

# HOW TO MANAGE A GLOBAL CRISIS:

THE CASE OF COVID-19 EMERGENCY  
IN BRAZIL, PERU AND URUGUAY

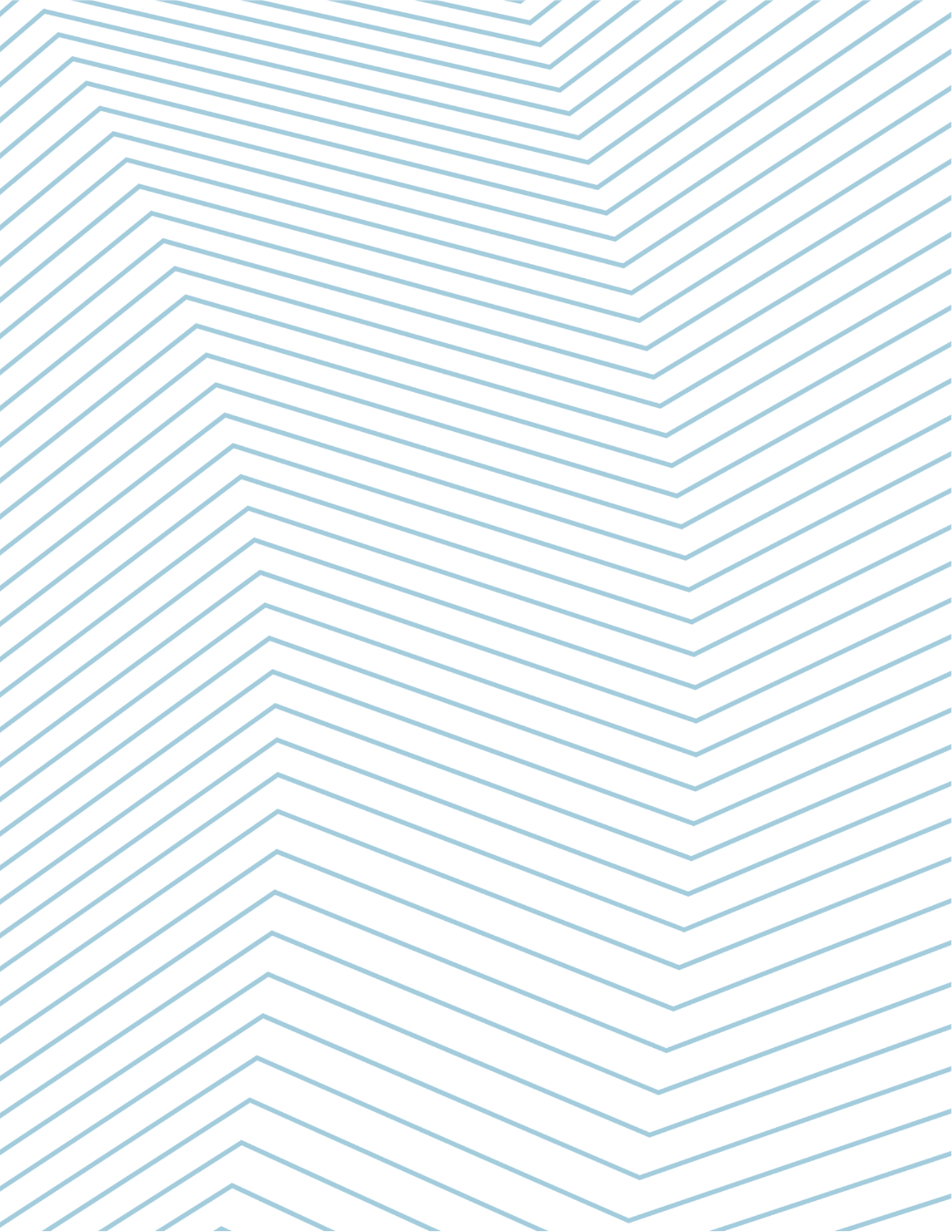
**CAPSTONE PROJECT**

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**GOVERNANCE**





# **How to Manage a Global Crisis:**

A study on Policy Diffusion and the Role of IOs

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A joint research project between the OAS Department of  
Effective Public Management (OAS/DEPM) and IE School  
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# How to Manage a Global Crisis:

