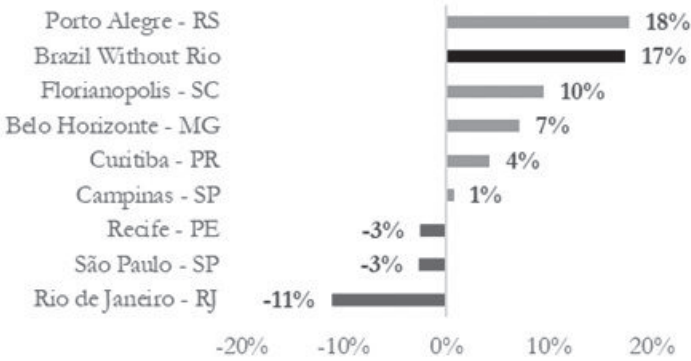
Politically, *Cariocas*, citizens of Rio, see a message of state failure. Economically, despite several positive economic shocks, Rio has underperformed Brazil (see Figure 1), its national peers, and other metropolitan areas (see Figures 2 and 3) during Brazil’s boom years and the 2014 economic crisis. Rio hosted the 2014 World Cup and the 2016 Olympics, benefited from the discovery of the largest oil basin in Brazil, and received large investments and loans from the National Development Bank (BNDES) primarily toward energy and urban infrastructure. In addition, police operations in *favelas* were associated with a substantial reduction in criminal activity from 2009 to 2012. Yet, these events were not enough to drive the growth rate higher.

Figure 1. Growth Index of Real Value Added/Capita without Oil (2018 BRL prices)



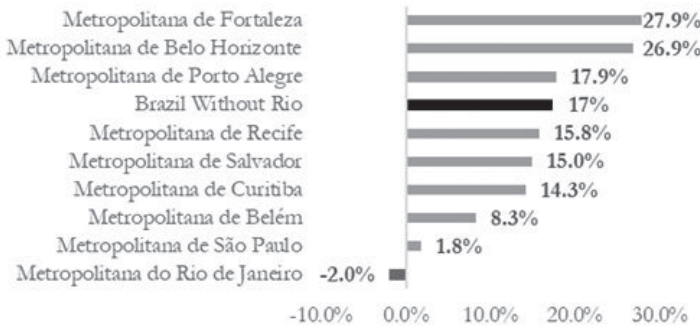
Source: Produced by the authors based on IBGE data

Figure 2. Growth Rate Index of Real Value Added/Capita without Oil in Rio and National Peers (2002–2018)



The numbers above are only part of what leads *Cariocas* to distrust the state. The state and city of Rio was one of the epicenters of the corruption scandals unveiled by the Car Wash operation.² Five out of the six living elected governors have been arrested over the past five years, and the

Figure 3. Growth Rate Index of Real Value Added/Capita without Oil in Brazilian Metropolitan Areas (2002–2018)



sixth—the current one—has been removed from office while being investigated for corruption. The former mayor of the city of Rio, who stepped down from office in December 2020, is also under investigation. The endless list of those involved also includes second-tier politicians, Petrobras managers and directors, businessmen, the transport mafia, and so on. The distrust in politics has left *Cariocas* despondent.

To make matters worse, a fiscal crisis hit the state and city of Rio more severely than its national peers, triggered, among

for only 2.6 percent of total expenses. The following increase in the state’s value-added tax (ICMS) in recent years, the high price of energy, high wages, insufficient transport mobility, and increase in violence contributed to a decline in competitiveness. The message for firms and young

other things, by an increasing demand for public expenditure on infrastructure, sanitation, education, health care, and pensions for the increasing number of retired workers. This left little room for public investments, which have been deteriorating and in 2019 accounted

Cariocas seeking to grow their businesses or start their careers in the city has been “love it but leave it.”

In the search for ways out of the crisis, the city has made some strategic bets, but the bets are not based on a reasonable theory of change geared toward the

desired outcome. Since the discovery of the pre-salt basin in 2007, for example, Rio has been trying to become “the energy capital.” But 14 years have passed, and Rio has not solved its own electricity supply problem. In 2020, it lost the national auctions for electricity transmission, and the city currently has the highest energy tariffs of all the Brazilian capitals. The result? Rio has become the capital of expensive energy.

In addition to energy, Rio has included sustainability as one of the pillars in its strategic plan. However, the urban

development strategy has not been linked to the economic development strategy. Rio's main industrial sectors in oil, gas, and manufacturing are not sustainable. Water pollution remains one of the city's largest challenges, and according to recent estimates by the National System for Sanitation Information (SNIS), only 70 percent of households have their wastewater treated. How can the city aspire to send a message of ambition in sustainability?

The city's last strategic plan showed some direction for economic development: Rio wants to be global, productive, innovative, and create opportunities. Unfortunately, these terms have become buzzwords, copied and pasted from the new Sustainable Development Goals,³ with almost no impact over government actions. Other than setting a goal to attract \$4 billion in foreign direct investment, what has Rio done to become a global city? It is unlikely that investors will find the city attractive overnight. If anything, Rio has become less global, having the second-worst performance in the Global Cities Outlook and Global Cities Index during the past two years. When it comes to opportunities, what has Rio done to create jobs? There is no detailed strategy for promoting good and stable jobs for middle- and low-skilled workers. The few existing efforts have focused on providing credit to microentrepreneurs, a strategy that does not seem

to have created stable and promising jobs anywhere in the world.

Rio has been going through a prolonged adolescence, refusing to grow up and develop a career plan. It tells itself that it should enjoy life, living happily and fully, but it keeps changing plans about what it wants to be when it grows up. Rio has not been deceiving its parents; rather, it has deceived the children it birthed and who nurture so much love for the city. More than ever, the city has a responsibility to start working to pay its bills and provide the best opportunities for its children. This doesn't mean abandoning its creative and joyful vocation. But whatever message of ambition the city picks, it must be treated seriously. The message must be translated into policies that facilitate change in the right direction, and it must be accompanied by learning mechanisms that allow Rio to change its path without changing its destination. It is time for Rio to grow.

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HEALING THE WOUNDS OF XENOPHOBIA AFTER THE COVID-19 PANDEMIC: INTEGRATION INITIATIVES LED BY FORCED MIGRANTS FROM NICARAGUA IN COSTA RICA

Fiore Bran Aragón

ABSTRACT

Xenophobic narratives have affected the integration of Nicaraguan forced migrants in Costa Rica during COVID-19. As such, to recover the partially broken social fabric and strengthen trust and cooperation, it is necessary to think about integration between citizens and migrants at the local level. To understand xenophobia and possibilities of integration in this context, I analyze two moments in Costa Rica's contemporary history that help explain the use of xenophobic narratives against Nicaraguans. Then I consider two local integration initiatives led by migrants and citizens that center on creating migrant narratives focused on human rights and harnessing migration benefits.

