Chapter 4

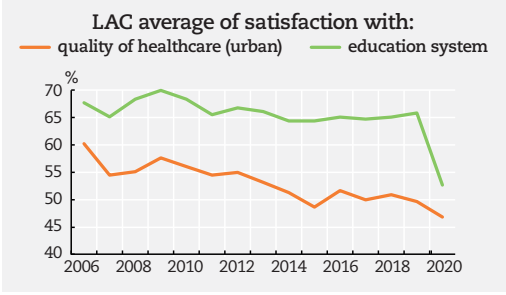
Rethinking the social contract in Latin America and the Caribbean

Social discontent, as demonstrated by the wave of protests shaking Latin America and the Caribbean (LAC), mistrust of government and demands for greater democratic reforms are rising at a time in which the coronavirus (COVID-19) crisis is putting the region's resilience to the test. They provide a stark reminder of the urgent need for LAC countries to update the social contract in order to tackle long-standing structural weaknesses, while also planning for a strong, inclusive and resilient recovery from COVID-19. In practice, renewing the social contract may involve striking various pacts in specific policy domains (e.g. a fiscal pact) and building broad support among various stakeholders (e.g. government, civil society, trade unions, private sector). Achieving fair, legitimate and stable pacts will require engaging in open and inclusive policy-making processes and implementing strong public integrity policies to avert the risk of policy capture by powerful elites. Paying attention to the political economy of reform will be crucial to reach stable and long-lasting agreements.

A new social contract to achieve a strong inclusive and resilient recovery

Why a new social contract?

To rebuild trust and bridge the growing divide between citizens and public institutions...



... and to mend the fractures within society

Only **12%** of LAC citizens have trust in the majority of people

What type of social contract is needed?

One that builds a cross-cutting pact...

across socio-economic groups

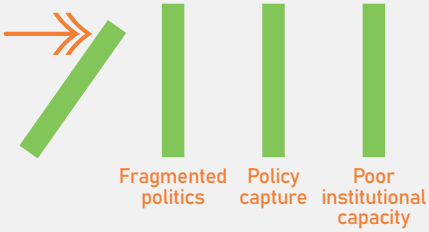
across territories

across generations

How can this contract be implemented?

Improve the process and the sequence of policy reform to achieve consensus

Overcome structural barriers to policy reform and implementation



Frame it in a long-term, national development plan

Introduction

Times of crisis expose deeply ingrained structural vulnerabilities. This has been the case in Latin America and the Caribbean (LAC), where the impact of the coronavirus (COVID-19) has accentuated long-standing, multi-dimensional development challenges, putting the resilience of the region to the test. Indeed, the strong socio-economic impact of the pandemic is aggravating the four structural development traps already faced by LAC (OECD, 2020[1]; OECD et al., 2019[2]).

In this context, the foundations of the development model have proven to be weak and have been brought under particular scrutiny by citizens. Higher aspirations for better living conditions in pre-pandemic years already pointed to the need to rethink and redesign the pillars that had sustained socio-economic progress through the years of bonanza, since the mid-2000s. The rise of social discontent, marked by a wave of protests in late 2019, confirmed the need to reach a new, overarching consensus and bridge the divide between society and public institutions. While during COVID-19 there was an initial spike in confidence in many governments, spurred by their rapid reaction to counter the effects of the crisis, public trust and citizen satisfaction weakened as the pandemic unfolded, as evidenced by a new wave of protests throughout the region in 2020 and 2021.

Against this background, this chapter argues that there is a need for a renewed, post-pandemic social contract as a means to achieve greater well-being for all in LAC. A strong, inclusive and sustainable recovery from COVID-19 will require adopting bold measures and ambitious reforms. These will in turn require striking new and cross-cutting pacts around key policy areas, both to address the specific impact of the pandemic and to overcome structural development challenges in the region and advance towards the 17 Sustainable Development Goals in the 2030 Agenda for Sustainable Development (ECLAC, 2020[3]). Reforms will also require reaching a high degree of consensus among all parts of society and in the relevant legislative bodies to make reforms happen. In this perspective, governments should use the momentum provided by the crisis to rethink the social contract in a way that can address the impact of the pandemic and overcome structural vulnerabilities – the development traps of low productivity, high inequality and informality, deficient public services and institutions, and environmental challenges – that were accentuated by the COVID-19 crisis (OECD et al., 2019[2]).

The notion of the social contract is used in the literature for various purposes. *Latin American Economic Outlook 2021* (LEO) adopts a broad definition of the social contract, which is understood as the comprehensive yet intangible and implicit agreement that binds society together and exists within a certain set of formal and informal rules and institutions.

This chapter focuses on the issue of rethinking the social contract in LAC, addressing the following topics. First, it analyses the main reasons why there is a need to rethink the social contract in the region. Second, it explores critical questions that need to be addressed in order to set the foundations for a new social contract in LAC. In this sense, it starts by analysing what should be the main components of a renewed social contract, fit for purpose and adapted to the realities of the 21st century, from a multi-dimensional well-being perspective. Subsequently, the chapter focuses on the process, i.e. on how this new social contract can be achieved and made fair, legitimate and sustainable.

A new social contract in LAC: Why?

Multiple weaknesses point to the need to rethink the social contract in LAC. Before COVID-19 hit, rising social discontent, the increasing dissatisfaction with public services, and the decline in trust and legitimacy of public institutions were clear signs of the importance of renewing foundational agreements among citizens and between citizens and public institutions in the region (Larraín, 2020[4]).

Many of these trends were the result of long-standing structural challenges. LAC entered the COVID-19 crisis with the majority of countries facing major development traps, namely low potential growth (productivity trap), high vulnerability (social vulnerability trap), institutional weakness (institutional trap) and an environmentally unsustainable production model (environmental trap) (OECD et al., 2019[2]). These vulnerabilities aggravated and were aggravated by the impact of the pandemic.

In addition, embarking on a post-COVID-19 recovery will demand a strong and broad consensus across LAC societies to adopt the pending structural reforms necessary to tackle the impact of the crisis while overcoming the existing development traps. However, not all countries have the same starting conditions or are advancing towards a new social contract at the same speed. The heterogeneity of the region and the differentiated impact of the crisis must be taken into account when considering the agreements needed to underpin the recovery and build a better society for all, as well as the pace at which they can be implemented. The evolution of social contracts will depend on the opportunities created by the crisis, the structure of the political system, the effectiveness of mechanisms that hold the powerful to account and the emergence of political coalitions (Shafik, 2021[53]).

Against this background, the following section examines the main reasons why a new social contract is needed in LAC.

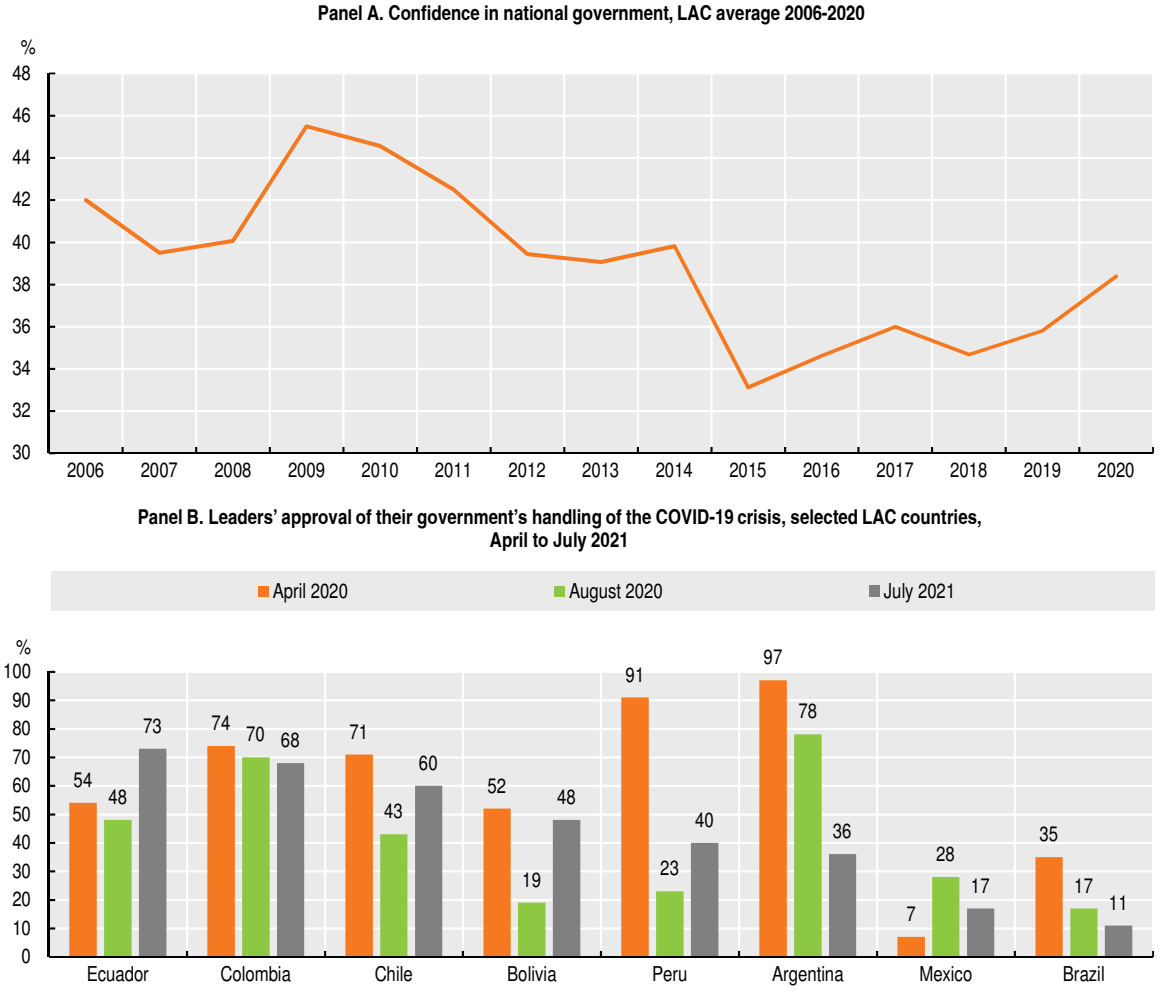
Social discontent is high and growing, with low levels of trust in institutions and satisfaction with public services

Despite the temporary recovery observed over 2018-20 (Figure 4.1, Panel A), opinion surveys show that confidence in government remained below the pre-2014 levels and that only about one in three citizens trusted public institutions. In 2020, episodes of mismanagement of public resources (e.g. vaccines and medical equipment) negatively affected citizens' view of their governments. In most LAC countries, satisfaction with the government's handling of the COVID-19 crisis was high in the early phase and then declined as the emergency progressed in August 2020 (Figure 4.1, Panel B). Most LAC countries adopted a cautious approach in March 2020 and enacted early lockdowns, even before the emergency reached the levels observed in the People's Republic of China and Europe. Moreover, governments' prominent role in the fight against the pandemic gave them renewed visibility and the unexpected and profound challenges to the status quo increased citizens' trust in governments as a result of a "rally-round-the-flag" effect (Kritzinger et al., 2021[143]).

As the crisis evolved, perceptions began to vary widely across the region. Opinion leaders' approval of their government's handling of the COVID-19 crisis declined in seven out of eight surveyed countries in LAC between April and August 2020 (Figure 4.1, Panel B) (ECLAC, 2021[5]). This trend is confirmed by another opinion survey showing a significant decrease in citizens' approval of the management of the crisis in Argentina, Colombia and Mexico between May and October 2020 (Estefan, Hadid and Georges, 2020[6]). Going forward, LAC governments adopting more (or less) ambitious vaccination and recovery programmes may experience a new surge (or decline) in confidence, as seen in the July 2021

survey in Chile following an ambitious vaccination programme. Other factors, including government change, may also shape citizens' trust (Figure 4.1, Panel B), together with perceptions of integrity, openness and fairness of public institutions and of the reliability of policies and responsiveness of public services (OECD, 2017[144]).

Figure 4.1. **Confidence in national government declined in recent years and picked up in 2020, but the approval of governments' handling of the COVID-19 crisis remained highly volatile**



Notes: Panel A represents the unweighted LAC average of 16 LAC countries. It represents the share of respondents who answered "yes" to a question asking whether they have confidence in their national government. Data collection took place between August and November 2020 for most countries but lasted until January 2021 for Costa Rica, Jamaica and Peru. For Panel A, data for 2020 are missing for Guatemala, Honduras and Panama. For Panel B, respondents represent 371 Latin American opinion leaders and journalists who regularly share their opinions in Latin American media. Panel B shows the share of respondents who approved of their government's handling of the COVID-19 crisis.

Sources: Panel A: Gallup (2021[7]), *Gallup World Poll (database)*, https://ga.gallup.com; Panel B: ECLAC (2021[5]) *Social Panorama of Latin America 2020*, www.cepal.org/en/publications/46688-social-panorama-latin-america-2020, and Ipsos (2021[8]). *Percepciones de los líderes de opinión de Latinoamérica a un año y medio de pandemia*, www.ipsos.com/es-pe/percepciones-de-los-lideres-de-opinion-de-latinoamerica-un-ano-y-medio-de-pandemia.