The Case of COVID-19 Emergency in Brazil, Peru  
and Uruguay





# I. INTRODUCTION

When the COVID-19 virus was declared a pandemic by the World Health Organization on March 14th of 2020 governments and scientists still lacked proper information regarding the health and economic consequences of such a disease. Yet governments in the face of uncertainty had to take swift action to try and keep the virus out of their borders and contain it as much as possible. Unfortunately, the world quickly realized as state of emergencies, lockdowns and closing borders that the virus would be no easy issue to deal with and would remain a problem for much longer than expected. Though infection rates and deaths varied from country to country, no country was able to escape a steep decline in their economic activity. According to the world bank, the world would quickly reach a standstill that would cause a drop in the global GDP of 5.2%. However, the projections for emerging markets, specifically the LATAM region, were more adverse than any other region in the world. GDP growth declined by 6.7% in LATAM, a steeper decline than that experienced by Europe, Asia or Africa<sup>1</sup>

This paper will study why LATAM suffered the COVID-19 pandemic more than other regions by analysing its policies as well as its infrastructure and its institutional reliability to deal with the crisis. The paper will also study closely three different South American countries in order to draw conclusions on what policies were effective and which ones could have been improved. Doing this will allow for a better understanding of why LATAM was so severely affected by this and what policies should be implemented in the future to mitigate a future health and economic crisis.

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<sup>1</sup> Data available at the World Bank Website. Available online at: <https://www.worldbank.org/en/news/press-release/2021/03/29/recovery-offers-chance-to-build-back-better-in-latin-america-and-the-caribbean> .





## II. METHODOLOGY

To structure our report and deliver the policy recommendations we believe work best to control and mitigate the impacts of an economic and political crisis we will, be researching the effects of the COVID-19 virus in Latin America. This section will be looking at the effects on the region both economically and politically and pointing out the main conditions which make Latin America more vulnerable than other regions. From this broad view of the region, the report will go in-depth on to three different countries and analyze how COVID-19 has affected each one individually and why some have dealt with this situation better than others. The three countries this report will be focusing on are the following: Brazil, Peru, and Uruguay. We decided on studying these three countries considering the following aspects. In the case of Brazil, it is the largest country in terms of population and economy, and the country has had a controversial government dealing with the crisis. Considering its size and influence, it was crucial to include in our research. Peru became one of the most affected countries despite being one of the countries with the strictest measures implemented. It also suffered political turmoil due to the complicated situation COVID-19 had put the country in, and hence it became essential to include in our research. Finally, Uruguay became the third case study we looked into, which would allow us to compare how a small country with strong institutional trust from its society responded to the crisis. With the three-case study completed, our report would then take us to formulate and recommend short term and long-term policies that countries in the region could implement during a future crisis.



## III. LATIN AMERICA

As previously mentioned, COVID-19 erupted in Wuhan, China, at the end of 2019. Yet, the pandemic, being a health crisis, has triggered social, political, and economic unrest leading all nations into a state of vulnerability. Governments worldwide have implemented extreme measures such as lockdowns to stop the spread of the virus. Due to these containment measures, economies have suffered from a full or partial stop. In Latin America (LATAM), the COVID-19 pandemic began with a case of infection registered in Brazil on 26 February 2020 (Zilla, 2020). Governments in LATAM reacted swiftly to protect their citizens and contain the spread of COVID-19 and its impact on the economy. Nevertheless, while many scholars argue that LATAM had advantages to fight the pandemic since they have already dealt with other diseases, it seems that the disadvantages outweigh any favourable position that might appear as beneficial. Indeed, the region struggled to contain the levels of contamination due to the prevalence of the informal economy and the limitations of both the health infrastructure and social protection systems. Moreover, before the pandemic outbreak, the region was already in a weak position, with less fiscal space than during the crisis of 2008. Accordingly, it can be argued that the Achilles heel in LATAM countries is public services as the absence of appropriate sanitary infrastructure and the lack of financial capacity has led LATAM to be one of the regions most affected by the virus (Annex). The World Health Organization declared LATAM as the epicentre of the COVID-19 pandemic in May 2020. It accounted for more than 40% of the world's COVID-19 deaths, with the total infection rate beating 6.5 million cases (OECD, 2020). The previous disadvantages discussed have caused millions of lives, and their economies have been affected. Indeed, unlike the sub-prime crisis, the region counts with limited fiscal space to tackle countercyclical policies, which will then cause long-term issues. The main channels of the crisis transmission are the following: 1) decrease of exports, particularly raw materials; 2) the flight of capital in search of more secure active; 3) the decrease of tourism due to mobilised restrictions; and 4) the contraction of both supply and demand (Núñez and Malamud, 2020). This section of the report will hence deal with Latin America overall, emphasising the main challenges that LATAM countries face when coping with the COVID-19 crisis.