INTRODUCTION

In July 2020, a few months after COVID-19 arrived in Central America, I received a call from some Costa Rican colleagues concerned about the increase in xenophobic narratives against Nicaraguan forced migrants in Costa Rica. These narratives were part of fake news shared on Facebook and other social media and were gaining relevance in Costa Rica, the country with the most internet users in the region.¹ The narratives alleged that Nicaraguans were the main carriers of COVID-19 and that the new wave of Nicaraguan migrants who arrived due to the pandemic would drastically harm Costa Rica's economy. Although this news did not contain accurate information, it was widely disseminated and ultimately affected the lives of migrants. But what is the impact of migrant narratives on their coexistence with locals and on their integration, especially during the pandemic?

MIGRANT NARRATIVES, "NATIONHOOD" IN COSTA RICA, AND THE RELATIONSHIP TO INTEGRATION AND RECOVERY

In a proposal for integration as a "two-way process," Ager and Strang argue that to execute integration programs, it is necessary

to consider the host community's concept of rights and citizenship as the base for successful integration. These concepts are inevitably related to "a nation's sense of identity, its 'cultural understandings of nation and nationhood,'" which are influenced by elements such as narratives on migration and migrants disseminated in the public sphere. Therefore, media, political parties, and other actors that produce and reproduce narratives have a role in the integration of forced migrants, since they help shape the host community's perceptions and expectations about migrants. At the same time, these narratives can influence the level of trust that newcomers have in the state and their sense of belonging in the host society.³

Historical conceptions of nationhood in Costa Rica present Nicaraguans as a racialized "other" to whom negative characteristics are attributed.⁴ Though this historical construction dates back to the 19th century and has expanded through various historical conflicts, the decline of the welfare state in the late 1990s and early 2000s is a relevant precedent that explains the use of xenophobic narratives in contemporary Costa Rica.⁵ The liberalization of the economy and an immigration amnesty

that occurred at the same time and the deterioration of the middle-class standard of living precipitated an increase in negative media coverage of Nicaraguan migrants.

Although there is no causal relationship between the 1999 immigration amnesty and the deterioration of the Costa Rican welfare state, this seemingly favored the increase in xenophobic narratives, especially among lower-middle-class citizens, who were the most affected by the economic adjustment measures.⁶ In the past, xenophobic narratives have negatively affected integration initiatives between migrants and locals in San Jose's marginalized neighborhoods.⁷

Therefore, discussing the impact that narratives on migration and migrants have on migration policy and migrants' everyday life is relevant, especially for forced migrants who cannot return home. This dialog is essential to implement policies that combine a human rights approach and mechanisms to shape narratives by focusing on reliable migration data and the capabilities and diversity that migrants bring. Costa Rica is not new to this type of policy, as it has pioneered a comprehensive migration policy⁸ and a national integration plan focused on human rights and development.⁹ However, the scope of these programs to serve the entire Nicaraguan migrant population (6.7 percent of the country's inhabitants)¹⁰ is limited. Although these limitations are multi-causal and are not the object of this article, a relevant cause is the polarization of narratives about Nicaraguan migrants. To understand this growing polarization in the context of the COVID-19 pandemic, some contemporary historical moments when the issue of Nicaraguan migration played an important role need to be considered.

NARRATIVES ON NICARAGUAN FORCED MIGRANTS IN COSTA RICA DURING COVID-19 AND THE IMPACT ON INTEGRATION

There are two moments in Costa Rica's recent history when narratives on

Nicaraguan migrants had a relevant impact on political and social life: the 2018 presidential campaign and election and the COVID-19 pandemic.

The 2018 presidential election was among the most polarized in Costa Rica's recent history as the electoral debate revolved around same-sex marriage and other cultural and moral issues.¹¹ Immigration policy was also important in government plans and social media. The candidates in the second round, Carlos Alvarado from Acción Ciudadana (PAC) and Fabricio Alvarado from Restauración Nacional (PRN), had government plans with divergent positions on migration. While the PAC suggested migration with a focus on human rights and development, the PRN's plan emphasized national sovereignty and border security.¹²

Carlos Alvarado was elected president on 1 April 2018. Just a few weeks later, citizen protests began in Nicaragua against President Daniel Ortega, who harshly repressed demonstrators. As a result, Costa Rica became host to thousands of Nicaraguan forced migrants in a matter of months. By August 2020, there were an estimated 86,000 Nicaraguans seeking protection in Costa Rica.¹³ Since the beginning of the political conflict, Costa Rica maintained an open door policy for Nicaraguans and provided resources for immediate humanitarian assistance, with the support of UNHCR and other organizations. Still, the capacity was not enough to accommodate thousands of migrants who began to fill the streets of San José.

The presence of migrants on the streets generated criticism and fear among sectors of society, and public figures voiced some of those fears. All this served as a breeding ground for xenophobic demonstrations at the end of 2018 where participants called for the expulsion of Nicaraguans. Marches were organized via Facebook, and it was later confirmed that the administrators of some Facebook pages that published fake news and xenophobic narratives were affiliated with far-right parties.¹⁴

Although there are no consistent statistics to verify the impact of xenophobic narratives and demonstrations on the integration of Nicaraguan forced migrants, it is possible to assess the impact based on other studies. In 2019, the International Organization for Migration (IOM) found that 50 percent of Nicaraguan migrants who arrived in Costa Rica after 2018 did not go to institutions or public officials in search of information on rights and services. Additionally, out of the migrants who requested asylum, 46 percent obtained information from family networks, and only 30 percent from NGOs and the state. In the same study, focus groups with migrants reported having difficulties accessing employment, education, or health care due to their nationality and fear of seeking state support and deportation.¹⁵ Although deportation is not common in Costa Rica, misinformation has favored the creation of “survival networks” among Nicaraguans, which allow them to meet their daily needs in the short term but could discourage integration between locals and migrants in the long term.¹⁶

The COVID-19 pandemic arrived in this context of increasing polarization. To protect public health, the Costa Rican government closed its land border with Nicaragua, a country that has not yet taken any measures to control the pandemic. The border closures affected the economy of transnational migrant families and forced migrants. Soon, caravans of migrants seeking to return to Nicaragua formed, and by July 2020, some 300 Nicaraguans were stranded at the Peñas Blancas border post because the Nicaraguan government denied them entry until they presented a negative COVID-19 test. Ultimately, the Arias Foundation for Peace and Human Progress donated the tests, and the Costa Rican government provided shelter for those who tested positive until they could recover and enter Nicaragua.¹⁷

Once again, this caused an increase in xenophobic narratives in the media and the public debate. An Inter-American Development Bank (IDB) study on xenophobia

during COVID-19 in seven Latin American countries, including Costa Rica, revealed that expressions of xenophobia on social media increased by 70 percent between February and April 2020.¹⁸ In general, this increase was associated with citizens’ fears that migrants were spreading COVID-19 or that the health system would collapse, even though by July, only 30 percent of positive cases involved foreigners.¹⁹ In April 2020, the Nicaraguan Association for a Better Future reported 15 cases of xenophobic attacks against forced migrants, while other migrant organizations reported about 50 cases.²⁰ The Zero Xenophobia project in Costa Rica also reported two attacks against Nicaraguans at the hands of police officers. In addition to physical and verbal violence, these attacks involved threats of deportation or illegal limitation of mobility within the country. Unfortunately, there is no more recent data on this matter due to underreporting and limited data collection.²¹

Despite all the efforts from the state and society to guarantee integration even during the COVID-19 pandemic, xenophobia affects the integration process of Nicaraguan forced migrants by favoring the creation of insulated groups of migrants living at the margins of the state and society.