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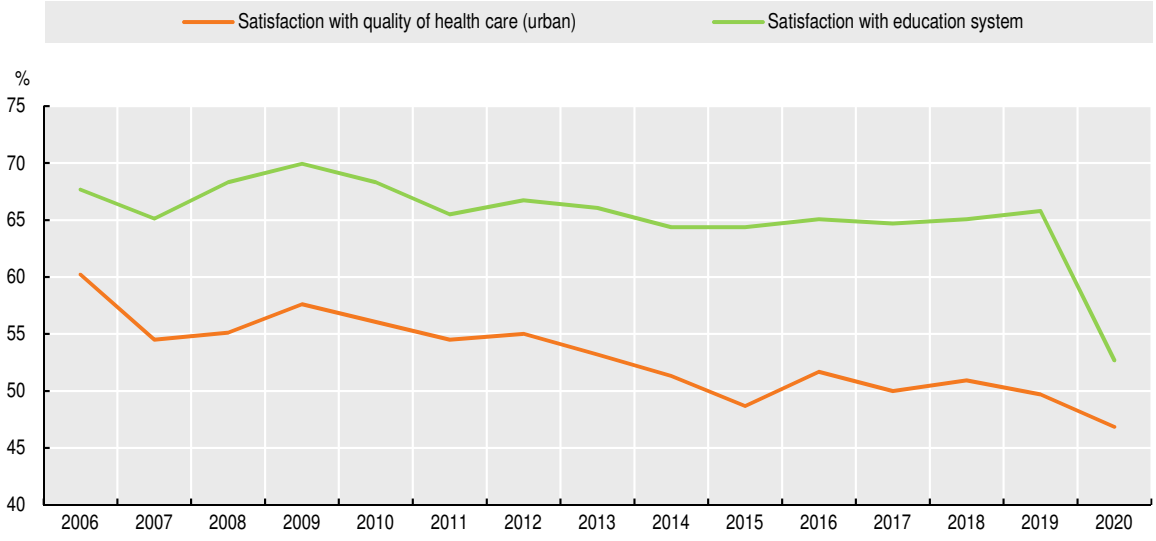
Satisfaction with public services, including education and health, markedly decreased during the pandemic. Dissatisfaction continued to grow throughout the crisis, compounded by the difficulties to ensure continuity of schools' curricula during

lockdowns, the increased childcare burden during school closures and the lack of resources to respond to the health crisis (Figure 4.2). Education systems in LAC were unprepared to handle massive distance learning. Low Internet penetration, poor digital skills and lack of information technology equipment and of an effective online learning support platform severely hampered students' ability to follow classes remotely in some countries (OECD et al., 2020[9]). These obstacles were especially severe for students attending disadvantaged schools or living in rural areas, reinforcing inequality of opportunity among students in the region (OECD, 2020[1]). Likewise, out-of-pocket (OOP) expenditures for health care continue to represent a high burden for families' budgets (Chapter 2).

Figure 4.2. **Dissatisfaction with public services has been steadily increasing in recent years and continued to grow during the COVID-19 crisis**

Share of people who are satisfied with the availability of quality health care and with the education system, LAC average, 2006-20



Notes: Unweighted LAC average including 16 LAC countries. 2020 data for satisfaction with health care are missing for Honduras and Panama. 2020 data for satisfaction with the education system are missing for Guatemala, Honduras and Panama.

Source: Gallup (2021[7]), *Gallup World Poll (database)*, https://ga.gallup.com.

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Rising social aspirations compound citizen dissatisfaction in LAC. The digital transformation and the growing importance of "digital citizens" have played a significant role in shaping social aspirations. The expansion of smartphones and the emergence of new forms of communication have resulted in deep cultural change in LAC societies, especially among the young and urbanites. These people are often more educated and have higher aspirations than their parents, but face difficulties in terms of labour markets opportunities. These more connected urban youths now tend to compare their lifestyle with that of their international peers rather than with that of their parents' generation, and their unmet expectations can trigger disillusionment and anger (OECD et al., 2020[9] ; OECD, 2020[145]). A survey on politics and the strikes administered among Colombian youths between January 2020 and May 2021 showed that happiness had been replaced by sadness as the predominant sentiment among this group (Rosario University, 2021[10]).

Persistent inequalities and the perception that power and wealth are increasingly concentrated are key drivers of social discontent

The increase in social dissatisfaction seen in LAC before COVID-19 occurred in parallel with the economic slowdown in the region in past years, yet social discontent is driven by many factors beyond economic ones. The end of the commodity boom generated a slowdown in poverty reduction and a deterioration of living conditions, which are being further exacerbated by the pandemic. Notwithstanding this, other factors have also been key in the decline of trust and citizen satisfaction. The expansion of the vulnerable middle class during the early 2000s generated higher hopes not only for redistributive policies but also for the creation of quality jobs, universal access to quality public services, such as health care and education, efficient public institutions and greater representation. However, as the previous socio-economic progress was built on fragile foundations, in the last years, citizens have not seen their expectations met (OECD et al., 2019[2]). Experts in the region point to still-high social inequality, as well as the perception of widespread corruption, institutional weakness and poor state effectiveness to deliver results, as among the main drivers of the protests (Ipsos, 2019[11]). These factors concur in creating multiple dimensions of inequality beyond income, including an education system unable to offer equal opportunities for all; insufficient provision of taxes, transfers and social security to effectively decrease income inequality; and overrepresentation of well-off groups in policy and decision making spaces.

The perception of living in a highly unequal society is well grounded in reality and fuels social discontent. Despite the significant decline in income inequality since the onset of the commodity boom, the region remains among the most unequal in the world. In LAC, the richest 1% and 10% of the population possess 21% and 49% of the pre-tax national income, respectively, vs. around 13% and 38% in the Organisation for Economic Co-operation and Development (OECD) area (simple averages based on World Inequality Database, 2020[12]). Only the Middle East comes close to this level of inequality (World Inequality Database, 2020[12]; Busso and Messina, 2020[13]). During the pandemic, and in a context of rising poverty, the number of billionaires increased by 31 (from 76 to 107) in LAC, and their combined net worth increased by USD 196 billion (United States dollar) (López-Calva, 2021[14]). Despite motivational calls for collective mobilisation, the pandemic has imposed the greatest costs on those already worst off, including the elderly, youths, women and low-paid and informal workers (OECD, 2020[1]).

Some evidence also suggests that inequality reduction during the first decade of the 2000s was not as high as previously thought, since household surveys tend to underestimate the income of the richest households, which are more prone to elude income declarations for tax purposes (Lustig, 2020[15]). For instance, falling inequality trends in Brazil are less pronounced when combining different data sources (Morgan, 2018[16]). Similarly, adjusted income tax data for Chile show that concentration of income at the top 1% followed a U-shape rather than a decreasing trend between 1990 and 2017, with values at both ends hovering around 21% (Flores et al., 2020[17]). Comparing household and tax data in Uruguay shows that top income positions between 2009 and 2016 remained stable, while the equalising effect of income mobility was very modest (Burdin et al., 2020[18]).

As Latin America was unable to maintain the level of shared prosperity of the previous decade, the share of the population that perceived the income distribution to be fair has taken a dip since reaching its highest point in 2013 (Figure 4.3).

In parallel, the propensity to demonstrate grew in various LAC countries, and the number of actual protests and social discontent has increased since 2014 (Figure 4.3). Starting with Haiti in February 2019, the region was shaken by demonstrations throughout

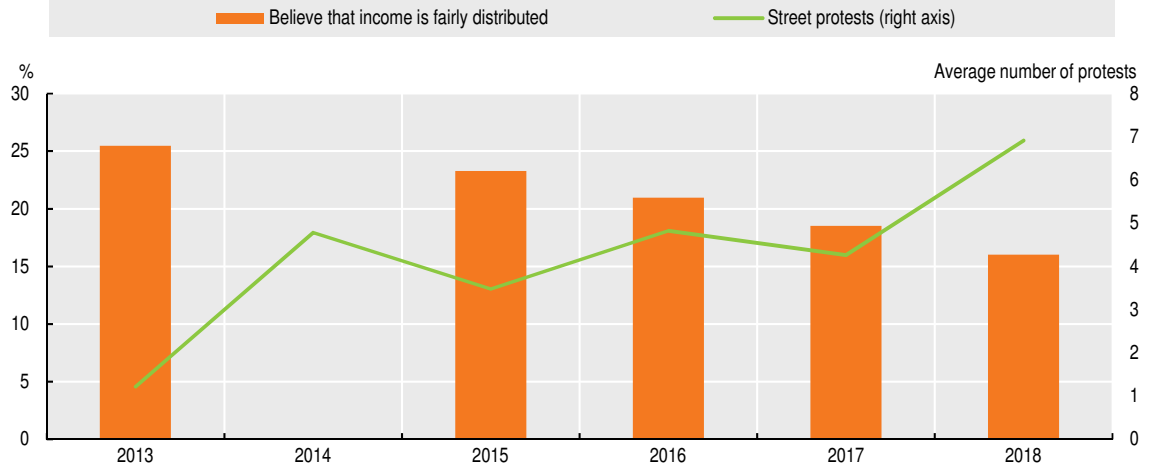
2019, 2020 and 2021 in several countries, including Bolivia, Chile, Colombia, Cuba, Ecuador, Guatemala and Peru.

Beyond income inequality, rising social discontent is also a symptom of a growing frustration with the concentration of wealth and power in the region (López-Calva, 2020[21]). This generates the perception of being part of a system that is hopelessly rigged, especially among poor and vulnerable households that see no opportunities to improve their situation. In particular, the socio-economic progress experienced in the region in the past decades may have generated a "tunnel effect", as when drivers in a two-lane tunnel see the parallel lane starting to move while they remain stuck, or begin driving backwards (Hirschman and Rothschild, 1973[22]). The higher expectations of the vulnerable middle class have turned into social discontent.

The profound inequalities that permeate the region increase the perception that income is not fairly distributed (Figure 4.3) and grant elites unparalleled control over the political and economic agenda, perpetuating a culture of privilege and increasing the perception of policy capture (see the section Policy capture below). In 2020, 73% of Latin American citizens believed that their country was governed in the interests of a few powerful groups, representing the second highest recorded level since 2004 (after 79% in 2018) (Latinobarómetro, 2021[20]).

Figure 4.3. **Street protests and the perception that income is not fairly distributed**

Share of the population that believes income is fairly distributed and number of street protests (right axis), 2013-18



Note: Unweighted LAC average.

Source: Own elaboration based on Busso and Messina (2020[13]), *The Inequality Crisis: Latin America and the Caribbean at the Crossroads*, http://dx.doi.org/10.18235/0002629; CNTS (2020[19]), *Domestic Conflict Database*, www.cntsdata.com; Latinobarómetro (2021[20]), *Latinobarometro Survey 2020*, www.latinobarometro.org/latOnline.jsp.

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Similarly, the perception of corruption and impunity remains high. Corruption has slightly increased in the region, in particular between the early 2000s and 2020 (Transparency International, 2021[23]). In 2019, elected politicians and public officers were seen as the most corrupt group. Moreover, more than half of the citizens believed that their government is performing poorly to tackle corruption effectively (Transparency International, 2019[24]). This perception directly affects the levels of trust in public institutions, the government, national courts and the police, while eroding their legitimacy in the eyes of their citizens. In terms of impunity, the region ranked relatively high in the Global Impunity Index in 2020, with most of the countries presenting medium and high impunity levels (CESIJ, 2020[130]).

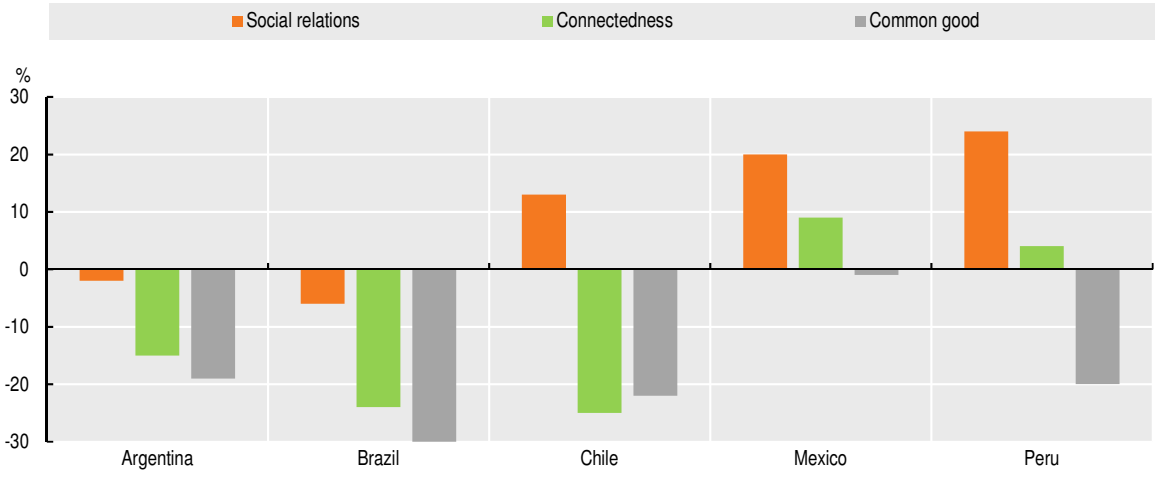
A weakening of the ties that bind LAC citizens

A robust social contract relies not only on strong vertical trust in public institutions but also on solid horizontal connections among citizens. However, and in spite of the fact that the exceptional circumstances created by the pandemic demand more mutual help, the ties that bind LAC citizens remain fragile.

Social cohesion is weak at a time when collective action and social unity are most needed for the recovery from the pandemic. The five Latin American countries observed in the Ipsos Social Cohesion Index perform below the global average and, when comparing the social cohesion sub-indices by country, the sense of common good (helping others, respecting the laws, perception of corruption) is the lowest on average (Ipsos, 2020[26]) (Figure 4.4).

Figure 4.4. **Social cohesion is weak in selected Latin American countries**

IPSOS Social Cohesion Index, net sub-indices
("Solid sense of social cohesion" minus "Weak sense of social cohesion"), 2020



Note: The sub-indices show the share of people who have a "strong" or "solid" sense of social cohesion minus those who have a "weak" sense of social cohesion. The survey was conducted in 27 countries via the Ipsos Online Panel system between 25 September and 9 October 2020. Approximately 1 000+ individuals were surveyed per country, with the exception of Argentina and Mexico, which each had a sample of approximately 500+.