### 3.1 Common Variables among LATAM Countries

As previously mentioned, LATAM countries are similar, but at the same time, diverse. Yet, this section will discuss some common variables to all LATAM countries to create a recommendation framework for future crises.

Firstly, vast inequality in income and high informality can be perceived in all Latin American countries. Indeed, the percentage of the LATAM population engaged in informal work with precarious income and social protection is, on average, 53% (Garcia et al., 2020). Annexe 2 shows the percentage of total employment in selected countries in Latin America and the Caribbean in 2019. We can observe that while Peru is at the top of the list with 80% of the population, Uruguay remains one of the countries with the lowest share of informal employment in the region, representing only 25% of its labour force. Consequently, due to high labour market informality, the success of specific fiscal policy responses implemented for individuals and firms (e.g., unemployment benefits or tax relief) have not had the desired outcomes.

In addition, even if between 2002 and 2012 LATAM countries experienced a significant reduction of extreme poverty, it stills a structural characteristic of its societies and economies determined by the productive structure. According to ECLAC, the incidence of poverty declined from 44% to 28 % of the population and extreme poverty from 19% to 11%. Yet, now with the pandemic, LATAM may face an unprecedented rise in inequality and poverty due to the economic carnage caused by the virus.

Accordingly, Alicia Barcena, the Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean, said in October 2020:

"The COVID-19 pandemic is having historically negative economic, productive and social impacts, with medium-term effects on growth, increases in inequality, poverty and unemployment. For this reason, the process of recovery of economic activity (GDP) to its pre-crisis levels will be slower than that observed in the 'subprime' crisis (of 2007-2008)".

Secondly, LATAM countries have been described as commodity-dependent since they account for a large share of their export basket. Consequently, due to their dependence on commodities, LATAM countries have suffered from price volatility as they are vulnerable to shocks and price fluctuations. Accordingly, due to the pandemic, global and regional economic activity suffered and still suffered a sharp decline, decreasing the demand from the rest of the world in terms of commodity, having a negative impact on the LATAM trade balance. According to the ECLAC reports, the value of exports and imports of goods in the region decreased by 17% from January to May 2020, compared to the same period in 2019 (OECD, 2020). Yet, commodity production is not the only sector that has suffered from COVID-19. Indeed, due to containment measures, including the ban on travel, adopted by national authorities, the tourist sector is another area that has been hard hit. Yet, tourism is concentrated mainly in Central America and the Caribbean, especially Mexico (Banco de España, 2020).

Moreover, despite strict measures enacted by governments, LATAM was not able to stop the spread of the virus. Indeed, the positive impact of containment measures was limited in the most vulnerable areas as regardless of increasing access to basic sanitary facilities, basic sanitary measures such as regular hand washing or social distancing measures are difficult to be followed by LATAM vulnerable people. As claimed by the OECD report published in November 2020, many households do not have access to safe water, and 21% of the LATAM urban population is located in slums. The concentration of individuals in small areas and the lack of access to essential services created the perfect environment for spreading the disease. Accordingly, the latter argument can be sustained with the empirical evidence collected by the Oxford COVID-19 Government Response Tracker, which analyses government responses. The results show that while strict social distancing measures were efficient in Europe, they did not have the same impact in LATAM (Annex 6).