HEALING THE WOUNDS OF XENOPHOBIA AFTER THE COVID-19 PANDEMIC: RECOVERY BASED ON LOCAL INTEGRATION

In a call with my colleagues, one of the issues discussed was the need to heal the wounds that xenophobia could leave even after the pandemic. In most cases these wounds are invisible and are reflected in the migrants’ fear or distrust of working and living in contexts where hatred and exclusion have broken the social fabric between them and the locals. Therefore, to recover cultural, social, and economic relations between Nicaraguans and Costa Ricans, it is necessary to think about integration at the local level.

Although migration policy is usually implemented at the national level,

experiences in the European Union have revealed the importance of thinking about integration policy at the local level. That is because migrants establish daily relationships, use and share their skills, and access services while building community at the local level, primarily in cities.²² Objective 16 of the Global Compact for Migration (GCM) considers the relevance of thinking about programs and good practices for local integration while at the same time ensuring multilevel governance to achieve the expected outcomes.²³ In 2018, the Global Forum on Migration and Development created the Mayors Mechanism in pursuit of that objective.²⁴

In Costa Rica, civil society and academia have already debated this issue. In 2018, Carlos Sandoval from the University of Costa Rica (UCR) proposed a project to challenge anti-immigrant hostility in three ways: listening to the stories of migrants to contest xenophobic narratives, collaboration between migrants and locals on public policy advocacy, and multisectoral collaboration with migrants to strengthen their advocacy.²⁵ Based on this precedent, I consider two initiatives to contest xenophobic narratives, help heal the wounds of xenophobia during the pandemic, and recover the social fabric. Although these initiatives have different approaches, both incorporate shaping narratives on migration as a relevant part of their work.

"ME LO CONTÓ UN MIGRANTE" – "A MIGRANT TOLD ME"

This initiative was founded by university students from Costa Rica and Nicaragua, in response to xenophobic narratives against Nicaraguans in July 2020. The team collects and disseminates stories of young migrants through social media. They have also created spaces for online dialog on migration with a focus on human rights and integration. According to the coordinator, Rubén Canales, the objective of the project is to create a digital space to foment hospitality and empathy toward migrants through stories, statistical data, and the

dissemination of art and research produced by migrants. In this way, the initiative seeks to challenge xenophobic narratives in the media in Costa Rica and throughout Latin America and raise awareness about harnessing the benefits of migration.²⁶

In January 2021, members of the initiative presented their work and shared the experiences and challenges with young Latin American leaders at the III Youth Forum on Migration on the XIII Global Forum on Migration and Development (GFMD). The transmission of live stories on Facebook to reach people from different social and age groups is one of the practices that has worked for the initiative. One of the challenges identified was continuing to work on narratives with a focus on human rights and in alliance with organizations focused on socioeconomic integration.²⁷

THE AGRICULTURAL CAMP OF THE NICARAGUAN PEASANT MOVEMENT

The agricultural camp was founded in 2019 by 70 families from the Nicaraguan Peasant Movement, most of whom are asylum seekers. Under the leadership of Francisca Ramírez, they rented land to grow their own food and build temporary residences. The project has received funding from UNHCR and support from the local people.²⁸ Although this initiative focused on the socioeconomic integration of rural migrants, it also had a role in contesting xenophobic narratives and healing the relationships between locals and migrants.

For example, in April 2020, the camp was featured in the local news because its members sent part of their harvest to around 170 migrant families in San José. In June, camp members came together to help rebuild the home of a Costa Rican family affected by a storm. In addition, in December 2020, camp members and the municipal government of Upala held an economic and cultural fair to sell products made by Nicaraguan refugees.²⁹

Although the camp's work does not strictly focus on narratives, camp members are popular among the Nicaraguan migrant

community due to their work for socioeconomic and cultural integration. That work helps combat xenophobia against Nicaraguan peasants in the northern border area, one of the areas most affected by the pandemic. When I spoke with Francisca Ramírez about her experience in Costa Rica, she said that she is very grateful to the government and the people of Costa Rica for welcoming them, and that is why part of her work shows the contributions of Nicaraguan immigrants to society.³⁰

CONCLUSION

The COVID-19 pandemic has favored the dissemination of xenophobic discourses that are harmful to the social fabric and to integration, especially at the local level, between migrants and citizens. The case of forced Nicaraguan migrants to Costa Rica shows that xenophobic discourses and practices have a long history even in a democratic state and can resurface during social challenges such as the global COVID-19 health emergency. Thus, to regain cordial coexistence and collaboration between migrants and locals, it is necessary to think about integration with a focus on human rights and the skills migrants bring to the host society. Throughout this process, initiatives for shaping narratives on migration and migrants are relevant.

The two initiatives presented exemplify the model of integration as a two-way process in which migrants collaborate with locals, the government, and even the international community to promote human rights-based and data-based narratives on migration. These initiatives then facilitate the social and economic integration of migrants; help question and broaden the host society's concept of rights, citizenship, and belonging; and work to heal the invisible wounds that xenophobia can cause, especially in migrants. Ultimately, although the long-term impacts of these initiatives remain to be seen, it is relevant to include them and other similar projects in the pandemic social recovery plans in Costa Rica and throughout Latin America.

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DEFEATING COLOMBIA'S CASH-DEPENDENCY

César Pabón

Op-Ed Columnist

When foreigners ask me for travel tips to visit Colombia, I tell them to always carry cash. I explain that cab drivers, small shops, and even bars and supermarkets usually have a “Cash Only” policy. This practice is common for most economic activities nationwide and is more pronounced in rural areas. Unsurprisingly, according to the Central Bank, cash payments represent almost 98 percent of total consumer’s transactions (pre-Covid figures). Yes, 98 percent!

This happens even though the government pushed for access to financial products across the country throughout the last decade, reaching more than four-fifths of the population. In fact, in 2020, the Economist Intelligence Unit ranked Colombia as the best environment for financial inclusion among 55 developing economies.

To better understand the root cause of Colombia’s cash preference despite all the efforts in this area, an analysis of the country’s idiosyncrasy is warranted. Moving forward, a comprehensive governmental agenda that enhances electronic payments is of utmost importance. This will not only ameliorate some of Colombia’s core issues such as informality and illegality, but it will also encourage economic development and social equity.