Source: IPSOS (2020[26]), *Social Cohesion in the Pandemic Age: A Global Perspective, October 2020*, www.ipsos.com/sites/default/files/ct/news/documents/2020-11/a_global_perspective_of_social_cohesion_in_the_pandemic_age.pdf.

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A weaker sense of unity and social cohesion is also illustrated by the decline in interpersonal trust among LAC citizens. Lack of interpersonal trust has characterised the region historically, with a notable decreasing trend after 2011 in parallel with the decline in confidence in government, reaching particularly low levels in 2020 (12%) (Figure 4.5).

Figure 4.5. **A lack of both interpersonal trust and trust in public institutions has characterised the LAC region in the past decade**

Share of the population with confidence in the majority of people and with a lot or some confidence in government, LAC average, 2002-20

Note: Unweighted LAC average.

Source: Latinobarómetro (2021[20]), *Latinobarómetro Survey 2020*, www.latinobarometro.org/latOnline.jsp.

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In comparison with other regions in the world, LAC shows significantly lower levels of generalised interpersonal trust or horizontal trust, e.g. trust of people outside one's familiar or kinship circles. Only sub-Saharan Africa matches the low levels of horizontal trust in LAC (Mattes and Moreno, 2018[27]). However, levels of interpersonal trust are very heterogeneous across LAC countries, from 5% in Brazil to 21% in Uruguay in 2020 (Latinobarómetro, 2021[20]). High inequality and low interpersonal trust across LAC countries seem to be partially related (Mattes and Moreno, 2018[27]; Uslaner, 2002[28]). Violence is another factor affecting interpersonal trust and social cohesion in LAC (Box 4.1). Indeed, income inequality and the perceived threat of violence are tightly correlated in LAC and reflect a vicious cycle that also includes insecurity and low levels of development (Lloyd's Register Foundation/Gallup, 2019[29]).

Box 4.1. **Violence as an obstacle to achieving the social contract in LAC**

LAC remains the most violent region in the world, with negative consequences for its economic, social and institutional fabric. Nonetheless, there remains significant heterogeneity across countries in LAC, with Central America concentrating the highest homicide rates per 100 000 inhabitants (Figure 4.6). Crime and violence are also characterised by a degree of geographical concentration, and LAC cities tend to be more affected by the phenomena (Alvarado and Muggah, 2018[30]).

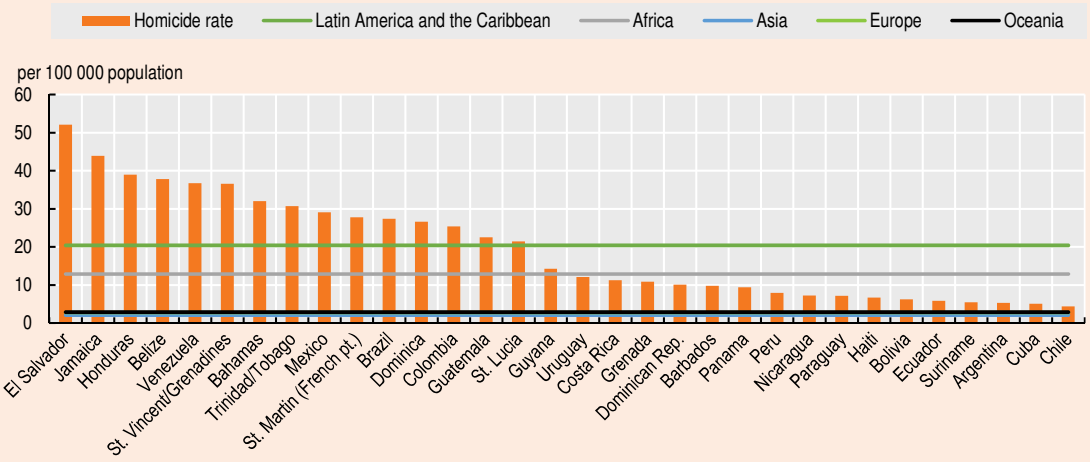
The direct costs of crime and violence were estimated at 3.5% of the region's gross domestic product for 17 LAC countries in 2010-14, but indirect problems also affect the social and institutional spheres (Jaitman et al., 2017[33]). Especially in Central America, the well-being of communities is negatively affected by the criminal activities of the gangs (maras), resulting in high school dropout rates among adolescents, self-restrictions on freedom of movement, greater intention to migrate and a wearing down of social cohesion, with negative consequences for

Box 4.1. **Violence as an obstacle to achieving the social contract in LAC** *(cont.)*

social and community networks (Raderstorf et al., 2017[34]; Maydeu-Olivares, 2016[35]). Crime and violence make it difficult for social activities, including sports and recreation, to function and result in community fragmentation, interpersonal distrust and diminished participation in democratic activities (Imbusch, Misse and Carrión, 2011[36]).

Figure 4.6. **LAC remains the most violent region in the world**

Homicide rate per 100 000 population, LAC countries and regional estimates, 2018 or latest



Note: Data for Bahamas, Belize, Dominica and Peru are from 2017; data for Bolivia, Cuba, Nicaragua, Saint Martin and Saint Vincent and the Grenadines are from 2016; data for Trinidad and Tobago are from 2015.

Sources: World Bank (2020[31]), *World Development Indicators (database)*, https://data.worldbank.org/indicator/VC.IHR.PSRC.P5; UNODC (2020[32]), *Victims of intentional homicide, 1990-2018*, https://dataunodc.un.org/data/homicide/Homicide%20victims%20worldwide.

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At the same time, when citizens perceive that institutions are unable to guarantee their safety, they are less likely to support the political system and may resort to extra-legal violence (Cruz and Kloppe-Santamaría, 2019[37]).

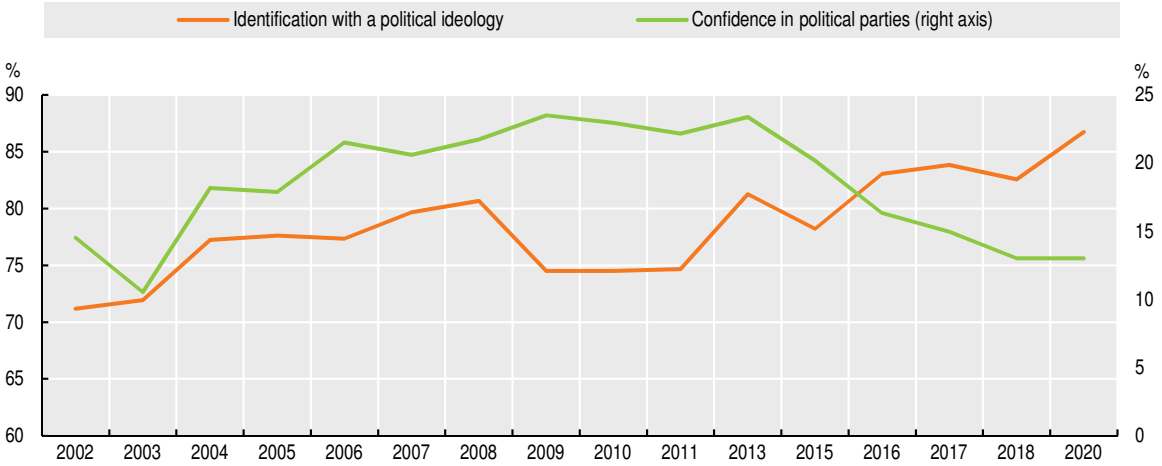
Addressing insecurity is key to setting the basis for a new social contract. Taking a comprehensive approach to address violence is important to restore trust among citizens and *vis-à-vis* institutions, which can support social dialogue and the achievement of long-term and stable pacts among stakeholders. Moreover, focusing on crime prevention from cradle to adulthood can help reduce the insurgence of criminal behaviours. In particular, small-scale crime prevention interventions at the municipal level have generated positive results (Alvarado and Muggah, 2018[30]; Chioda, 2017[38]).

Increasing levels of polarisation and growing grassroots mobilisation, with less reliance on traditional channels of political participation

Politicisation, or identification with a political ideology, has increased in recent years in LAC in parallel with growing distrust towards political parties (Figure 4.7). Growing ideological orientation of citizens in recent years is especially evident in Argentina, Bolivia, Brazil, Colombia, Ecuador and Mexico. On the other hand, countries such as the Dominican Republic and Uruguay have shown higher and more stable levels of political engagement over time (Latinobarómetro, 2021[20]).

Figure 4.7. **On average, identification with a political ideology has increased in LAC in recent years, while confidence in political parties has declined**

Share of people who identify with a political ideology (left or right) and share of people who have "a lot" or "some" confidence in political parties (right axis), LAC average, 2002-20



Notes: Unweighted LAC average. The share of people who identify with a political ideology represents those people who were able to place themselves on a left to right scale of 0 to 10.

Source: Latinobarómetro (2021[20]), *Latinobarómetro Survey 2020*, www.latinobarometro.org/latOnline.jsp.

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Growing politicisation appears to be associated with greater grassroots mobilisation, given the low trust in traditional parties, and points to a growing demand for change. Legislatures and political parties have the lowest levels of legitimacy among citizens in the region at 20% and 13%, respectively (Latinobarómetro, 2021[20]; Prats and Meunier, 2021[146]; González, 2020[147]). The two trends of increasing social discontent and political ferment converged in the social protests of 2019 and could reflect mobilisation at the grassroots level by an increasing share of the population that does not feel represented by traditional political channels.

Growing political activism can be a positive expression of political pluralism and encourage democratic renovation. Political activists and demonstrators in the recent protests have advocated for greater democratic reforms to counter the erosion of civic space, weakened checks and balances and attacks on human rights (openDemocracy, 2020[39]; Zovatto, 2020[40]). Moreover, when asked to comment on lessons learned from the COVID-19 crisis, a majority of respondents in ten LAC countries highlighted the need for greater government accountability and stronger human rights protection in their country (Acuña-Alfaro and Sapienza, 2021[41]). Demands for better and fairer institutions open a window of opportunity for discussing a new social contract (ECLAC, 2020[3]).

However, if not well channelled, higher politicisation risks resulting in higher polarisation – which could be exacerbated by COVID-19 – putting social cohesion to the test. In the recent round of elections, until 2021, dissatisfaction with the political system and the functioning of public institutions, as well as with the poor economic performance, resulted in "pendulum swings" and votes against traditional political elites. In some countries, this led to the emergence of anti-establishment candidates (Zovatto, 2019[42]; Malamud and Núñez, 2018[43]). In concomitance, religious groups, such as evangelical, are also gaining influence in the region and some are taking advantage of their proximity to the masses to spread political messages and weigh on the political agenda. Their influence was clear in the recent elections in some countries, and their worshipper base is growing

throughout the region, currently accounting for 20% of the Latin American population (Malamud, 2018[44]).

Social media and digital platforms have also played a dual role in the rise of politicisation. On the one hand, the digital space has facilitated the rise and subsequent organisation of social movements. Especially thanks to social networks, activists are able to share their ideas, interact with like-minded people from all places and quickly organise demonstrations with millions of people without the need for financial support or intermediation (Billion and Ventura, 2020[45]). A survey conducted among Colombian youths between January 2020 and May 2021 showed that social networks (63%) were the most common channel of expression during the strikes, followed by street marches (53%) and debates with family (49%). Social networks, alongside protestors' own initiative, were also the most common way to convene the mobilisations (58%) (Rosario University, 2021[10]).

On the other hand, digital platforms facilitate the creation of homogeneous social networks that act as echo chambers or filter bubbles, insulating users from contrary perspectives (OECD et al., 2020[9]). They allow fake news to reach mass audiences and encourage social polarisation (Wardle and Derakhshan, 2017[46]; Marwick and Lewis, 2017[47]; Lazer et al., 2018[48]). As the most common type of COVID-19-related misinformation consists of false claims about actions or policies that public authorities are taking to address the pandemic, their spread risks further eroding the trust in institutions in LAC (Brennen et al., 2020[49]). Given the low reliability of messages circulating on Twitter in the region, they also risk undermining compliance with public norms (López-Calva, 2020[50]).

A number of megatrends provide further impetus for rethinking the social contract

A number of global megatrends are bringing about new challenges and opportunities. These trends are transforming LAC societies and hence must be integrated into a renewed social contract. Among these trends, the digital transformation, climate change and rising global movements for social and climate justice are some of the most relevant (Chapter 5).

First, the COVID-19 pandemic has given unprecedented impetus to the digital transformation. The spread of the Internet and the adoption of digital technologies have been pivotal in guaranteeing a certain continuity in business activity, government services and working and studying from home during lockdowns. However, the digital divide, notably the lack of high-speed broadband Internet and of appropriate digital skills, have prevented many, especially the most vulnerable, from reaping the benefits of these solutions (OECD, 2020[1]). For instance, more than six out of ten households with per capita income in the lower quintile of the income distribution do not have access to the fixed high-speed broadband Internet connection needed to support remote working and studying (Basto-Aguirre, Cerutti and Nieto-Parra, 2020[51]). Moreover, ensuring the safe and ethical management of data and guaranteeing digitally secure infrastructure are key for building trust and facilitating technology adoption (OECD et al., 2020[9]). Ensuring an inclusive and safe digital transformation is critical for the post-pandemic recovery period.