Finally, one of the common characteristics that can be perceived amongst LATAM countries is political instability. Prior to COVID-19, public satisfaction with the quality of democracy in several countries of LATAM was deteriorating. According to the Americas Barometer of 2018-2019, public opinion surveys' results showed the lowest level of satisfaction with democracy (Congressional Research Service, 2020). Indeed, during the last quarter of 2019, LATAM was shocked by massive demonstrations in Chile, Colombia or Ecuador. Those protests were triggered by political factors such as the increase of authoritarian practices and corruption; and economic factors such as high levels of inequality and poverty. The COVID-19 crisis has underscored these weaknesses and can exacerbate them, leading the region to further deterioration in terms of political conditions (Congressional Research Service, 2020). This political instability within the region has caused poor performance by many governments when dealing with COVID-19. The leadership needed to guide responsible actions to confront significant crisis is not a common characteristic in LATAM.

Overall, this subsection of the report has examined Latin America to give the reader a broader perspective of the region. This part of the report demonstrates how inequality and political instability are structural features that can be perceived in all LATAM countries. The next part of the report will then analyze the governments' responses to the health crisis.

### 3.2 Government's Measures

LATAM governments have reacted differently to COVID-19 (Annex 5). While some LATAM countries responded efficiently, others were slow and saw the pandemic as a regular flu. This part of the essay will introduce the containment measures enacted by governments to stop the spread of the virus and analyze the pandemic's economic dimension.

Across the region, governments have focused on reducing the socioeconomic fallout from the crisis by trying to preserve financial stability and boost recovery. As a result, central banks have eased monetary

policy and provided liquidity to the financial system. Yet, it is important to highlight those conventional monetary policies have less room for manoeuvre than during the global financial crisis of 2008. Measures involving credit flows support to the private sector, asset purchases, credit banking, and the dollar provision have been used by LATAM central banks (Banco de España, 2020). Moreover, to counter the notable depreciation of the region's currencies, central banks have implemented measures to stabilize their exchange rate. For instance, while in Brazil, the government intervened directly on the foreign exchange markets, in Peru, the government extended current programmes preventing exchange rate fluctuations (Banco de España, 2020).

Complementary to monetary policy, fiscal policies have been adopted. Although, it is worth noticing that many countries in the region entered the pandemic with sizeable fiscal deficits and high public debts levels. For instance, according to the Banco de España 2020 Report, Brazil's public debt exceeds 90% of GDP. Yet, governments have deployed extensive resources to counter the adverse effects on economic activity. In some cases, governments have deferred or eliminated the payment of some taxes and have subsidized the activities or individuals most affected. For instance, in terms of direct support through extra expenditure and forgone revenue, Brazil, Chile, and Peru implemented the most extensive packages. On the other hand, Mexico's fiscal response can be described as relatively small, as the government focused on public finance sustainability (World Economic Situation and Prospects, 2021).

Overall, this sub-section of the report has introduced a brief introduction of monetary and fiscal policies that LATAM countries have implemented to counter COVID-19 impact on economic activity. The next part of the report will present the three study cases: Brazil, Peru, and Uruguay. The report will further explain the measures introduced by governments and their effectiveness through the analysis of these three countries.



## IV. STUDY CASE: BRAZIL

As previously discussed, in Latin America, the COVID-19 pandemic erupted with a case infection registered in Brazil in February 2020. With a population of around 210 million people (UNDP), from which 87.5% are urbanized, Brazil became one of the most affected countries globally, ranking second after the US in terms of the total number of both infections and deaths. Yet, up to now, Brazil is now the third country most affected, with a total of 488,404K deaths (Annex 7). The pandemic broke out in the context of a political crisis and in the middle of economic recovery from the 2015-2016 recession. This section of the report will hence analyze the political and economic unrest in Brazil. In addition, it will present the containment and economic measures that the Brazilian government has introduced to counter the negative impacts resulting from the pandemic.