The pandemic is an ideal opportunity to boost this strategy. Although there is a lack of evidence proving that cash is a source of transmission, there are growing fears about using it since the COVID-19 virus can survive on different surfaces for hours and using cash involves direct contact and manipulation by multiple people. That’s why the digital infrastructure facilitated the payment of government subsidies to

the most vulnerable population affected by the epidemic.

Some may ask, is preferring cash bad? My answer is not necessarily. In fact, cash has many advantages that explain why it is still the preferred payment method worldwide. Specifically, cash outranks other means of payment because it is fast, easy to use, exhibits low direct costs, and ensures the anonymity of transactions.

Its excessive use, however, is a matter of concern. As demonstrated by Kenneth Rogoff¹, a professor at Harvard University, cash is becoming increasingly marginalized in the legal economy due to its anonymity and untraceability, and most of it is used in the underground economy—in tax evasion, corruption, terrorism, and the drug trade.

This issue is gaining relevance in Colombia since it is at the heart of its biggest challenges. In fact, the underground economy has been estimated at close to 45 percent of GDP². It is well-known that the country is a key player in the illegal drug markets – some estimations suggest that Colombia produces between 60 percent and 70 percent of the cocaine consumed worldwide³. Not surprising, regions with higher rates of organized crime and coca crops exhibit elevated cash withdrawals. The magnitude of this issue is significant considering that more than half of the jobs and firms in the country are informal, meaning they are not-compliant with legal requirements (e.g., taxes and social security contributions).

Limiting cash usage will not end these activities, but as electronic payments increase transaction traceability, they will be curtailed. There is also growing recognition

that enabling electronic payments promotes economic development and social equity. For example, electronic payments encourage financial inclusion, providing people with better money management strategies and access to finance at a reasonable cost. This could be critical in the COVID-19 context as households need to find funding to avoid the economic crisis.

Juan Andres Paez and I shed light on this agenda in our master's thesis.⁴ Specifically, we found that the most effective governmental interventions to enhance electronic payments include: (i) providing incentives to businesses for accepting electronic payments, and (ii) generating regulatory adjustments to spur cheaper payment products. This should be coupled by a countrywide campaign to raise awareness about the benefits of these services.

If these proposals are unsuccessful, informality, tax evasion, and illegality will continue to be a rampant feature of the Colombian society, while economic development and financial inclusion will remain stagnated.

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PERU: SHOULD THE COUNTRY AIM TO GO BACK TO NORMAL?

Paola del Carpio Ponce

Despite the sustained economic growth of recent decades and a substantial reduction in poverty, from 58.7 percent in 2004 to 20.2 percent in 2019,¹ Peru has been one of the countries hardest hit by the COVID-19 pandemic, in economic and sanitary terms. The Peruvian economy declined by around 11.5 percent in 2020,² and it is estimated that poverty will return to levels from 10 years ago.³ Peru had grown, but it did so precariously.

IMPLICATIONS OF THE COVID-19 SHOCK ON LABOR AND HOUSEHOLDS

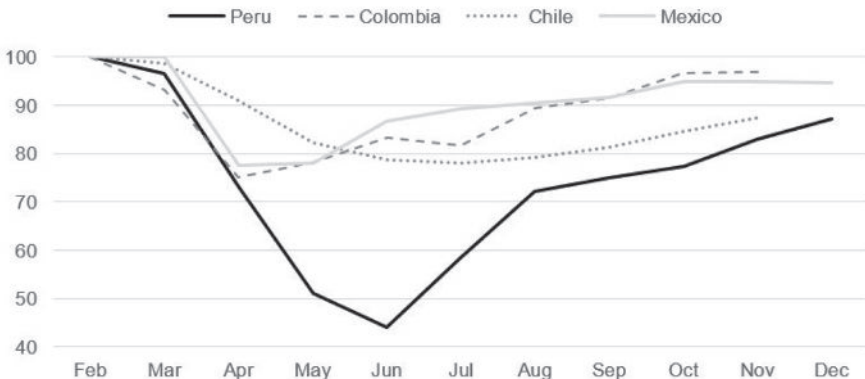
This crisis revealed structural deficiencies that Peru did not resolve during its years of economic boom. Faced with the pandemic, countries throughout the world implemented necessary social distancing measures, causing a supply shock and significantly affecting employment. In Latin America, this reality was worrying due to high levels of informality in labor, which

implied the loss of millions of jobs without social protection.

Moreover, high inequality in Latin American societies has been accentuated by different factors: few jobs can be performed remotely, and occupations that require greater exposure tend to be carried out by the most vulnerable. In addition, even in cases where it is possible to work remotely, there are strong inequalities in housing conditions. On the other hand, in 46 percent of households in Latin America, none of the household members work in the formal sector.⁴ Hence, as of January 2021, 16.8 million jobs have been lost in the region. Compared to other countries, the plunge has been deeper for Peru (Figure 1).⁵

At the worst moment of the pandemic, just in Lima, more than 2.5 million jobs were lost (~55 percent),⁷ disproportionately affecting the informal workforce. Although employment levels have been gradually recovering, this has mainly occurred in the

Figure 1. Pacific Alliance Countries: Employed Population, 2020 (100 for the 2020 aBseline)



Source: Inter-American Development Bank (IADB).⁶

informal sector, and with lower incomes. Currently, 46 percent of those employed in Metropolitan Lima are underemployed.⁸ This indicates that, although many Peruvians have returned to work, they are in more precarious jobs, which asymmetrically affects women and young people more. By the third quarter of 2020, informality at the national level was at 75.2 percent.⁹

Understanding the significance of informality in the country's difficulty coping with the pandemic and reactivating and growing a resilient economy is important. When looking at the composition of Peruvian household income by income deciles (Figure 2), we observe that, in the poorest households, income from formal employment is practically nonexistent. Nonetheless, state transfer mechanisms through social programs already existed for these households. However, for middle-class households, more than half of their income depended on the informal sector,¹⁰ and the economic paralysis left this group highly vulnerable.

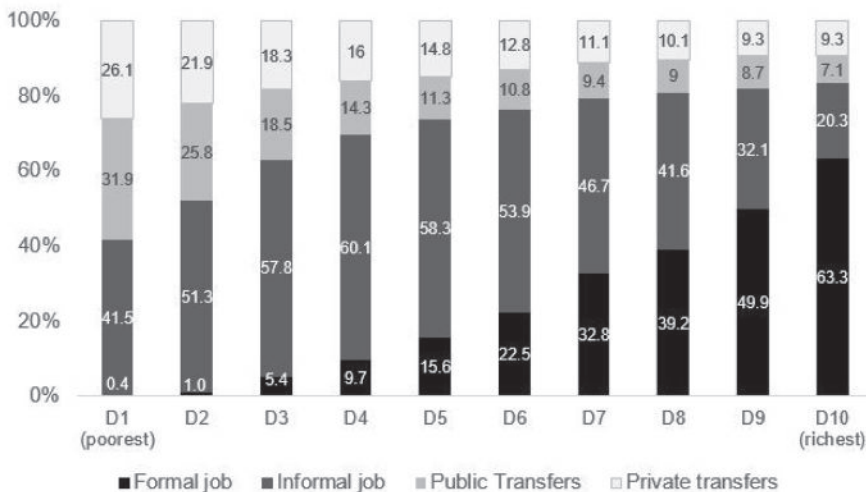
informality. Returning to a trajectory of economic growth requires strategies for increased formality, greater attention to the vulnerability of the middle class, and strengthening of institutions to facilitate the delivery of quality public services to all citizens. To increase formality in Peru, it is crucial to first understand the factors behind informality.