Second, the impacts of climate change are global in scope and unprecedented in scale, and action to confront them cannot be further delayed. Awareness about climate change risks has increased globally, and 41% of the world population sees it as a "very serious threat" to their country. Concerns about climate change in LAC are considerably higher than the world average. LAC stands out as the region second-most concerned about climate change after Southern Europe, with 71% and 73% of respondents in the two regions, respectively, saying that it is a serious threat for their country in the next 20 years. Chile, Colombia, Costa Rica and Ecuador are among the countries most concerned about climate change at the global level (Lloyd's Register Foundation, 2019[52]). Moreover,

movements rallying for climate and environmental justice have gained momentum globally, including the LAC region. Nevertheless, climate activists are paying a high price across the world and particularly in Latin America. According to Global Witness, which tracks the killings of land and environmental defenders, 2019 showed the highest global number in a single year (212). Over two-thirds of the killings are taking place in Latin America. The region has consistently ranked as the worst-affected region since Global Witness began to publish data in 2012 (Global Witness, 2020[165]). Indigenous movements have been particularly vocal in LAC to advocate for more sustainable practices, in line with their *buen vivir* philosophy. Governments should build on this increased climate change awareness and invest in climate action as part of the COVID-19 recovery to bring the world closer to the Paris Agreement goal of, at most, a 2°C temperature rise before the end of the century. The entry into force of the Escazú Agreement is a promising step in the region, also for its provisions on human rights defenders in environmental matters.

Third, recent years have seen intense global mobilisations against racism and gender disparities in favour of social justice and human rights for Afrodescendants and women. The Black Lives Matter and the #MeToo movements have drawn considerable media attention to the issues of discrimination and gender-based violence. The Black Lives Matter protests in the United States inspired similar demonstrations in LAC, mainly in Brazil and Colombia, as well as the Caribbean islands, such as Jamaica and Trinidad and Tobago. Similarly, the considerable media exposure obtained by the #MeToo movement has garnered renewed support for feminist movements across LAC, although they existed well before the campaign. First in Argentina and later across the region, *#NiUnaMenos* has campaigned since 2015 to demand more protection for women's rights. Mass mobilisations resulted in government actions to stop gender-based violence in Peru in 2016, in Uruguay in 2018 and in Argentina in 2020. In Chile, increased awareness over representation issues is reflected in the gender-balanced body tasked with drafting a new Constitution, a global first. The awareness raised by these movements implies that a new social contract will need to put greater focus on empowerment, human rights and equality.

Defining a new concept of the social contract in LAC: What?

A challenging task for policy makers, analysts and observers alike will be to disentangle the dimensions that should be part of a renewed social contract.

This section analyses these issues in turn and looks into what should be the main ingredients of a new social contract in LAC by: i) revisiting the historical concept of the social contract and proposing the broad definition used in LEO 2021; ii) discussing the main dimensions along which it should be updated to be adequate for the post-pandemic world; and iii) offering a taxonomy of the main building blocks – guiding principles and specific policy areas – that should constitute the new social contract.

The concept of the social contract: Historical evolution and its current definition

The concept of the social contract stems from Western philosophers such as Grotius (1625), Hobbes (1651), Locke (1689), Hume (1740) and Rousseau (1762) and the subsequent contributions of 20th and 21st century philosophers and academics such as David Lewis (1969), John Rawls (1971, 1993), Robert Nozick (1974) and David Gauthier (1986). Early theories proposed by Hobbes, Locke and Rousseau differed in their conceptualisation but generally referred to the social contract as the rational agreement in which individuals surrender some of their freedoms to a central authority to leave the state of nature and become a civilised society. In this way, individuals agreed to give up part of their liberties and create a sovereign state that would ensure their rights and obligations, seeking equality of opportunities and the maximisation of society's well-being.

This initial idea of the social contract has been applied multiple times, and has progressively taken a more concrete content with the enlargement of the welfare state and the mobilisation of the labour movement. During the 19th century, labour and social reforms reinforced the rights of workers *vis-à-vis* their employers, and individuals became less responsible for their economic outcomes in favour of greater public-sector interventionism (Cosano, 2019[54]). Since then, the role of the state has expanded and included responsibilities not only on issues including protecting individuals from violence and assuring property rights but also embracing access to free markets, promoting economic growth and safeguarding citizens' well-being through a comprehensive social welfare system, among others (Manyika et al., 2020[55]).

In view of this evolution, LEO 2021 defines the social contract in broad terms as "the comprehensive yet intangible and implicit agreement that binds society together and exists within a certain set of formal and informal rules and institutions". Formal institutions include the written constitution, laws, policies and regulations enforced by official authorities. Informal institutions include (unwritten) social norms, customs and traditions.

This definition of the social contract first refers to it as "comprehensive", as it involves multiple actors. The role of the state – and its interaction with society – has evolved, and other players, such as the private sector and civil society, have become increasingly relevant and cannot be left outside an up-to-date notion of the social contract. The private sector is expected to engage in society further through greater Responsible Business Conduct (RBC), a role which is institutionalised as RBC standards become legitimate corporate norms and obligations (Granda Revilla, 2018[56]).

Moreover, the LEO definition of the social contract considers both "formal and informal rules and institutions". Formal rules are central, as they define the mutual rights and obligations of all key players (Kaplan, 2017[57]). Similarly, social contracts also arise from informal and customary institutions, such as values and shared norms (UNDP, 2018[58]).

The LEO definition also refers to the social contract as the agreement "that binds society together and exists…". This involves interactions between all parts of society and hence finding an equilibrium among them. This equilibrium is, in fact, a constant negotiation between societal actors and those in power, reflecting the distribution of power across all players in society (Loewe, Zintl and Houdret, 2020[59]). Reaching equilibrium in the social contract negotiation is critical, and social contracts will only prosper as members of society make important co-ordination efforts and find solutions to attain commonly desired outcomes while avoiding free-rider behaviour (Kaplan, 2017[57]; Vlerick, 2019[60]). Indeed, the social contract has also been defined as an "implicit self-policing agreement between members of society to co-ordinate on a particular equilibrium in the game of life" (Binmore, 1994[61]). However, individuals will only engage in social contracts if they perceive them as beneficial, fair and reliable, and while expectations from the social contract have increased, society's engagement depends highly on agreement and public justification (D'Agostino, 1996[62]).

Last, the LEO definition of the social contract is presented in broad terms and refers to "an intangible and implicit" agreement. While this acknowledges that the notion of the social contract goes beyond any agreement explicitly described in a tangible form, the LEO also acknowledges that a solid social contract is made up of, among other things, multiple specific social pacts in concrete policy areas (Box 4.2).

Box 4.2. **The social pacts within the social contract**

Social pacts refer to specific agreements in concrete policy areas that are agreed among various actors, such as civil society organisations, social partners and trade unions, as well as government and public institutions. Therefore, social pacts differ from collective bargaining (involving only two parties) and institutionalised tripartite agreements (where co-operation takes place within institutions) as they are broader, multi-stakeholder agreements around key policy issues (e.g. a fiscal pact or an environmental pact involving multiple players and interests). They take place at a certain moment in time, requiring the will of the parties (EurWork, 2019[63]).

Over time, social pacts have become powerful policy tools in dealing with economic and social challenges. In Europe, they were essential to reduce job losses and minimise social discontent, while in the Middle East they facilitated the democratisation process (Baccaro and Galindo, 2018[64]).

Social pacts depend on the international and economic environment in which they emerge (Baccaro and Galindo, 2018[64]). It is very likely that the current context in LAC will require solid social pacts, as countries will need to achieve broad consensus in key areas for a strong, inclusive and sustainable post-COVID-19 recovery. Social pacts, instead of unilateral decisions and reforms on the part of the government, may be able to reconcile various policy purposes, such as economic growth, social cohesion and equitable distribution, in an attempt to build larger consensus within societies (Baccaro and Galindo, 2018[64]). Likewise, social pacts can favour the involvement of all interested parties and reflect the diversity of opinions and interests, giving broader legitimacy to and supporting the greater sustainability of the decisions and reforms they involve.

Upcoming social pacts in the LAC region can play an important role in creating fairer social protection systems, reinvigorating productive strategies and the creation of good-quality jobs, or mobilising fiscal resources to finance the recovery. Hence, social pacts can provide the pillars for a new social contract aiming to bind society together and restore citizens' trust in public institutions.

Analytically, these pacts should involve elements of two dimensions: redistribution and recognition of rights and identities. Redistribution of resources and material opportunities and the recognition of the identities and rights of excluded or discriminated-against population groups are important components of a future social contract for inclusive well-being (Martínez Franzoni and Sánchez-Ancochea, 2020[65]; ECLAC, 2021[5]).

Updating the notion of the social contract for the post-pandemic world

The notion of the social contract should evolve, as major trends, including demographics, digital transformation and climate change, are transforming economies and societies.

The demographic dividend in the region will gradually fade, and the demographic structure will resemble that of advanced economies by 2050 (Berganza et al., 2020[66]). A new social contract must adapt to the consequences of population ageing, in particular through stronger social welfare systems.

As highlighted above, the digital transformation has also produced new inequalities and challenges. Less-skilled and medium-low skilled jobs are at greater risk of becoming automatised and disappearing in the near future. These challenges highlight the importance of building a digital transformation that works for all, including the tax

implications of the digitalisation of the economy (OECD et al., 2020[9]; Cosano, 2019[54]; ECLAC/OEI, 2020[67]).

Climate change is arguably the most pressing challenge to sustainable development and hence needs to be a cornerstone of a renewed social contract to create a more equal, socially inclusive, low-carbon form of economic growth. The need to tackle the causes and consequences of climate change and environmental degradation has important consequences for the choice of sustainable modes of consumption and production. It also brings into the discussion of the social contract the dimension of inter-generational equity and solidarity.

Last, COVID-19 is bringing about deep transformations, and a new social contract should be designed with enough resilience and flexibility to adapt to rapidly changing realities, including more foresight and robust mechanisms for crisis prevention and management.

The building blocks of a new social contract

The building blocks of a new social contract should aim to be the pillars of a strong, inclusive and sustainable recovery from COVID-19 (Table 4.1). These building blocks result from two main dimensions. On the one hand, the social contract should be a transversal agreement across: i) socio-economic groups, through an intersectional approach mindful of income, gender, ethnic and racial differences, among others (Chapter 2); ii) territories, taking into account different local needs and opportunities and bridging territorial divides; and iii) generations, being aware that policy decisions must balance the interests of current and future generations and build on the notion of intergenerational solidarity. Taking into account these dimensions means that policies should be designed not only for these stakeholders but also with them, e.g. involving women in policy-making processes and supporting women's representation in decision-making bodies (see the section "Shaping a new social contract in LAC: How?" below).

On the other hand, a renewed social contract should help advance towards three key policy objectives whose relevance has been underscored by the crisis: i) resilient and sustainable productive strategies; ii) broader and more effective welfare systems by improving social protection systems and the delivery of quality public services; and iii) a more sustainable model of financing for development.

The intersection of these two axes creates specific areas for policy consensus: in practice, as mentioned above, the social contract is made up of specific social pacts in concrete policy domains (Table 4.1).

Good governance and mutual trust between the government and citizens, as well as with civil society and the private sector, is requisite for a solid social contract and hence represents a transversal pillar. The role of governance is further developed in the next section. International co-operation also plays an enabling role, supporting and facilitating the achievement of social pacts through the multilateral exchange of relevant experience, technical transfers and policy dialogue on an equal footing, notably to tackle the global commons and global public goods (Chapter 5). For instance, multilateral efforts will be crucial for the achievement of the 2030 Agenda, especially the goals related to climate change, biodiversity and ocean conservation. At the same time, some international alliances may support the achievement of national objectives, as in the case of the fight against domestic tax base erosion and profit shifting (BEPS) under the OECD/G20 Inclusive Framework on BEPS (OECD, 2019[68]).

Table 4.1. **The building blocks of a new social contract**

	A PACT		
	Across socio-economic groups (including income, gender, ethnic and racial)	**Across territories**	**Across generations**
Reinvigorating regional productive strategies	Creating better-quality jobs for all and embracing the digital transformation	Adapting productive strategies to local potential	Fostering green growth
Expanding the reach of social protection and public services	Strengthening social protection systems and public services	Ensuring wide territorial coverage	Restructuring pension systems and supporting children, youth, the disabled and the elderly with stronger welfare systems
Underpinning sustainable finance for development	Developing fairer and stronger tax systems and improving the effectiveness of public expenditure	Ensuring sound systems of transfers across territories and strengthening capacity to raise local revenues	Managing public debt in a sustainable and responsible manner

Stronger and more inclusive governance

Source: Authors' own elaboration.

A fundamental aspect of a robust, inclusive and sustainable recovery in the region will be advancing towards the accomplishment of solid fiscal pacts. This requires greater progressivity of the taxation system, higher tax compliance, and stronger tax administration with efficient tax expenditures. Before the pandemic, LAC already faced an institutional trap: citizens' growing distrust and dissatisfaction with public institutions and services negatively affected their tax morale, i.e. their willingness to pay taxes. This created a vicious circle, as low tax revenues limited the state's capacity to strengthen institutions and provide better-quality public services, further eroding social trust (OECD et al., 2019[2]). The impact of COVID-19 adds complexity, as it involves an enormous need for public resources to finance the recovery in a context of relatively low tax revenues, higher levels of indebtedness and narrower fiscal space (Chapter 1).

A broad consensus to determine sources of financing is needed, but a crisis may also be a favourable context to advance complex reforms and achieve intricate agreements. Crises increase the costs of delaying reform and may create disruptive distribution effects that facilitate reform by affecting existing rent-seeking coalitions or the status quo, creating a window of opportunity for reform (Dayton-Johnson, Londoño and Nieto Parra, 2011[70]).

Fiscal policy is perhaps the public policy area with the most interests at stake and thus illustrative of the critical importance of strengthening the process of dialogue and consensus building intrinsic to other types of reforms – i.e. pacts – needed for the recovery (Chapter 1).

Shaping a new social contract in LAC: How?