### 4.1 Political Dimension

The Brazilian health system can be considered large since it provides universal access for all citizens<sup>2</sup>. Yet, when the pandemic erupted, the country's political scenario was and is, until today, turbulent. Jair Bolsonaro, Brazilian President since 2018, has been highly criticised by the international community during the pandemic. Many believed that Bolsonaro's ideology, which can be conceived as populist, has led Brazil to be the second country globally with the highest death rate caused by COVID-19<sup>3</sup>. Indeed, since the beginning of the pandemic, the Brazilian President has been fighting against health representatives and governors to tackle the present crisis. The lack of central coordination and confrontational behavior has created political tensions and conflicting messages to the public (Garcia et al., 2020). While state governors imposed quarantines and Congress passed legislation to provide poorer Brazilians with monthly aids, the country's President argued that COVID-19 was a standard flue. Rather than seeking solutions, Bolsonaro politicized the virus through disinformation campaigns, the spread of fake news and promoting demonstrations. In addition, in April 2020, he dismissed Luis Henrique Mandetta, the former health minister (Weiffen, 2020). This political instability caused by no central coordination has led Brazil to a desperate situation. Indeed, responses to stop the spread of the virus were mainly implemented against the President's wishes. However, Brazil has successfully introduced programs to support its population and mitigate further negative impacts on its economy. Nevertheless, it is essential to mention that half of Brazil's population lives in poverty or are vulnerable to fall into it; hence, containment measures in terms of social distancing and sanitary practices have not been successful. Indeed, those living in urban slums (favelas) lack sanitation facilities and daily water access. In addition, while the virus spread faster in urban areas, indigenous or forest-based communities living in rural areas faced additional barriers as their location enables them to seek appropriate medical care. These communities rely as well on precarious labour relations for their earnings. Thus, even if the government introduces lockdowns and work-home measures, they cannot do it (COVID-19 in Brazil: Impacts and policy responses, 2020). According to the National Household Survey (PNAD), around 38 million people in Brazil (Annex 8) work in the informal

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<sup>2</sup> The Brazilian healthcare system is formed by private and public/government institutions. It is known as the "United Health System" ("Sistema Único de Saúde") providing citizens with access to health care as it is a constitutional right for citizens. Consequently, SUS became a fundamental actor in the containment of the disease in Brazil through the provision of its infrastructures. Yet, even if it provides care to everyone free of charge and has a solid surveillance system, SUS's capacity was overwhelmed by the COVID-19 (Barcelona Institute for Global Health, 2021).

<sup>3</sup> The type of government Brazil has is a Federal Presidential Republic with three executive branches: the executive, the legislative and the judiciary (CIA, 2021). This system puts the president of the country as the head of the government, yet due to the nature of its system, the country has 26 states whose governors hold extensive power considering they are semi-autonomous and self-governing which is one of the main factors a common response by the country has been hard to achieve.

sector, further aggravating the situation in Brazil (Nogueira, Ikemura Amaral and Jones, 2020). In other words, workers operating within the gig economy do not have the primary benefits of formal workers. Yet, Brazil has introduced programs to help them, such as the Auxílio Emergencial.

To sum up this subsection, Brazil faces many challenges, from political instability to a significant informal worker portion. The next will hence focus on the economic situation before COVID-19 and present the policies implemented by the government to counter the adverse effects of the pandemic.

### 3.2 Economic Dimension

Before COVID-19 started to impact Brazil's economy to the magnitude that it did during its peak months, the country was slowly coming out of recession. Indeed, the pandemic hit Brazil in an already fragile fiscal situation, with revenues slowly recovering from the low levels reached during the 2015-2016 economic crisis. In addition, according to the World Bank Report, unemployment rates remained higher than they were during the 2015-2016 recession, with 12.2% overall (COVID-19 in Brazil: Impacts and policy responses, 2020).