UNDERSTANDING THE INFORMAL PERUVIAN LABOR SECTOR

The factors behind informality are interlinked, and a package of short- and long-term public policies is required to address them—there is no silver bullet. These factors include the following:¹²

- There is a large presence of microenterprises and small-sized enterprises (99 percent) with very low productivity in relation to larger companies (Figure 3).¹³ The size of these companies raises transaction costs and limits access to credit and digital tools. It is not easy for them to cover the costs of formality and insert

Figure 2. Peru: Components of Monthly Household Income by Deciles of Total Household Income, 2018



Source: Jaramillo and Ñopo, 2020.¹¹

The years of economic boom in Peru showed that economic growth is a necessary but not sufficient condition to combat

themselves in dynamic value chains that would boost their productivity.

- Labor productivity in Peru is very low

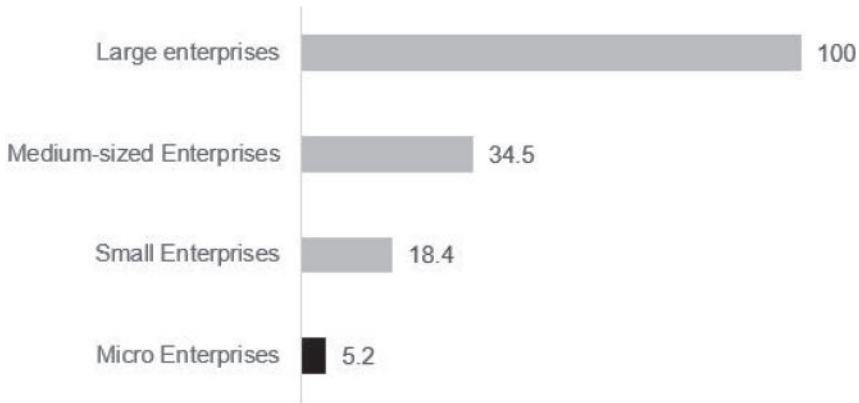
in relation to other countries (Figure 4). According to the OECD's Survey of Adult Skills (PIAAC), Peruvians are at a clear disadvantage in terms of reading comprehension, calculus, and the use of digital tools. Hence, Peruvian firms face difficulties in hiring suitable personnel.¹⁵

- Labor legislation in Peru is excessively broad and burdensome. The labor market faces rigidities that raise the costs of hiring in the formal sector. Moreover, various labor regimes coexist in the regulations that discourage growth of firms, since formality gets more expensive as firms become larger.

A PATH TOWARD RECOVERY

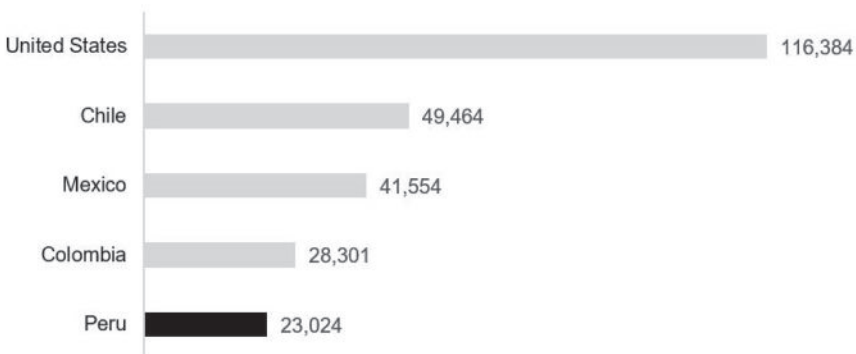
The Peruvian economic stimulus package to face the pandemic has been aggressive and close to 20 percent of GDP.¹⁷ To protect formal employment and partly contain the expansion of informality, the government has provided loans and guarantees aimed at facilitating liquidity and helping companies survive the economic stagnation. Payroll subsidies were also provided to companies with low-income workers, and a mechanism of "perfect suspension" of work was developed, although it was sparsely implemented, where employees' work and salaries were suspended but the employment relationship and its associated

Figure 3. Relative Labor Productivity, by Firm Size, 2017 (100 for Large Enterprises)



Source: PRODUCE, 2020.¹⁴

Figure 4. Labor Productivity: Output per Worker (GDP Constant 2011 International USD in PPP), 2019



Source: International Labor Organization (ILO).¹⁶

benefits remained in place through a grant from the state. Recently, a six-month subsidy was created for formal hiring, which was higher in the case of hiring youth and open-ended contracts. Furthermore, to protect the millions of households dependent on informal income, a series of cash transfers was granted almost universally due to the difficulties of identifying the beneficiaries.

In the short term, in addition to continuing temporary jobs programs, it is important to strengthen labor intermediation and take advantage of technology to train and employ young people and women, the groups that have been most affected by the pandemic. Likewise, it is important to promote job retraining and the adoption of digital skills. For women who could not previously access training programs, education, or the labor market due to care work at home, access to digital tools provides an opportunity.

In the medium term, policies that encompass the three determinants of informality discussed above are necessary. First, it is essential to bring the educational supply and training provision closer to the labor demand (in the education system and throughout professional careers), which requires joint work with the private sector. Second, promoting the formality of firms is important by making formality and staying in the formal sector over time more attractive. It is also important to articulate technical assistance to facilitate the insertion of small- and medium-sized enterprises (SMEs) into dynamic value chains. Finally, simplifying the regulatory framework is necessary to avoid discouraging firm growth and make the market less rigid. However, this will not be achieved without simultaneously building an effective and inclusive social protection system.

DEALING WITH POLITICS

As uncertainty and pandemic restrictions remain, informal employment will continue to grow faster than formal employment because, while the costs of formality are

certain, immediate, and long lasting, the benefits for employers are now uncertain. On one hand, we do not know how the pandemic will progress: Peru is currently clearly facing a second wave, the arrival of new variants, and uncertainty regarding vaccines. On the other hand, a political crisis has been added to the public health and economic crises.

Protecting formal employment and combating informality require a boost in private investment, which responds to levels of business confidence. Although this indicator improved as the economy began reactivating, it also declined in the face of the political crisis. The constant tensions between the executive and legislative powers caused different changes of authorities and technical teams during the pandemic and resulted in three different presidents in the span of one week. Political tensions have taken attention away from issues that should be main priorities: the health of citizens and economic recovery.