Achieving a renewed, post-pandemic social contract – or more specific social pacts in concrete policy areas – in LAC will require determination and engagement by all actors in society.

While there may be strong ambition and a widespread perception that a new, comprehensive agreement is needed, multiple barriers can hamper efforts, and a post-crisis context brings about particular challenges.

This section focuses on the "how" – the process of building a renewed social contract or advancing specific social pacts that are fair, legitimate and stable. This will demand: i) enhancing the inclusiveness of policy making to reach broad and representative consensus; ii) overcoming the barriers to policy reform and implementation; and iii) adopting a long-term horizon to make these agreements long lasting (Cabutto, Nieto-Parra and Vázquez-Zamora, 2021[163]).

Open and inclusive policy-making processes are key to achieving a new social contract that takes into account all points of view and promotes greater accountability

Strengthening open and inclusive policy making is key to designing policies and services that are transparent and take into account the needs of society as a whole. While a great deal of effort has been given to openness, i.e. providing citizens with information, governments should go beyond this. The share of LAC citizens that think that the freedom of political participation is completely or somewhat guaranteed in their country increased from 53% in 2007 to 66% in 2011, but has decreased ever since, reaching the lowest point in 2020 (45%) (Latinobarómetro, 2021[20]). Including a wide variety of voices in the policy-making process is required to develop truly inclusive policies. For the sake of equity, governments may need to make additional efforts to reach out to those segments of society unable or unwilling to participate in public debates (e.g. vulnerable, youth, new citizens) (OECD, 2009[71]; OECD, 2019[72]; OECD, 2020[145]).

The benefits of greater public engagement in policy making range from increasing accountability to strengthening policy evidence and tapping into social innovation. Open and inclusive policy making can result in greater accountability and civic capacity by widening the sphere of action in which citizens can influence the public process. As a result, it can also reduce implementation and compliance costs, as well as the risk of conflict during policy implementation or service delivery. By increasing social responsibility, it can galvanise citizens to take action in areas where success depends on changes in individual behaviour (e.g. climate change, social distancing rules during COVID-19). Open and inclusive policy making allows governments to understand better people's evolving needs and to address inequalities of voice and of access to both policy-making processes and public services. Last, it can help tackle complex issues in innovative ways by leveraging the information, ideas and resources held by businesses, civil society organisations and citizens (OECD, 2009[71]; OECD, 2020[148]; OECD, 2017[149]).

Ultimately, inclusive policy making can strengthen democracy, improve collective learning and experimentation and help rebuild trust between Latin American citizens and public institutions. Transparency and collective decision making can help lower concerns over undue influence in public policy by giving voice to a broader mix of underserved and excluded populations whose claims are often overwhelmed by powerful, well-organised interest groups. It can help channel the propositive potential of an active, informed and increasingly mobilised society, which has become more vocal in recent years (Naser, Williner and Sandoval, 2021[73]).

At the same time, inclusive and participative processes are important to ensure the policy commitment of various stakeholders over time. The benefit of inclusive policy making lies in the ability to achieve stable and lasting policies whose sustainability is not compromised by changes in government. For instance, Colombia's National System of Competitiveness and Innovation (*Sistema Nacional de Competitividad e Innovación*) is an institutional framework combining multilevel governance with the involvement of various actors outside the public sector, including civil society and the private sector. It seeks to set national policy objectives for innovation and competitiveness and to orient the activities of public entities, private firms and academia with a medium-to-long-term horizon.

The OECD has elaborated ten Guiding Principles for open and inclusive policy making that can help governments improve policy performance and service delivery (OECD, 2009[71]; OECD, 2001[150]) (Box 4.3).

Governments should carefully design their participatory strategies to ensure success. During the preparatory phase, the technical team should assess the feasibility of a participatory process, i.e. taking into account the availability of resources, the political will and the level of institutionalisation of participatory processes. Following this, the strategic phase should define the scale of the intervention and the actors involved and evaluate aspects of the socio-political context that may generate opportunities or risks for the strategy. In relation to the latter, during the elaboration phase, it is important to define the level of participation (e.g. informative, consultative, resolutive or co-management), which requires different methodological designs and techniques. After approval and implementation, it is crucial to systematise the inputs received, analyse their technical, political and economic feasibility and communicate to participants the accepted proposals. Last, the strategy should establish with monitoring and evaluation mechanisms the level of achievement of the objectives, activities and potential lessons learned, including through informal evaluations, participants' opinions and quantitative analyses (Naser, Williner and Sandoval, 2021[73]; OECD, 2001[150] ; OECD, 2021[151]).

While the forms of public engagement are varied, representative deliberative processes are one way of engaging various segments of society in participatory processes that focus on citizens' informed input. Deliberative processes can lead to better policy outcomes, enable policy makers to make hard choices and enhance trust between citizens and government. Deliberative processes are particularly apt for tackling issues that are values based, require trade-offs and demand long-term solutions (OECD, 2020[74]). They focus on finding common ground on political issues through a fair and reasonable discussion among citizens (Gastil and Levine, 2005[75]). They involve a randomly selected group of people who are broadly representative of a community[1] spending significant time learning and collaborating through facilitated deliberation to develop collective recommendations for policy makers on a specific issue (OECD, 2020[74]; Cesnulaityte, 2021[76]), as in the Itinerant Citizen Assembly of Bogotá.

At the multilateral level, there are several institutional frameworks promoting citizen participation. The OECD Recommendation of the Council on Open Government defines open government as "a culture of governance that promotes the principles of transparency, integrity, accountability and *stakeholder participation* in support of democracy and inclusive growth" (OECD, 2017[149]). To guarantee the participation of interested citizens, the Open Government Partnership (OGP) initiative promotes a proactive collaboration of government with citizens through multiple channels, including online consultations, public hearings and focus groups. These elements are key during the formulation and co-creation of an Open Government Action Plan, in which government and civil society define key national commitments to achieve better public services through a well-defined process (Naser,

Williner and Sandoval, 2021[73]). Of the 78 OGP member countries, 16 are from LAC. Of these, 15 already have a defined action plan (Open Government Partnership, 2021[77]).

Examples of participative and inclusive processes provide lessons for building new social pacts in LAC

Some notable examples of social pacts featuring participatory processes and consensus building include the current constitutional process in Chile, the Constitution of Mexico City, the Grenelle Environment Roundtables in France, the Moncloa Pacts and the Toledo Pact in Spain, the Economic Solidarity Pact in Mexico, the National Accord in Peru, as well as some particular cases of social pacts in the region, such as peace agreements.

The process (*proceso constituyente*) for the drafting of a new constitution in Chile has been hailed as a promising example of an inclusive legislative process. Following the 2019 protests and the national referendum of 25 October 2020, when a large majority of Chileans voted in favour of a new constitution, a Constitutional Convention (*Convención Constituyente*) responsible for drafting the new text was elected in 2021 (BCN, 2021[78]). This body, composed of 155 popularly elected representatives, is the first to respect gender parity, since half of the members are women. Moreover, seventeen seats are reserved for indigenous representatives. Last, the requisite of a two-thirds quorum for the approval of the new text aims to emphasise consensus building. Despite the focus on inclusiveness and representation, the low voter turnout registered during the election also points to the challenge of strengthening open and inclusive policy making, with an emphasis on engaging with citizens from disadvantaged neighbourhoods. However, social contracts can also be reached on a smaller scale, through a piecemeal approach, as in the case of the Constitution of Mexico City. The Lab for Mexico City set up the Constitución CDMX digital platform, which offered the public four ways to participate in the drafting process: 1) a survey, 2) online petitions, 3) collaborative drafting, and 4) an event register. These inputs were then reflected in the final draft (LabCDMX, 2016[152]).

The Grenelle Agreements (*Accords de Grenelle*) refer to the negotiations that took place in France among the government, labour unions and trade unions on 25-26 May 1968 amid the general strike of May 1968. Concluded on 27 May 1968 but rejected by workers, the agreements did not immediately enter into force, and the strike continued. However, they set the basis for, among other outcomes, an increase in the minimum wage, the establishment of labour union sections within enterprises and a reduced working day. Since these negotiations, "Grenelle" has been used to design debates and negotiations involving various parts of society aimed at reaching broad consensus, as with the Grenelle Environment Roundtable, which took place in 2007 under the initiative of the president and led to the adoption of a bill for environmental programming, known as the "Loi Grenelle 1", by the parliament in 2009 (OECD, 2016[79]). It was a unique multi-stakeholder initiative because it granted the public a central role in approving or rejecting proposals resulting from the deliberations of five collegial national working groups made up of trade unions, employers, non-governmental organisations, local authorities and public service representatives.

The Moncloa Pacts (*Pactos de la Moncloa*) were two social and economic agreements approved in 1977 in Spain to consolidate the transition to democracy and stabilise the economy affected by the 1973 oil crisis. They established a policy of economic recovery consisting of controlling public spending and inflation and reforming the tax administration. In social and political matters, they were decisive in ensuring civil and political rights, such as the rights of assembly and freedom of expression, as well as advancing women's rights by decriminalising adultery. These two pacts set a historical example of government and opposition forces working together to reach an understanding

and abandoning the systematic confrontation that characterised that period. The climate of dialogue created through the Moncloa Pacts was critical for the elaboration of the Spanish constitution in 1978 (Cabrera, 2011[80]). The Toledo Pact was another remarkable and long-lasting agreement reached by the Spanish political parties in 1995 to address the instability faced by the pension and social security system. A similar negotiation between government, labour unions and trade unions in Mexico led to the adoption of the Economic Solidarity Pact (*Pacto de Solidaridad Económica*) of 1987. The Pact was successful in some domains such as ensuring economic stability, in particular regarding monetary stability by containing inflation.

The National Accord (*Acuerdo Nacional*) of Peru started in 2002 and developed and approved a set of long-term state policies for sustainable development on the basis of dialogue and consensus after a process of workshops, consultations and thematic and decentralised forums. Parties to the accord are the government, political parties with representation in the Congress and civil society organisations. The policies approved included engagements for strengthening democracy, guaranteeing equity and social justice, promoting competitiveness and developing efficient, transparent and decentralised public institutions (Acuerdo Nacional, 2014[69]). The National Accord informed the National Strategic Development Plan (*Plan Bicentenario: El Perú hacia el 2021*) and the sectoral and regional development plans that were dependent on it. However, stronger links between policy agendas and results-based budgeting are needed to ensure their coherent implementation (OECD, 2016[119]).

Past experiences associated with peace agreement processes in LAC, such as the cases of Colombia (2016) and Guatemala (1996), could shed light on some features of the architecture of these particular social pacts. The peace agreement methodology of having selected actors sitting at the same table with different and often conflicting interests to find shared solutions can certainly inspire the design of future social pact processes in the region while improving trust among citizens and in political institutions. This methodology could be complemented with a more participatory and open dynamic. Another key lesson to consider is the importance of anticipating during the dialogue process the stages that will take place after reaching each accord. This would ensure broad support coalitions, which are key for legitimising the results and mainstreaming their potential impact on people's well-being. Last, after reaching an agreement, political will and institutional capacities are fundamental to achieve its effective implementation and expected outcomes (Martínez Franzoni and Sánchez-Ancochea, 2020[65]).

Barriers that hinder consensus building and hamper policy reform and implementation must be overcome

There remain several challenges, on both the political and the technical levels, that block consensus building and hamper policy reform and implementation in LAC. These are therefore barriers to the success and sustainability of renewed social pacts and demand careful attention and specific policy responses.

The media and digital technologies and their role in facilitating inclusive policy-making processes and deliberation can be improved

Digital technologies and the Internet facilitate open and inclusive policy-making processes and public engagement. First, open government data can create a culture of transparency and promote accountability and access to information. By sharing information with citizens, open government can stimulate more civic engagement and oversight in areas susceptible to corruption – as observed in the early response to the COVID-19 pandemic (OECD and The GovLab, 2021[153]). Laws on access to information have

been adopted in the region and are a necessary condition to ensure good governance and prevent corruption in the digital age as they set the rules for both proactive and reactive disclosure of information. However, the capacity to share information and data is necessary, albeit insufficient on its own. In addition, governments must provide the opportunity and tools to process the open data, and the ability and incentives for citizens and SMEs to act on and innovate with the information drawn from them. At the same time, digital technologies can benefit governments by facilitating interaction with stakeholders (online consultation) and citizen engagement in decision making (digitally-enabled decision making). Digital platforms can be a low-cost means for governments to interact with stakeholders in policy design, monitoring and implementation. Combined with investments in the development of infrastructure and digital talent and skills, the digital transformation can also help governments provide more inclusive public services, making public institutions more accessible and citizen centred (OECD et al., 2020[9]).