Although the country was making good progress on structural reforms, such as its 2019 pension reform. The approval of this reform endorsed by Brazil's president, Jair Bolsonaro, helped him gain support from the Brazilian population, considering proposals to change the pension system in Brazil had been tried for 30 years but were never approved until now. The previous pension system was considered one of the main reasons for Brazil's high budget deficit, and without reforms, it would end up costing the government more considering its ageing population. The COVID-19 pandemic has highlighted the importance of adequate and ambitious government response to help people and businesses stay afloat by boosting jobs, productivity and trade. Despite the contraction the economy suffered in 2020 of 5%, it is estimated, according to the OECD survey, that growth in 2021 will be 2.6% and 2.2% in 2022, which are better figures than those seen in the country from 2014 to 2019 where growth was varied between 0.5% and 1.3%. Considering the complexity the pandemic brings to the different industries and informal workforce, government intervention must try and combine policies that will affect people and business in the short term by providing financial support to them and focusing on the long-term recovery of the country with structural reforms.

One of the policies the Brazilian government set in place was the emergency employment and employees income maintenance program (Provisional Measure No. 936/2020) which has three defined goals to tackle. The first one is to preserve employment and employee's income during the crisis, and the second is to ensure continuity of work and the third one to reduce the social impacts of the virus. This policy allows companies to reduce the salary and working hours of the employees. Still, it also allows employees to receive benefits if they fit the required criteria, and its primary purpose is to reduce massive layoffs and help companies deal with the costs of maintaining their employees. By implementing this policy, the government planned to support the economy by preserving 8.5 million jobs. If such a policy was not set in motion, the Secretary of Labor estimated that 12 million Brazilians could potentially lose their jobs, from which 8.5 million would request unemployment insurance, and 3.5 would need government welfare to live. Moreover, as previously mentioned, the informal sector is an essential part of the labour force, which is more exposed to income shocks than formal employees as they lack income protection mechanisms. As a result, the government introduced the temporary Auxílio Emergencial program, aiming to protect self-employed and informal workers and those already registered in Bolsa Família through the provision of a three-month transfer. Indeed, Auxílio Emergencial was the most extensive social protection program to mitigate the social effects within LATAM, expecting to mitigate further inequality and poverty in Brazil (Blofield, Lustig and Trasberg, 2021). Even if the poverty rate temporarily fell from 29 per cent in 2019 to 21 per cent in 2020, it is expected to rise again as the temporary assistance has ended (The World Bank).

Despite policies, as previously mentioned, the pandemic has increased unemployment in Brazil, considering the steep drop in productivity in the country. The average unemployment rate for 2020 was 13.5% which is the highest since 2012. This is why the government's implementation of The Emergency Basic (EBI) Income Programme helped ease the shock by offering informal workers and the poorest families a cash transfer of 600 BRL for three months. Though it is not sufficient considering helping set the country back into recovery, without such a policy implemented, the effects of the crisis would have been even more drastic for the Brazilian economy in 2020, considering this allowed to cover basic needs for families who had no source of income and generated economic momentum, allowing for the collection of consumption

taxes which pours back to public finances. Overall, Brazil's has been successful in implementing programs to help both the formal and informal workers, however, structural challenges cannot be solved in the short term. For instance, urban poor's low-quality housing needs to be targeted in the future (Cereda, Rubião and Sousa, 2020).

In addition, in terms of fiscal policy, Congress passed a constitutional amendment suspending the application of fiscal rules in 2020 and changing several mechanisms to help the central bank through direct loans or security purchases to support the financial system and the Treasury. Consequently, the Treasury spend 494.4 billion reais in November 2020, representing 6.4% of the GDP to states and municipalities (CEPAL, 2020). Moreover, on the monetary front the central bank cut the base rate of interest (SELIC) from 4.5% to 2.0% per annum, which is the lowest rate since introducing the Real Plan in 1994 (CEPAL, 2020).