Many of the latest legislative initiatives threaten the sustainability of public finance management and/or discourage private investment (e.g., caps on interest rates). It is crucial to recognize that without the responsible macroeconomic management during the last 30 years, Peru would not have achieved progress, and it would have been impossible to enact bold economic measures from the beginning of the pandemic, all while still accessing cheaper credit than neighboring nations.¹⁸ In this case, although the country is not doing well, it could have done much worse. The future is even more uncertain considering the upcoming presidential and congressional elections on April 2021.

FINAL THOUGHTS

The Peruvian economy has been gradually recovering and is expected to grow around 10 percent this year.¹⁹ However, Peru is no longer under the same fiscal conditions as in March 2020. The country is facing a second COVID-19 wave, and it is unclear when population-wide vaccinations will

occur. The policy measures that emerge in the coming months must be careful not to lead the country away from the main objectives: growing productivity, combating informality, and not neglecting the vulnerability in which many citizens live. Economic growth is crucial, but it is only the first step.

**The article was written in January, 2021

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IN THE SHADOWS: EXPLORING THE CAUSAL FACTOR OF INFORMALITY IN COSTA RICA

Luis Fernando Corrales

ABSTRACT

The aim of this paper is to establish a causal link between increases in the social security rate and the rise in informality in Costa Rica. In the last decade, the informality rate has increased significantly in Costa Rica, principally driven by self-employed workers. This paper uses a difference-in-difference approach to measure this causal effect. The results show that the recurrent increases in the social security rate cause an increase of 10 percentage points in informality. The policy implication is that the government has to set the optimal rate, presumably a lower rate, to maximize revenue.

INTRODUCTION

In the last decade, the informality rate in Costa Rica has increased from 36 percent in 2011 to 50 percent as of 2019.¹ According to the OECD,² informality has been one of the main drivers of inequality in Costa Rica as wages are lower in the informal sector. Research suggests that a lack of fiscal capacity (raising taxes to fund public goods) is an important binding constraint for economic growth in developing countries.³ Employment informality erodes the base of the personal income tax and social security system (including pensions), putting pressure on their sustainability. Recently, the Costa Rican pension system and the fiscal accounts experienced a critical situation in sustainability—the former experienced an increasing actuarial deficit, and the latter an unsustainable debt to GDP ratio.⁴

This article focuses on the following question: what is the main driver of informality in Costa Rica? I explore this question by analyzing trends and patterns in the Costa Rican job market, developing a causal analysis, and sketching a theory of change to address informality.

First, it is important to define informality. According to the National Institute of Statistics and Census (INEC),⁵ informal

employment comprises all workers that meet the following characteristics: (1) salaried workers without social security financed by their employer, (2) salaried workers who are not subject to social security wage discounts because they are paid in kind or only once, (3) unpaid helpers, (4) the self-employed and firm owners who are not formally registered and do not have formal and periodic accountability, and (5) self-employed workers with temporary jobs.

This paper is divided into sections: First, “Context” provides a contextual analysis and describes recent policies and trends of the labor market in Costa Rica. Second is a literature review to understand the underlying mechanisms in the labor market. The third describes the empirical strategy to test the hypothesis that increases in social security rates caused the rise in informality in Costa Rica. The fourth provides the results from the econometric difference-in-difference estimations. Finally, the paper concludes that recurrent increases in the social security rate cause an increase of 10 percentage points in informality, meaning that the government has to set the optimal rate, presumably a lower rate, to maximize revenue.

CONTEXT: POLICY INTERVENTIONS AND STYLIZED FACTS OF THE LABOR MARKET

The potential causes of informality can be divided in four categories: (1) weak enforcement of labor laws, (2) low benefits to being a formal worker, (3) high costs of formality, and (4) a lack of the skills demanded in the labor market.⁶ This section describes relevant policy changes over the last decades for each of these categories to identify possible causes of informality and the selected trends in the labor market.

Lack of resources in Costa Rica hampers the work of the labor inspectorate⁷ and contributes to the weak enforcement of labor laws.⁸ Inspectors report significant constraints in the resources available for them to do their work, so they concentrate their efforts on large firms, leaving medium and small enterprises and self-employed workers out of their scope. Recognizing this problem, the budget of the inspection offices has been significantly increased in recent years.⁹

In the courts, all cases that are elevated to labor tribunals are costly and time consuming, some can take four years to reach resolution.¹⁰ Nevertheless, a reform to the labor code approved in January 2016 sanctioned that cases brought before tribunals has to be solved within six months.

On the other hand, a part of social security contributions is redirected to programs that do not directly benefit workers, disincentivizing formality. Payroll taxes are used to finance social programs for which formal workers might not be eligible.¹¹ Nevertheless, these arrangements have existed since 2005, when the *Ley de Protección al Trabajador* (Law of Worker Protection) was approved.¹² Therefore, when considering labor market innovations in the last decade (2010–2019), we cannot consider these factors as determinants.

According to the OECD,¹³ Costa Rica is a dual economy that has a very dynamic export sector located in free economic zones and a regular regime with low value added and high tax burden. The export sector demands high-skilled workers, meaning

low-skilled workers remain in the regular sector and face higher tax burdens and, therefore, have a higher probability of falling into informality. Nevertheless in 2018, the total number of workers employed in free zones was 115,000,¹⁴ and the total number of informal workers at the end of the same year was around 1 million. Thus, as the labor demand trends in free zones cannot absorb the supply of informal workers, this cannot be considered the main driver of informality.

Firm and labor informality could be caused by the high tax burden formal firms face.¹⁵ The social security payroll tax accounts for 37 percent of the total gross salary of the worker,¹⁶ higher than the 27.33 percent OECD average. This burden has increased over time and will continue to increase over the following ten years. Since 2015, social security costs started to progressively increase, imposing a higher burden on firms. This major policy change could explain the trends in informality in the last decade. The OECD put this important issue on the table, but it is still necessary to clearly determine the channels through which social security costs influence informality and to empirically establish a causal relationship between both variables to develop a specific and well-informed policy.

The Policy

The social security rates in Costa Rica include several components to finance health care, the pension system, and poverty programs and even capitalize a public bank. As a result of an actuarial deficit in the pension system administered by the Costa Rican Social Security Fund (CCSS), the board of directors decided to increase the corresponding rates in the pay-as-you-go system (IVM). The first change was in 2009, and there were no further changes until 2015, when rates started to increase more frequently.

In the case of the health care and IVM components, for salaried workers the rate is shared between a worker and their

employer, whereas self-employed workers assume the entire burden in a progressive schedule. Among all social security contributions, the IVM was announced in the second quarter of 2014 and is the only concept that has changed since 2015. The changes in the rates faced by employers, salaried workers, and self-employed workers moved in tandem.

Stylized Facts in the Labor Market

Figure 1 shows the breakdown of workers by their condition (formal and informal) and the type of contract (salaried or self-employed). Categories were normalized at the first quarter of 2014, just before the policy was announced. Three relevant trends emerge: (1) salaried workers (formal and informal) remained practically unchanged, (2) self-employed workers strikingly increased in the informal sector and decreased in the formal sector, and (3) formal self-employed workers significantly decreased.