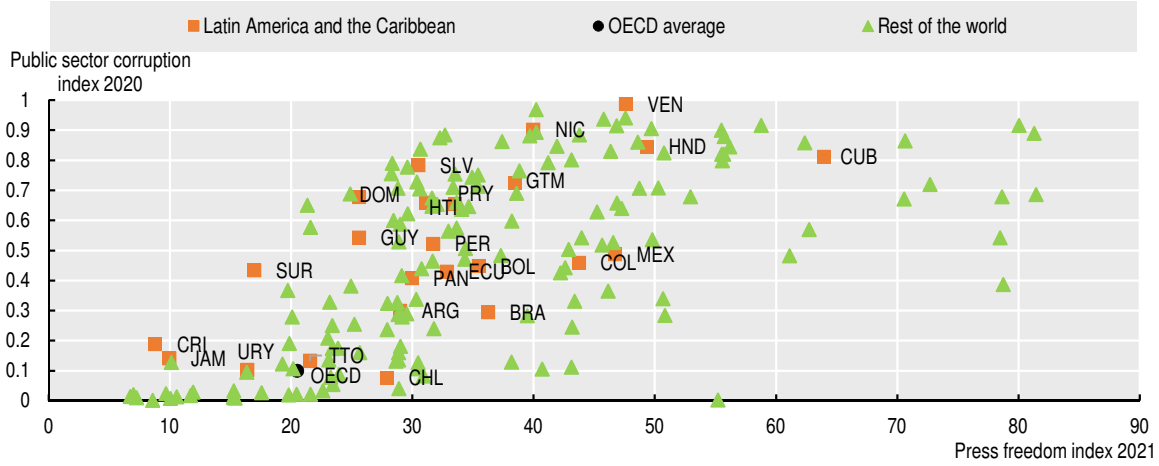
In the context of reduced trust in governments and public services, digital technologies and data can be critical to enable sound service design and delivery strategies that promote human-centric and joined-up public services that benefit all (OECD, 2020[155]; OECD, 2020[156]). This includes the adoption of *digital by design* principles in the implementation of public services, using digital technologies to breakdown policy and service siloes, unifying the experience of citizens with the public sector, reducing the burden of providing information that is already held by public sector organisations, and respecting individuals' preferences to access services through their preferred channel (e.g. in-person, digital, kiosks, telephone, etc). Finally, under a comprehensive service design and delivery approach in the digital age, governments accord a central role to citizens in expressing their preferences, needs and expectations, and reflect them into the design and delivery of public services, helping reduce the gap between citizens and the public sector through more pertinent and human-centric services (OECD, 2021[157]).

Alongside digital technologies, a pluralistic media play a significant role in shaping public opinion, channelling attention to important social issues and inspiring citizens to take action. However, Latin America shows some of the highest levels of media ownership concentration in the world (Rodríguez and Zechmeister, 2018[81]; Reporters without Borders, 2019[82]). The "limited pluralism" of the Latin American media environment means that the representation of diverse social, economic and political perspectives is often limited by industrial, commercial or government priorities (Segura and Waisbord, 2016[83]).

Lack of media pluralism and ownership concentration are important impediments to the creation of a healthy and informed debate in society and to exposing and drawing attention to governance abuses and resource misallocation. Countries in which press freedom is more restricted also tend to show higher levels of corruption in the public sector (Figure 4.8). Concerns about press freedom are on the rise in LAC, and the proportion of respondents who report having high trust in the media dropped to its lowest level in the 2016/17 round of the Americas Barometer (Rodríguez and Zechmeister, 2018[81]). Allowing greater competition in the media sector is a first step to enable a pluralistic and diverse debate in society (Mendel, Castillejo and Gómez, 2017[84]).

Figure 4.8. **Greater restrictions on media freedom go hand in hand with higher corruption levels in the public sector**

Reporters without Borders World Press Freedom Index (2021) vs. V-Dem public sector corruption index (2020)



Notes: The World Press Freedom Index takes into account experts' responses to a questionnaire on countries' performance as regards pluralism, media independence and respect for the safety and freedom of journalists and combines them with quantitative data on abuses and acts of violence against journalists during the period evaluated. It ranges from 0 (best situation) to 100 (worst situation). The public sector corruption index ranges from 0 (least corrupt) to 1 (most corrupt). Rest of the world includes all countries except LAC countries.

Sources: Coppedge et al. (2021[85]), *V-Dem 2020 Dataset v11.1*, https://doi.org/10.23696/vdemds21; Reporters without Borders (2021[86]), *2021 World Press Freedom Index (database)*, https://rsf.org/en/ranking.

StatLink *https://doi.org/10.1787/888934286901*

Party fragmentation and polarisation can hamper consensus building, underscoring the need for strong intermediary structures

To achieve consensus and keep it once it has been reached, effective intermediary institutions are key to ensuring the long-term sustainability of a renewed social contract. By acting as interlocutors between citizens and the state, intermediary institutions, such as political parties, trade unions and associations, give individuals the opportunity to voice grievances and make public institutions more accountable (OECD, 2021[87]). Indeed, it is generally not possible for citizens to communicate directly with the state. These networks enable citizens to communicate their interests in a collective and organised way and also provide them with a form of group identity. This two-way dialogue can promote social cohesion and provide useful feedback to policy makers during the implementation and potential adjustment phase of a reform. On the other side, as seen in the loss of confidence in political parties in the region, the inability to affect change and mediate between citizens and the state may result in civic disengagement and mistrust in institutions.

Fragmentation and polarisation undermine the representative role of political parties

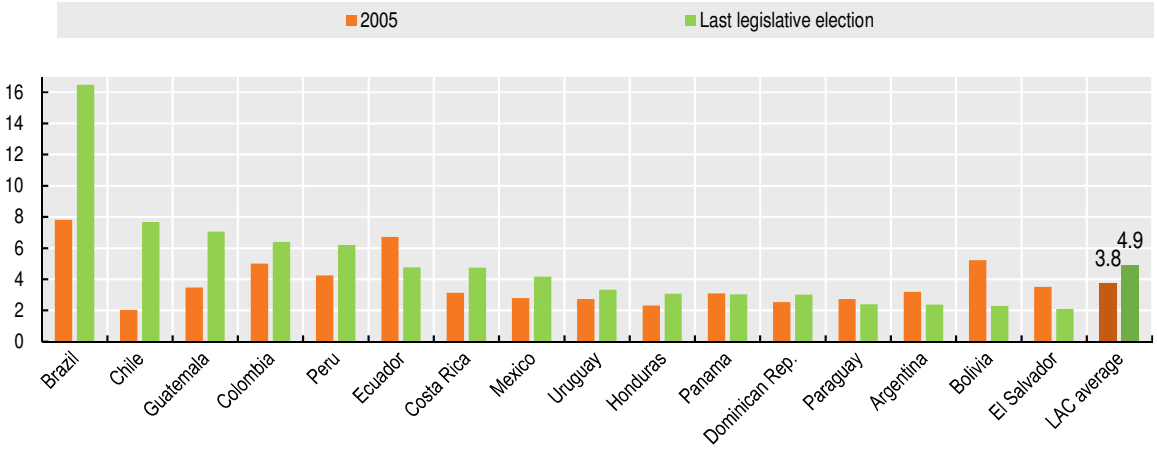
Party fragmentation and polarisation (covered above) can pose a challenge to finding compromise and common ground on salient political issues. This is a particularly critical issue in the context of the post-pandemic recovery, which will require broad consensus. In a context where electoral volatility is high due to fragmentation of the political landscape and there is uncertainty about parties' electoral prospects, parties' perception of the costs of polarisation decrease substantially (Moraes, 2015[88]). However, this strategy hampers consensus building and citizens' ability to understand programmatic politics (Carreras and Acácio, 2019[89]).

The proliferation of political parties in LAC is related to their crisis of legitimacy and representation. New political parties tend to appear when the demands of the population are not being answered or as a result of economic crises and corruption scandals that have caused the rejection of more traditional candidates (Cyr and Liendo, 2020[90]). The proliferation of political parties with effective representation in the legislative power characterises many LAC countries and may be posing a challenge to consensus building. On average, between 2005 and the latest elections, the number of effective legislative parties in LAC has risen (Figure 4.9). Some countries, including Brazil, Chile, Guatemala and Peru, have seen the number of parties with representation in congress increase signficantly, while others have seen a decline to fewer than two parties with large repesentation in the legislative power, which shows that the crisis of legitimacy can also lead to a stronger concentration of power in some countries.

The high heterogeneity affects not only the number of parties able to influence the policy-making process in LAC effectively but also the degree of polarisation and the level of inter-party competition. With low levels of polarisation, coalitions are more frequent, and fragmentation tends to decrease (Wills-Otero, 2020[93]). In some democracies, such as Chile, Costa Rica, Honduras and Uruguay, the patterns of inter-party competition have been much more stable, suggesting the need to avoid generalisations about volatility and system institutionalisation in the region (Carreras and Acácio, 2019[89]).

Figure 4.9. **The crisis of legitimacy and representation of political parties in Latin America**

Index of effective number of legislative parties in Latin America, 2005 vs. latest election, 2016-21



Notes: Index does not reflect the real number of parties but their effective number based on the share of seats each party holds. This is a measure of legislative fragmentation in the lower house (or national assembly). Higher values indicate that more parties have a number of seats in the legislature that allow them to have a say in the policy-making process. Calculations take into account the latest legislative elections, which took place between November 2016 (Nicaragua) and June 2021 (Mexico). Note that the 2015 reform of the electoral system in Chile may have affected the results for the country.

Source: Own elaboration based on the methodology by Laakso and Taagepera (1979[91]), "The 'effective' number of parties: A measure with application to West Europe", http://dx.doi.org/10.1177/001041407901200101; and Jones (2005[92]), *The Role of Parties and Party Systems in the Policymaking Process*, https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.542.1866&rep=rep1&type=pdf.

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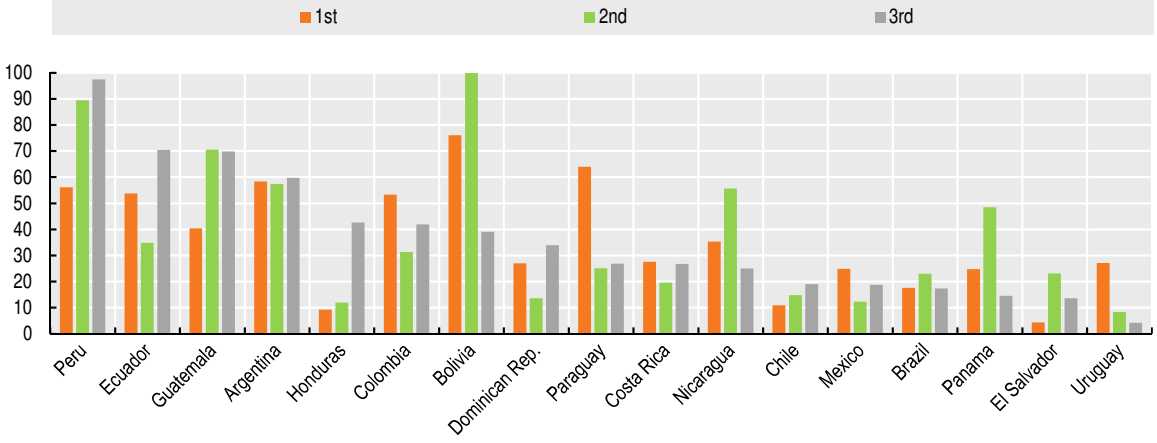
The identity-based claims of under-represented and minority groups, such as indigenous or Afrodescendant peoples, have contributed to the emergence of new political parties, for instance in Bolivia, Colombia and Ecuador. Political decentralisation processes that took place in some LAC countries have further contributed to the proliferation of parties. These trends can be perceived as progress towards democratic consolidation and

electoral competitiveness, as citizens are able to choose among a variety of political parties and voices, increasing inclusiveness and diversity and representation for minoritised groups. However, these trends can also lead to fragmentation by increasing co-ordination costs and intra-party competition, making effective governance more difficult. Similarly, given the low institutionalisation of political parties, these trends may be unable to channel citizens' interests effectively. Likewise, low levels of party support may also be dangerous for democratic legitimacy, especially when populist discourses proliferate (Cyr and Liendo, 2020[90]).

In around half of the LAC countries analysed, electoral volatility has increased recently with respect to the previous period, while in others it has declined, thanks to greater party system institutionalisation, as in Uruguay (Figure 4.10). Party proliferation and the fragmentation of political systems are contributing to electoral volatility (Mainwaring, 2018[94]), with the vote share of new and non-traditional parties increasing over time in both national and subnational elections (Cyr and Liendo, 2020[90]; Carreras and Acácio, 2019[89]; Laroze, 2019[95]; Gerring, 2005[96]). During the last decades, outsider leaders who are not compelled by strongly structured parties have increased their chances of being elected. New outsiders may also emerge and enter the political sphere as a consequence of the COVID-19 crisis (Murillo, 2020[97]).

Figure 4.10. **Electoral volatility in Latin America**

Pedersen index of electoral volatility in legislative elections, 1998-2017*



Note: *Figure compares the change in electoral volatility over four consecutive legislative elections over the period 1998-2017. The orange bar considers the change that took place around the early 2000s; the green bar considers the mid-2000s; the grey bar refers to the early 2010s. The Pedersen index ranges from 0 to 100, corresponding to the net shift in voting percentages: 0 signifies that no parties lost or gained vote (or seat) percentages; 100 means that all the votes (or seats) went to a new set of parties. The Pedersen index remains the gold standard measure to capture stability in aggregate patterns of inter-party competition, as it measures the degree of vote switching between political parties in two consecutive elections.

Source: Own calculations based on data from Roberts and Wibbels (1999[101]), "Party Systems and Electoral Volatility in Latin America" and (Cohen, 2018[102]), *Latin American Presidential and Legislative Elections* dataset, www.molliecohen.com/data.html.

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High electoral volatility and weak party system institutionalisation destabilise democratic representation and hamper the process of holding parties accountable. High volatility and low institutionalisation can stifle consensus building and favour adoption of more radical policies, as parties become less concerned about their long-term reputation or constrained by their political organisation. They also hinder citizens' ability to understand programme-based politics and increase voter frustration. Lastly, high volatility undermines democractic representation, as it is harder for voters to hold parties and politicians accountable for their performance in office (Carreras and Acácio, 2019[89]).

As a consequence, distrust has proliferated among the electorate in several LAC countries (Wills-Otero, 2020[93]; Lupu, 2016[98]).

In addition, multiparty systems and presidentialism can be an unstable equation for democracy (Mainwaring, 1997[99]). With the proliferation of political parties in LAC, other government forms more inclined towards parliamentarism may favour the development of programme-based and more institutionalised parties (Croissant and Merkel, 2004[100]).