To sum up, these sections have introduced the main challenges that Brazil faced during the pandemic. Apart from a political crisis, COVID-19 hit Brazil in the middle of an economic recovery caused by the 2015-2016 recession. Though, Brazil was able to put all its resources under social programmes to help both formal and informal workers. These programs have helped Brazilians escape poverty, yet structural issues remain the main obstacle when dealing with the present crisis. Indeed, even if containment and economic measures have been implemented, its population is concentrated in urban areas, living in slums where basic needs (water) still invisible. As a result, a mixture of late implementation of measures and political instability has conducted Brazil to become the third country with more deaths and confirmed cases. The following section will introduce Peru.



# V. STUDY CASE: PERU

Like many countries in the Latin American region, Peru has been unable to avoid the effects of the COVID-19 crisis. The country had seen its economic growth decline despite rapid measures implemented during the month of March of 2020 when the pandemic was starting to gain presence and escalate rapidly into a global pandemic. These measures were strongly praised and supported by the international community, given the strict measures the government implemented on its society to limit mobility and stop the spread of the virus.

## 5.1 Political Dimension

Despite the initial support shown by the Peruvian population towards the government's policies, it would soon be clear that a lasting quarantine on the country with such a high rate of informal workers would hurt its economy, thus giving congress reasons to criticise and lose support for President Martin Vizcarra administration<sup>4</sup>. Vizcarra was the President of Peru during the start of the pandemic in which his firm policies, including selective quarantines, border closures, international and domestic travel restrictions, closure of educational institutions, banning of public events, social distancing, and varying levels of lockdown, portrayed him as a qualified leader to lead the country through the pandemic (The IMF, 2021). However, political instability caused by lack of support from the national congress for the administration, as well as support for multiple investigations into Vizcarra's link to corruption payments of 280,000 USD from a construction company while he was governor of the Moquegua region, would see Vizcarra impeached in November of 2020 adding to the country's uncertain future (Aljazeera, 2020). Peru would have a new president, Manuel Merino, who would only last 5 days from November 10 to November 15, due to the country wide protests which did not approve of his presidency. During the protest against police and military authorities, hundreds of civilians would end injured, and two protestors died, making the situation too unstable and leading to Merino's resignation (BBC News Mundo, 2020). Congress would then elect the new President, Francisco Sagasti, who would lead the transition government until the election of April 2021 (Collins, 2020). He has been able to maintain stability and ease tensions in the country, although his biggest success has been signing bilateral agreements with countries and international organizations in order to bring vaccines to combat Covid-19. Sagasti's administration has guaranteed 48 million vaccines, 20 million from Pfizer, 1 million from Sinopharm, 14 million from AstraZeneca and 13.2 million from the Covax Facility (GOB.PE, 2021). These doses will be arriving in the country within the coming months of 2021 but have set the path for the country's recovery efforts.

## 5.2 Economic Dimension

Peru had become one of the best performing economies of the region, averaging GDP growth of 5.4% from 2004 to 2019 (Oxford Business Group, 2021). However, by 2019, due to a decline in overall international commodity prices, the economy saw its GDP growth decline to 2.15%, according to the world bank (Annex 9). The country heavily relies its economy on mineral exports and natural resources such as copper and gold. According to the UNDP report on "economic impacts and policy options in Peru", 60% of

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<sup>4</sup> The type of government Peru has is a Presidential Republic in which the president holds the title of head of state and head of government under the executive branch. The other branches of the government are the legislative and judiciary. However, Peru's government has often faced power struggles within its government's, considering the congress in Peru holds extensive power and is capable of removing a president in the case of "moral incapacity". This combined with high levels of corruption in previous administrations have led to the removal of presidents like Martin Vizcarra in November of 2020. (Michael Albertus, 2020)



Peru's exports are mineral-based, and a negative impact on its prices can be felt on its overall GDP (UNDP Report Covid-19 and external shock: Economic impacts and policy options in Peru).