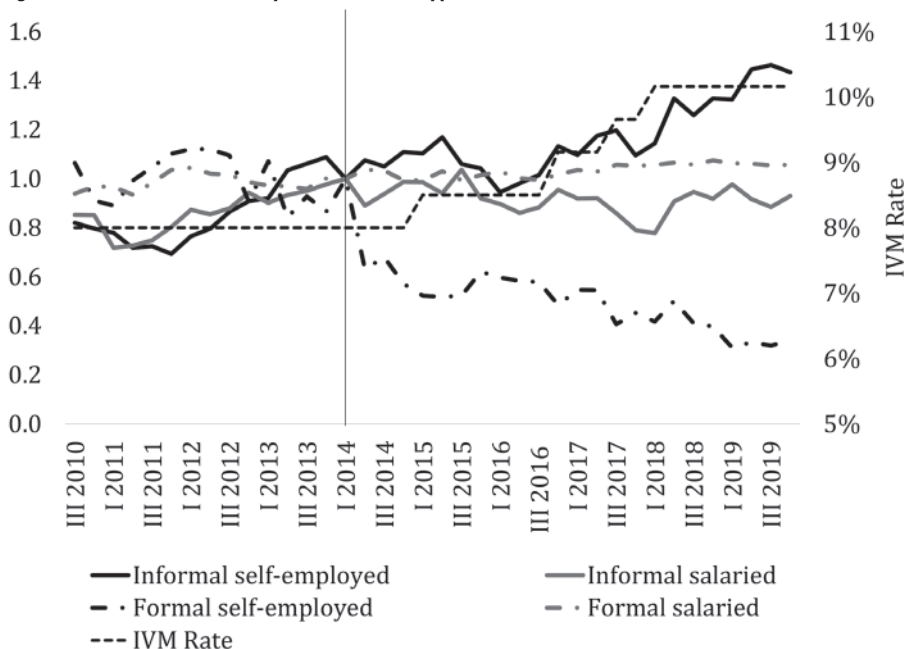
Figure 2 shows the cumulative growth in employment by type of contract and condition.

After the policy was announced, the contribution of self-employed workers to growth increased in relative importance. Moreover, the significance of informal self-employed workers is evident in the total contribution. By the end of the analysis period, the contribution of self-employed workers is the most important, continuing to increase along with the changes in the IVM rate.

LITERATURE REVIEW AND THEORY OF CHANGE

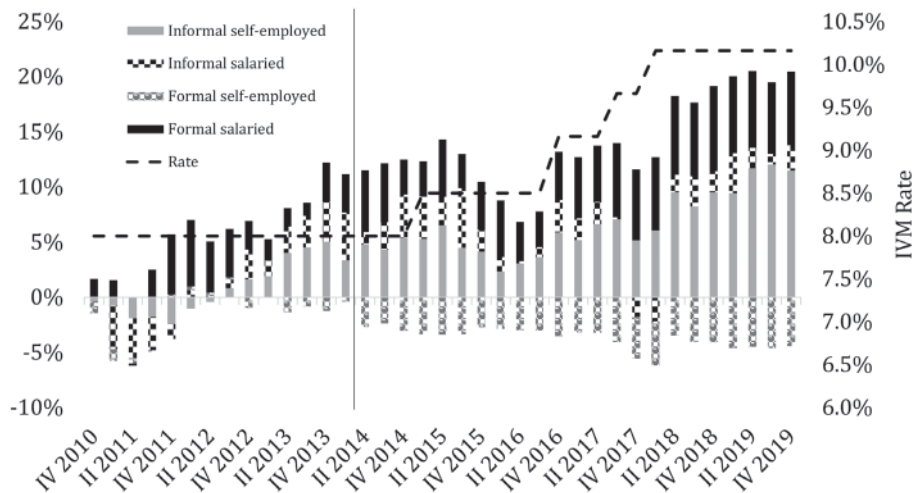
Following Ulyssea,¹⁹ there are three leading views on firm informality. The first argues that informality comprises a reservoir of entrepreneurs that remain informal due to high regulatory costs (taxes and regulations). The second view argues that informality exists because some firms are a sort of “parasite” that are as productive as formal firms but prefer to remain informal to earn higher profits derived from their non-compliance with taxes and regulations. The third view sees informality as a survival strategy for low-skilled individuals who are so unproductive that it is not

Figure 1. Number of Workers by Condition and Type of Contract, Normalized, III Q 2010–IV Q 2020



Source: Own creation with data from the Continuous Employment Survey¹⁷

Figure 2. Cumulative Contributions to Growth in Employment by Type of Contracts and Condition. III Q 2010–IV Q 2020



Source: Own creation with data from Continuous Employment Survey¹⁸

possible for them to be formal and still be profitable.

Ulyssea developed a theoretical framework that encompasses the three views, reflecting that they are a manifestation of firm heterogeneity in the economy. This framework perceives the three views as complementary rather than competing views on informality, each seen to different extents depending on the economy being studied. Based on the evidence presented in the previous section and the increases in social security costs, the hypothesis in this article is aligned with the first view. In other words, evidence suggests that high regulatory costs disincentivizes firms from hiring employees formally and disincentivizes the self-employed from remaining formal workers.

In the Ulyssea framework, there are two specific ways that firms hire informal workers: (1) the extensive margin, i.e., not registering a business so that all employees are automatically hired informally, and (2) the intensive margin, i.e., hiring workers “off the books” even when the firm is formally registered.²⁰ The intensive margin is an innovative approach because it was not formally included in a

theoretical framework. Most of the literature has focused on the extensive margin where firms decide between being formal or informal (a binary decision) to avoid taxes and regulations. On the other hand, the intensive margin breaks the decision about informality into two parts: the firm and the worker. Ulyssea presents empirical evidence where the intensive margin accounts for a large share of informal employment.

The theory of change in this article is based on the intensive margin rationale. Nevertheless as previously shown, self-employed workers contribute a high portion of the informality in Costa Rica. Therefore, the contribution of this paper is to show evidence that the intensive margin has a possible third factor: when firms face high costs in hiring, they opt for hiring an independent contractor (or professional services, as known in Costa Rica) rather than a salaried worker (whether formal or informal). By doing this, firms transfer the entire social security burden to the workers.

When social security costs increase, firms choose to decrease the rate of employing formal salaried workers and instead hire independent contractors, which transfers

the costs of social security to the workers. Moreover, self-employed workers have to decide between informality and formality, and as previously discussed,²¹ workers have low incentives to be formal. Workers probably perceive a low probability of being subject to the inspectors because authorities prioritize their resources to audit big firms. Furthermore, workers expect the jobs to be temporary, so they do not perceive the immediate benefits from paying social security.