Policy capture may significantly undermine the outcome of public policies

In democracies, public consultation, lobbying or the financing of political parties and campaigns are legal and legitimate means through which interested parties can express their views and concerns. However, these practices can also give rise to "grey areas" where vested interests can exercise undue influence over public decision making at the expense of the public good. Policy capture is "the process of consistently or repeatedly directing public policy decisions away from the public interest towards the interests of a specific interest group or person" (OECD, 2017[103]; Carpenter and Moss, 2014[104]). Policy capture can take many forms, including through financing of political parties, media campaigns with manipulated information, aggressive lobbying and the revolving door between the private and the public sectors (Cañete Alonso, 2018[105]). The high levels of corruption and inequality, as well as the strong concentration of economic and media power, exacerbate the risk of policy capture in LAC, as they facilitate privileged groups' access to decision makers (OECD, 2017[103]; OECD et al., 2019[2]).

Capture has negative effects on the economy and society. It goes against the fundamental idea of democratic and fair decision making based on dialogue, consensus and openness, eroding social cohesion and trust in institutions. It also causes public resource misallocation, which is detrimental to productivity growth and can heighten inequalities.

Political finance and lobbying of public officials are the most common ways in which powerful groups can undermine the integrity of public decision making. Among the most paradigmatic examples of these mechanisms is the well-known Odebrecht scandal. With the exception of some countries in Central America, political finance is strongly regulated in LAC (International IDEA, 2020[106]), but an implementation gap still exists, and in 11 out of 12 countries surveyed, cash contributions were still allowed in 2018, making it easier to circumvent political finance regulations. Moreover, digital technologies and social media are creating "grey areas" that make tracking of digital advertisements for political parties and candidates more complex (OECD, 2021[107]). On the other hand, countries such as Argentina (2003), Colombia (2011), Chile (2014), Mexico (2010) and Peru (2003) have adopted laws or regulations on lobbying. Chile, Colombia and Mexico have a lobbyist register, and out of these, Colombia does not impose sanctions for non-compliance. Only four countries (Argentina, Chile, Mexico and Peru) require public officials' agendas to be public, and five countries (Argentina, Colombia, Costa Rica, Mexico and Peru) require disclosing the names of members of permanent advisory bodies (OECD, 2020[108]).[2] Early observations confirm that countries with a regulatory framework to enhance the transparency of lobbying activities, and policy making generally, ensured a greater degree of accountability in policy decisions during the COVID-19 crisis (OECD, 2021[107]).

A comprehensive system that fosters a culture of integrity and accountability in public decision making is key to mitigating the risk of policy capture. Four complementary strategies can help safeguard fair and inclusive policy making. First, ensuring transparency and access to timely, reliable and relevant information can facilitate participation and stakeholder engagement, as well as enable social control over public decision-making processes (OECD, 2017[103]). However, greater transparency should be accompanied by

broader institutional reforms, especially in highly corrupt countries where information may even backfire and produce resignation, e.g. less civic engagement, or indignation (Bauhr and Grimes, 2014[109]; Corbacho et al., 2016[110]; Peiffer, 2018[111]). Second, it requires engaging stakeholders with diverging interests to help balance views and ensure a level playing field less prone to capture. This would also require reinforcing lobbying and political finance regulations. Third, competition authorities, regulatory agencies and supreme audit institutions can promote accountability in both the public and private sectors. Ultimately, appropriate organisational integrity policies can help identify and mitigate the risk of capture. Establishing clear standards of conduct, promoting a culture of integrity and ensuring a sound control and risk-management framework can make public organisations more resistant to capture (OECD, 2017[103]).

Behavioural research has produced a wealth of insights that policy makers can draw from to develop innovative and well-targeted integrity policies. Moving away from a narrow focus on deterrence and enforcement, these insights can help promoting values-based decisions in the public sector and society. For instance, behavioural research shows that inducing ethical reflection and preparing decision makers for ethical temptations can be more effective than over-strict control of a trust-based rule, which may drive people to disregard and break the rule (OECD, 2018[112]).

The political economy of reform plays a key role, particularly in the context of a post-crisis recovery

Policy-making processes are characterised by multiple actors with different time horizons, power and incentives (Spiller, Stein and Tommasi, 2008[113]). This complexity makes reforms hard to implement, despite their positive long-term effects, because they often entail the negotiation of some transitional or distributional costs. Good economic policies can yield poor results in their implementation phase if they fail to take these political economy constraints into account. First of all, reforms involve winners and losers. The latter have strong incentives to obstruct reforms going against their interests (Martínez Franzoni and Sánchez-Ancochea, 2020[65]). Second, reforms may have short-term costs despite their welfare-enhancing potential in the long term, making them less popular in the immediate term (Rodrik, 1996[114]; Williamson, 1994[115]; OECD, 2018[116]). Learning from previous reform episodes can be important for designing and carrying out successful reforms (Caldera Sánchez, de Serres and Yashiro, 2016[117]; OECD, 2010[118]; Tompson, 2009[25]).

Accounting for complementary policies to mitigate the distributional impact of a reform or offset its short-term costs is key to overcoming people's resistance. Designing appropriate compensation or cushioning schemes for those vulnerable groups likely to be negatively affected by the reform may be needed to win broad political support (OECD, 2018[116]; OECD, 2010[118]). For instance, as the region advances towards environment-related taxes, embedding income support schemes for poor households in wider energy subsidy reform packages can help mitigate the immediate negative effect on household finances of phasing out subsidies. Moreover, some reforms may be more effective when they are combined in packages that increase their synergies than when they are undertaken in isolation (Caldera Sánchez, de Serres and Yashiro, 2016[117]; Dayton-Johnson, Londoño and Nieto Parra, 2011[70]).

Given the growing distrust in institutions in LAC, a clear reform mandate and strong leadership are critical for the success of reforms. Without a clear electoral mandate for the government, reforms tend to happen only when there is evidence that current policies are not working, which may be the case in a post-crisis context. However, this approach risks making policies more reactive than proactive and tends to delay reforms until crises make them imperative (Rodrik, 1996[114]). Lack of mandate also undermines reform ownership

and increases the likelihood that reforms will be unwound or reversed with changes in government, especially given the high electoral volatility and high party fragmentation observed in LAC. Strong leadership by a single policy maker or an institution also helps ensure that the reform momentum does not dissipate (OECD, 2018[116]; OECD, 2010[118]).

At the same time, in a context characterised by polarised political discourses and rising mis and dis-information on social media, evidence-based analysis and evaluation and effective communication are important to shed light on the benefits of a reform (Matasick, Alfonsi and Bellantoni, 2020[154]). Solid analysis and research by authoritative and non-partisan institutions are essential to build the case, especially in light of the low confidence in political parties and public institutions in LAC. This also requires investing in data collection, building strong and independent national statistical offices and committing to *ex-post* evaluation. An effective communication strategy based on audience insights and delivering targeted messages via a multitude of platforms is then important to raise awareness about the benefits of policy reform, which may often be less obvious than the disadvantages (OECD, 2018[116]; OECD DevCom, 2020[120]; OECD, 2010[118]; Tompson, 2009[25]). For instance, in some LAC countries progress should be made to raise awareness about the importance of progressivity and robust retirement schemes in view of population ageing (Chapter 2). Public institutions seeking to engage citizens with reform will need to invest in new communication skill sets and partnerships, choosing appropriate messengers and formats that can engage diverse audiences, on line – for example, on social media – and off line (OECD DevCom, 2020[120]; OECD, forthcoming[158]).

Appropriate sequencing and speed of reforms also play a crucial role for their successful implementation. For instance, it is generally advised that fiscal and monetary stabilisation, as well as institutional reforms, should precede more complex reforms, such as trade or capital account liberalisation (Nsouli, Rached and Funke, 2005[121]). Successful initial reforms can help increase support and facilitate the implementation of subsequent reforms. Appropriate sequencing should also avoid outbursts of inequality, which are likely to obstruct further advances in the reform process (Guriev, 2018[122]; Aristei and Perugini, 2014[123]). Moreover, the optimal speed of reforms is country specific, and the choice between pushing as many reforms as possible at once (big bang approach) and introducing them one after the other (unbundling strategy) is a critical one. Depending on the context, policy makers may prefer to bundle reforms into a comprehensive package so that losses from one reform are compensated by gains from others (Dayton-Johnson, Londoño and Nieto Parra, 2011[70]) or, if this is not possible, reach specific agreements and policy advances in areas where there is potential for accord.

The credibility of and commitment to the policy is also essential for the success of the reforms and the control of adjustment costs. Credibility is important for determining the size of the adjustment costs. When reforms are credible, early announcement of the policies will have the effect of aligning private agents' behaviour with the expected objectives of policy makers (Nsouli, Rached and Funke, 2005[121]). Policy commitment generates a stable policy environment in which political actors can reach policy agreements that survive government or cabinet turnover (Spiller, Stein and Tommasi, 2008[113]).

Last, timing is especially important, and while literature shows that reforms tend to be more frequent in negative times, the short-term challenges of reforms also tend to be larger in bad than in good economic times (Ciminelli et al., 2019[124]). Reforms undertaken during prosperous times may encounter higher opposition but also allow greater time for preparation, which may not be available during emergencies. Adjustment costs and compensation of losers also tend to be more affordable during good times (OECD, 2018[116]). Nonetheless, history shows that structural and regulatory reforms are more frequent during bad times (Ranciere and Tornell, 2015[125]). Examples include the

reforms in Europe in the wake of the Eurocrisis or the trade reforms in LAC in the 1980s and 1990s.

Raising awareness of the sheer scale of the current crisis can increase public understanding of the need for significant changes. A well-managed crisis presents an enormous opportunity for countries to adopt challenging measures (IDB, 2020[126]; OECD, 2020[1]). A renewed social contract would entail moving from today's fragmented status quo to a new equilibrium based on equality of opportunities in the long run (Larraín, 2020[4]). A broader social contract would contribute to addressing the deep sense of discontent caused by increasing inequalities and outdated policies, bringing all actors into the discussion and reinforcing democratic institutions and the open market economy.

These considerations are particularly relevant in the post-pandemic context, where building back better will entail strong political impetus and wise management of the intricacies of the political economy of reform.

Low institutional capacities can result in poor policy implementation

Governments need to continue strengthening their core functions to ensure optimal policy impact. Important areas of work include promoting policy coherence and co-ordination, strengthening administrative capacity and skills, notably in subnational and local governments, simplifying administrative processes, reinforcing public procurement and investment, ensuring internal and external accountability and promoting a merit-based civil service. To a large degree, the quality of policy implementation depends on the strength of the judiciary and the bureaucracy, as well as on the resources and incentives available to them (Spiller, Stein and Tommasi, 2008[113]).

Public procurement can be a strategic tool to achieve the SDGs. Integrating economic, social and environmental policy objectives in public procurement processes - such as selection and contract award criteria, technical specifications, contract clauses - can provide companies with an incentive to align with the government agenda on sustainable development and RBC standards. For instance, ChileCompra introduced a programme to promote the participation of female-owned businesses in the public procurement market (OECD, 2020[159]).

Moreover, open contracting data can make governance more inclusive and democratic. For example, immediately after the COVID-19 outbreak, countries like Costa Rica, Ecuador, Paraguay and Peru set up transparency portals to disclose the information on procurements carried out in response to the COVID-19 emergency, including the information on the direct award procedures. Creating a culture of transparency, accountability and access to public information can also stimulate citizen participation in public procurement process. For instance, social witnesses in Mexico are required to participate in all stages of the federal public procurement procedures above certain thresholds as a way to promote public scrutiny. Peru launched a citizen control mechanism (*Monitores Ciudadanos de Control*) that allows citizens to visit construction sites at the beginning, during, and/or completion of public works in order to monitor the construction progress. Colombia introduced an anti-corruption mobile application called *Elefantes Blancos* in order to promote the citizen control of white elephant projects (neglected, abandoned or overbilled public works projects) (OECD, 2020[160]).

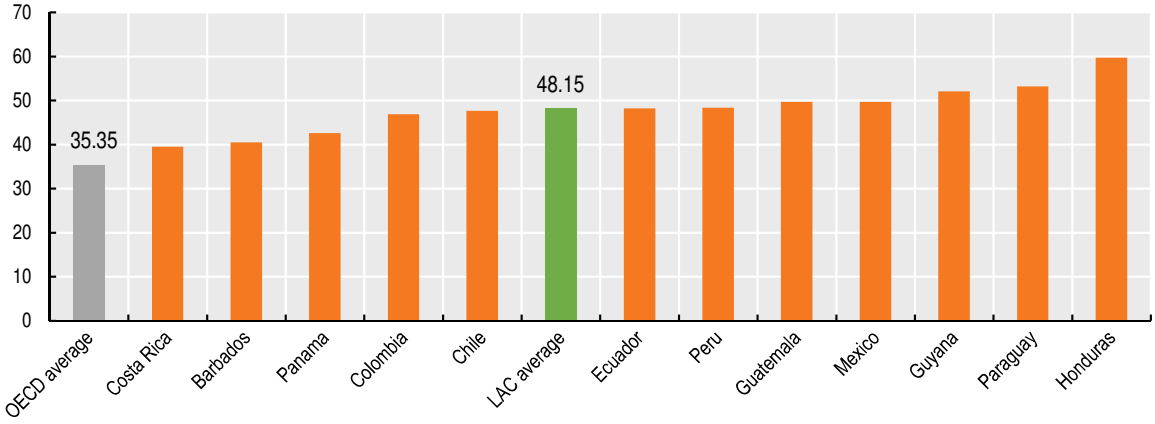
Policies will only attain their objectives if they are sustained by a strong institutional framework that is capable of providing accountability, inclusiveness, efficiency and accessibility (Staats, Bowler and Hiskey, 2008[127]). In this regard, an independent and reliable judicial system is crucial to maintain the checks and balances between the executive and legislative branches. A judiciary that ensures an impartial application of the

rule of law and prevents violence from repeating itself will lay the grounds for sustainable economic development and a long-lasting democracy (Hilbink and Prillaman, 2002[128]).