Several authors have found evidence that taxes and regulations could foster informality, in line with the first view of the determinants of informality. For example, Ham²² explores the effects of minimum wage policy on the labor market in Honduras. The author found that a 10 percent increase in the minimum wage decreases the likelihood of formal employment by 8 percent and increases the probability of informal employment by 5 percent. Moreover, Nataraj et al.²³ estimated the effect of higher minimum wages on formal and informal employment using a meta-regression analysis on low-income countries (LICs). They found evidence that labor regulations could cause negative effects on formal employment, principally on women. Finally, Schneider²⁴ found tax burden and social security contributions to be important drivers of the “the shadow economy.”²⁵ Bosch and Campos-Vasquez²⁶ used administrative data on formal employment from the Mexican Institute of Social Security (IMSS) to measure the effect of *Seguro Popular*, a Mexican program aimed at improving health access for 50 million uninsured workers, on informality. The insurance was virtually free, so the program directly impacted the employers’ payroll costs.²⁷ The result was a positive effect on formality: 4.6 percent for employers and 4 percent for employees.

EMPIRICAL STRATEGY

To test the hypothesis described in the previous section, I use quarterly microdata of the Continuous Employment Survey (CES) from the third quarter of 2010

to the fourth quarter of 2019.²⁸ Since this survey is a repeated cross section, it is not possible to follow the same workers over time. Nevertheless, I use a pseudo-panel approach to build a database using industry as the observation unit, similar to the approach followed by Jiménez.²⁹ Workers were grouped by industry using the International Standard Industrial Classification (ISIC) to the nearest four digits. This approach makes it possible to check movements in employment by industry level across time.

Identification

The application of the increases in the IVM rate affects all industries, but some of them are more affected than others. As discussed in the previous sections, it seems that firms are offering independent-contractor rather than salaried contracts. Therefore, I assume that industries that were intensive in self-employed workers before the policy are more prone to show this behavior because (1) these industries are used to offering this kind of arrangement and (2) they are probably unable to substitute labor with capital, so they cannot avoid labor costs as easily as other industries that could utilize capital as an optimal response.

To measure self-employed intensity (I^{SE}), I calculated the ratio of total self-employed workers in the industry i ($TotSE_i$) over total workers in that industry (Tot_i).

$$I_i^{SE} = \frac{TotSE_i}{Tot_i} \quad (1)$$

Thus, after the implementation of the policy, we have to detect a jump in informality for industries that are more intense in self-employed workers. To check whether that is the case, I conducted an event study to test the parallel trends assumption in the difference-in-difference approach (used by Mora-García³⁰ and Duflo³¹).

$$IR_{yqi} = \alpha + \delta_y + \delta_q + \delta_i + \sum_{y \neq 2014} (I_i^{SE} * \delta_y) + u_{yqi} \quad (2)$$

Equation 2 above is estimated, where IR_{yqi} refers to the informality rate in the year y , quarter q , and industry i ; I_i^{SE} is self-employed intensity for industry i ; and δ_y , δ_q , and δ_i refer to fixed effects for year, quarter, and industry, respectively. Then, when plotting the series of $\hat{\delta}_y$, there should be visible a change after the policy. The base period is 2014, because that is when the policy was announced. Therefore, the parameter $\hat{\delta}_{2014}$ is normalized to 0. To calculate the self-employed intensity, I used data from 2012 and the classification from the Tables of Supply and Utilization of the Central Bank³² that start in 2012. Finally, the standard errors were clustered at industry level, and the regression weighted observations using the share of workers in that industry for 2012.

After testing the hypothesis of parallel trends with the event study approach, I arrived at the difference-in-difference estimator to calculate the average effect of the policy on the informality rate.

$$IR_{yqi} = \alpha + \delta_y + \delta_q + \delta_i + \alpha_1 dum_{IVM} + \alpha_{pol} dum_{IVM} * I^{SE} + u_{yqi} \quad (3)$$

Equation 3 is estimated, where dum_{IVM} is a dummy variable that equals 0 before the

second quarter of 2014 and 1 from the second quarter to the end of the sample. The parameter α_{pol} captures the average effect of the policy on informality.

Table 1. Difference in Difference Regression

	Dependent variable
	Informality Rate
Dummy IVM	-0.040** (0.019)
Dummy IVM * I ^{SE}	0.100*** (0.038)
Observations	2,461
R ²	0.872
Adjusted R ²	0.866
Residual Std. Error	11.991

*p < 0.10
**p < 0.05
***p < 0.01

Source: Own calculations with CES data.

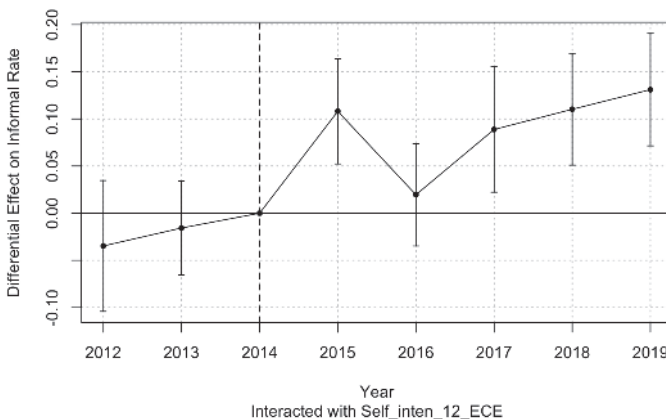
RESULTS

Figure 3 shows the series of the parameter $\hat{\delta}_y$ that calculates the differential effect of the increases in the IVM rate on industries intensive in self-employed workers. After the announcement of the policy, the informality rate increased above 10 percent. This evidence coupled with the previously discussed trends in self-employed workers suggest that the increases in the IVM rate that started in 2015 and

were announced in 2014 incentivized an increase in informal independent-contractor contracts. Then, we can rely on the parallel trends assumption.

We conclude that the progressive increases in the IVM rate induced an average increase of 10 percentage points in the informality rate, principally

Figure 3. Testing Parallel Trends Assumption: Event Study on Differential Effect of IVM Rate Increase Policy



Source: Own calculations with CES data.

driven by industries that are intensive in self-employed workers (see Table 1 for results). Moreover, these results suggest that workers performing jobs as independent contractors are more prone to move to informality.

CONCLUSION

The results obtained suggest there is evidence of a possible third factor in the intensive margin described by Ulyssea³³: increases in the social security rate incentivized firms to stop formal employment (as shown in the flat trend) and start offering independent-contractor contracts. As a result, we see an increase in self-employed workers who prefer to move to the informal sector because of the high social security burden (low incentives to pay social security obligations).³⁴ In light of the results, the policy implication is that the government has to stop the increases in social security rates and set them at an optimal point that maximizes revenues.

ENDNOTES

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Author Biography

The author is an economist and an MPA/ID candidate in the John F. Kennedy School of Government at Harvard University. Previously, he worked at the Inter-American Development Bank as a consultant for the Fiscal Division. He also worked at the Latin American Center for Economic and Social Policies (CLAPES) and the public sector in Costa Rica. He holds a bachelor's degree in economics from the National University of Costa Rica and a master's degree in economics from the Pontificia Universidad Católica de Chile.

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