During the last decade of the 20th century, countries in LAC lacked a strong institutional machinery and a reliable judiciary to guarantee the effective observance of human and civil rights conducive to economic growth. Echoing these problems, most countries in the region undertook a long process of institutional and judicial reform that continues today (DeShazo and Vargas, 2006[129]). Despite the efforts, impunity for perpetrators of past crimes, corruption and lack of political will, as well as limited resources, remain challenging problems across the region. An accurate diagnosis of the inefficiencies of each judicial system is necessary before implementing any reform in order to understand the causes behind past failures and limited results. The Global Impunity Index, which measures the functioning and structure of national security and justice systems, as well as the respect for human rights, locates LAC countries above the OECD average (Figure 4.11).

Figure 4.11. **The level of impunity in LAC remains medium to high**

Global Impunity Index 2020



Notes: LAC average is a simple average of 12 countries. Owing to inconsistencies in the data, 2020 data are not available for Argentina, Brazil, Dominican Republic, El Salvador, Grenada, Nicaragua, Trinidad and Tobago and Venezuela. The Global Impunity Index ranges from 0 to 100, where 0 means the lack of impunity and 100 means the maximum level of impunity in a precise period of time.

Sources: CESIJ (2020[130]), *Global Impunity Index 2020 (GII-2020) (database)*, www.udlap.mx/cesij; CESIJ (2017[131]), *Global Impunity Index 2017 (GII-2017) (database)*, www.udlap.mx/cesij.

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The centre of government (CoG) also plays a key role in supporting the head of government and the cabinet of ministers. Among its functions, the CoG takes care of the co-ordination and monitoring of public policies to ensure that line ministries' actions are aligned with government priorities. The CoG is also responsible for strategic management and the design of policies for open government, good governance, accountability and transparency (OECD, 2020[108]).

Data-driven public sector and data governance in LAC

A data-driven public sector is key to governing data for the design, implementation, monitoring and evaluation of renewed social pacts. The COVID-19 crisis in LAC has demonstrated the potential of data to generate public value in several ways: i) anticipation and planning, e.g. to forecast the evolution of contagions and the occupation of intensive care units; ii) delivery, e.g. using data on informal workers to design targeted income support policies during lockdowns; and iii) monitoring and evaluation, e.g. using public procurement data to audit emergency purchases. Open and trustworthy data can also

support the policy-making process and help build the case for complex reforms during the recovery. Going forward, it is important not only to invest in strengthening statistical systems but also to adopt an "open by default" approach across the whole of government. The latter approach focuses on enhancing the publication of open government data for re-use and value co-creation with the aim of increasing public-sector transparency and integrity, fostering development and social innovation, and fighting corruption (OECD, 2017[132]; OECD, 2020[133]).

However, results from the OECD Open, Useful and Re-usable data (OURdata) Index for LAC still show great disparities in relation to the publication of open government data and its use for accountability, policy making and service design and delivery (OECD, 2020[108]). Moreover, the OECD Digital Government Index 2019 shows that, among all participant countries including 7 LAC governments, achieving a data-driven public sector remains one of the key challenges for competent digital and data-driven governments (OECD, 2020[161]).

Governments should also take actions to ensure the efficient and ethical use of data in order to reap the benefits of the exponential generation of data in the digital age without compromising the privacy of citizens (OECD, 2020[133]; OECD, 2019[134]) or the exclusion of specific population groups due to biases in the generation of data or the development of algorithms (OECD, 2021[162]; OECD et al., 2020[9]). Poor data governance frameworks risk further eroding public trust in governments, which is already low in LAC. Progress in regulatory frameworks for data protection in LAC is mixed (OECD et al., 2020[9]; OECD, forthcoming[135]).

Moreover, despite advances, on average, LAC displays a basic level of digital security (IDB/OAS, 2020[136]). Going forward, it is crucial to guarantee the ethical and safe management of data, supported by effective privacy and digital security frameworks.

National strategies are a necessary instrument to ensure a coherent and long-term vision

To make the social contract sustainable over time requires careful planning and national strategies. National Development Plans (NDPs) are a vital policy instrument. NDPs are key to ensuring that the reforms contained in the new social contract are well designed and embrace a coherent, long-term vision. Dealing with increasingly complex and interconnected development challenges requires a clear and comprehensive logic in order to involve all government institutions at all levels over time. Key dimensions contributing to the effectiveness of NDPs are: i) clear goals and indicators to define priorities, allocate financial resources, monitor progress and identify gaps; ii) a solid legal framework to give the plan authoritative power; iii) a link with the national budget, allowing concrete assessment of policy feasibility; iv) inclusion of a subnational dimension and public participation in the creation of the plan, giving it greater legitimacy; v) a specialised agency responsible for formulating NDP to enhance commitment and expertise; and vi) monitoring and evaluation, which are fundamental for assessing implementation and enabling learning, prioritisation and policy improvement over time (OECD et al., 2020[9]).

Achieving the broader social contract may involve various social pacts, and NDPs can help sustain an integral vision across sectors. In the development of the social contract, it is important to consider the potential synergies between different policies, such as how social protection and labour market policies, as well as productive policies, can sustain the creation of formal, good-quality jobs that achieve wider societal well-being. Against a silo-based approach, NDPs are crucial to evaluate potential policy spillovers, co-ordinate across areas of intervention and set clear cross-cutting objectives to orient policy action, such as sustainability, inclusion and resilience (Soria Morales, 2018[137]; OECD, 2019[138]).

LAC governments are making many efforts in promoting a vision focused on people's well-being and sustainability, but more can be done to strengthen the non-economic aspects of NDPs, and to link the vision embodied in the NDPs with actual implementation processes (OECD, forthcoming[139]).

NDPs are key to ensuring coherence not only across sectoral policies but also across levels of government. NDPs can help foster alignment across national, regional and local policies and promote synergies among economic, social and environmental objectives in order to ensure an integrated approach to achieve Agenda 2030 (OECD, forthcoming[139]; Soria Morales, 2018[137]; OECD, 2019[138]). Multilevel planning is important to promote co-ordinated actions across levels of government (OECD, 2019[138]). In LAC, the revival of development planning since the early 2000s has been accompanied by growing subnational engagement, as opposed to the more centralised and top-down approach of the 1960s (Sandoval, Sanhueza and Williner, 2015[140]). This trend also offers spaces for stakeholder engagement and participation in the formulation, implementation and evaluation of development planning (Naser, Williner and Sandoval, 2021[73]). In LAC, around 35 NDPs have included a public consultation (ECLAC, 2021[141]). Examples of participatory planning processes include Ecuador's National Decentralised System of Participatory Planning (OECD, forthcoming[135]), Guatemala's K'atun Nuestra Guatemala 2032 NDP (Sandoval, Sanhueza and Williner, 2015[140]) and the Plan Estatal de Desarrollo 2013-2033 of the state of Jalisco, Mexico (Meza Canales, Gómez-Álvarez and Gutiérrez Pulido, 2016[142]).

Conclusions

The COVID-19 crisis aggravated existing structural vulnerabilities in LAC in a context of unmet citizen aspirations, deepening distrust of public institutions and social discontent, as seen in social protests. The region needs to update its social contract. This chapter suggests what a renewed social contract in LAC could look like and how to implement it.

The building blocks of a post-pandemic social contract should revolve around two interconnected dimensions. It should be a transversal agreement across: i) socio-economic groups, accounting for differences in terms of income, gender, ethnicity and race, among others; ii) territories, recognising specific local needs and opportunities and bridging territorial divides; and iii) generations, ensuring that policy decisions balance the interests of current and future generations and promote intergenerational solidarity. At the same time, it should advance towards: i) resilient and sustainable productive strategies that prioritise the creation of quality and green jobs and embrace the digital transformation; ii) broader and more effective social protection systems that strengthen targeting mechanisms, support formalisation and address challenges related to pension reforms (Chapter 2); and iii) more sustainable financing for a development model that allows for fiscal reforms addressing revenue and expenditure and that seeks to strengthen public debt management. The intersection of these objectives shows how the social contract is underpinned by more concrete and specific social pacts in various policy domains that each country must adapt to its specific needs and goals.

Paying attention to the process, from policy design to implementation, remains of utmost importance to create fair, legitimate and stable pacts. Open and inclusive policy-making processes help develop policies that address the needs of society as a whole and can generate greater accountability. However, challenges may hamper consensus building. First, lack of media pluralism and social media filter bubbles can prevent a healthy and informed debate in society around important policy reforms. Second, party proliferation in the highly volatile LAC electoral context increases the risk of polarised political campaigns and hinders consensus building. Third, lack of confidence in political

parties due to their inability to effect change and mediate between citizens and the state may result in civic disengagement. Fourth, putting together various stakeholders with different time horizons, incentives and power may make it difficult to find compromise. For these reasons, the following policy messages are meant to guide policy makers along the path towards a new social contract in LAC and help them navigate the complex political economy reform (Box 4.3).

Box 4.3. **Key policy messages**

Strengthening inclusive policy-making processes to build consensus

- Build consensus by way of a transversal agreement across socio-economic groups, territories and generations to advance towards key policy objectives, including resilient and sustainable productive strategies, broader and more effective social protection systems and a more sustainable model of financing for development.
- Ensure good governance and mutual trust between the government and citizens, as well as with civil society and the private sector, for a solid social contract.
- Enhance the role of participatory processes in all stages of the policy-making process. The ten OECD Guiding Principles to strengthen open and inclusive policy making shed light on the importance of strong commitment; citizens' right to information; clarity of the process; adequate time for consultations and participation; efforts to make the process as inclusive as possible; adequate financial, human and technical resources; co-ordination within and across levels of government, as well as with external networks; government accountability; evaluation; and active citizenship (OECD, 2009[71]).
- Ensure a stronger role for deliberative practices, which involve a randomly selected group of people who are broadly representative of a community, and spend significant time learning and collaborating to develop collective recommendations for policy makers on a specific issue. This is especially valuable when dealing with issues that are values-based, require trade-offs and demand long-term solutions (Cesnulaityte, 2021[76]; OECD, 2020[74]).
- Foster the role of media and digital technologies to improve transparency, participation and accountability:
  - Reinforce the proactive publication of open data about government work and actions. Strengthening open government data policies, taking into account data re-usability, is a key step to enabling greater transparency and accountability *vis-à-vis* citizens, as well as to stimulate civic engagement and social oversight in areas particularly susceptible to corruption.
  - Tackling media concentration and lowering barriers to entry for new media can help the creation of a healthy and informed debate in society thanks to the representation of diverse social, economic and political perspectives (Mendel, Castillejo and Gómez, 2017[84]).
  - Streamline the use of digital technologies to communicate about the results of government initiatives and to support inclusive debates and provide additional channels for citizen engagement and participation (e.g. video-conferencing, social platforms, online forums).
  - Support the development of solid data governance foundations to enable the efficient and trustworthy access to, sharing and use of data by public sector organisations and across sectors (e.g. G2B). These data governance foundations include the definition of data ethical frameworks in the public sector in connection to the development and implementation of AI policies and initiatives by public bodies.

Box 4.3. **Key policy messages** *(cont.)*

- Make the most of national strategies or National Development Plans (NDPs) to ensure that social pacts embrace a coherent, long-term vision focused on improving people's well-being and sustainability in all its dimensions (OECD, forthcoming[139]). Clear goals and indicators, a link with the national budget, and monitoring and evaluation mechanisms are key characteristics contributing to the effectiveness of NDPs (OECD et al., 2020[9]; OECD et al., 2019[2]).

Overcoming the barriers to policy reform and implementation

- Define a well-established sequencing and pace of reforms, where successful initial reforms can help increase support and facilitate the implementation of subsequent reforms.
- Reinforce the role of political parties and innovative mechanisms of political intermediation to channel social demands and avoid opportunities for unfounded discourses.
- Fight policy capture through a comprehensive approach (OECD, 2017[103]), including complementary strategies to:
  - Ensure transparency and access to information to facilitate participation and social oversight over the policy-making process.
  - Encourage stakeholder engagement in order to level the playing field and make it less prone to capture.
  - Promote the accountability of decision makers through key institutions, including supreme audit institutions, competition authorities and regulatory agencies.
  - Mainstream sound organisational integrity policies to help identify and mitigate the risk of policy capture.

  These policy actions are in line with the OECD-LAC Action Plan on Integrity and Anti-Corruption.
- Take into account the political economy of reform, including the transitional or distributional costs that may increase resistance to some policies. In particular, for successful implementation, it is important to count on complementary cushioning schemes for vulnerable population groups negatively affected, as well as on a strong commitment to enhance reform credibility and sound evidence-based analysis supporting the case for reform.
- Strengthen institutional capacities for the successful implementation of reforms. Among others:
  - Promote the independence of the judiciary and grant it adequate resources to exploit its function in order to preserve the rule of law and a functioning democracy.
  - Focus on merit-based recruitment and improvements in results-based management to ensure an efficient civil service.
  - Simplify administrative processes, adopt service design and delivery approaches and move towards a digital government to help the public administration improve and speed up its internal processes, and make its services more human-centric and efficient.
  - Strengthen the national entity in charge of the implementation and monitoring of the social pacts (e.g. centre of government) by providing higher strategic management, among other tools.

Notes

1. Typically, the participants' selection method involves a civic lottery which combines random selection with stratification to assemble a small, but representative group of people (OECD, 2020[74]).
2. Data are drawn from the 2018 OECD *Questionnaire on Public Integrity in Latin America* covering 12 countries. Respondents were predominantly senior officials in central government, supreme audit institutions and electoral commissions.

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