Yet despite its dependency on commodity prices, the country found itself in a rather favourable position to tackle the economic consequences of the Covid-19 pandemic thanks to its "prudent management of public finances" which was able to allow the country to set in motion one of the most ambitious economic relief plans worth 12% of its GDP (The Economist, 2020). The economic relief package called "Programa Reactiva Peru" created by the Central Bank was aimed at supporting both micro, small and medium companies to sustain their payments system in order to mitigate the burden from the virus and the government's strict lockdowns, offering a pool of money amounting to 60 billion Peruvian soles (15 billion USD) or 8% of its GDP (Annex 10). Thanks to this program, 156,000 businesses became eligible for a credit worth 515 million USD (The Economist, 2020). The government also followed in the footsteps of other countries like the United States, authorizing cash payments and vouchers in order to cover basic needs for families. Considering the Peruvian economy is 70% informal, a vast majority are not protected if they are unable to work. Therefore, in order to keep citizens complying with quarantine and mobility restrictions, payments of 220 USD were handed out to 6.5 million households (The Economist, 2020). However due to corruption and informality, many of these payments did not arrive to the people it was supposed to help the most. This due to corruption at the municipality level being common and which they would distribute to their friends and family. Another factor is that many citizens do not have an active bank account or formal registration, making it hard for the government to provide help (Weish, 2020).

Overall, this section has introduced Peru's political and economic situation during the outbreak of the pandemic. After analyzing both Peru and Brazil, it can be argued that LATAM is a region facing structural problems that enabled them to act efficiently. Yet, the next section will examine Uruguay, a LATAM country that became known as the model example fighting the virus.

## VI. STUDY CASE: URUGUAY

As previously discussed, LATAM countries share many economic, political, social, cultural and health system similarities; they are also diverse. Indeed, while the Brazilian government has been criticised for its late response, Uruguay was once praised as a model for the pandemic (Annex 11). However, Uruguay claimed victory before time. Indeed, even if its relatively small population of 3.5 million people was an advantage to control the transmission of COVID-19, it never guaranteed its success. Moreover, Uruguay had an advantage compared to its neighbours since it has lower inequality and poverty rates, suggesting that the entire population has access to water. Accordingly, Uruguay's health care system stands out in the region as the governments invest a large part of GDP in health. For instance, in 2017, 9.2% of GDP was invested, similar to Australia's spend at 9.6% (Henderson, 2020). This section of the report will hence analyse how Uruguay was successfully dealing with COVID-19 at the beginning of the pandemic. Firstly, this section will examine the political scenario; then, it will discuss how the government responded. Secondly, it will examine Uruguay's economic scenario before the pandemic and the policies implemented to counter the adverse effects of COVID-19.

### 6.1 Political Dimension

President Luis Lacalle took office on March 1, 2020, just twelve days before the first case was confirmed<sup>5</sup>. Uruguay's neighbours once praised his COVID-19 response. Accordingly, the U.S agency Bloomberg characterised Uruguay as "an oasis in the middle of COVID-19 storm". Indeed, by June, Uruguay had fewer than 850 confirmed cases and 23 deaths (Horwitz, 2020). In addition, on its 100th day, the infection rate was at 0.8 cases per million inhabitants. All of this was achieved without a strict lockdown, but on the contrary, with a "responsible exercise of liberty" or also known as "responsible freedom". Luis Lacalle delivered the latter as the promotion of voluntary social distancing and hygiene. This policy focused on closing schools, cinemas and shopping centres, but forced isolation was not mandatory (Uruguay XXI, 2020). Thus, contrary to the usual situation, Uruguay managed to reduce the infection curve through "responsible freedom", showing how the country had a strong civil society based on solidarity. Accordingly, Bloomberg claimed that due to a well-educated population, strong institutions and an established democracy, the policy was successful. Simultaneously, to incentivise people to stay home, an awareness-raising campaign was used to promote good hygiene and health practices (such as the use of masks). At the same time, contact tracing has been facilitated by the Coronavirus UY mobile application (Berkmen and Che, 2020). The combination of both the fast government's response and high level of cohesion and public trust (Annex 12) helped Uruguay become a world model.

As previously mentioned, Uruguay stood out in LATAM for avoiding the spread of the virus with no exponential growth and a low death toll, while its neighbours, especially, Brazil had the highest levels of cases in the region and the world. A PAHO and WTO representative in Uruguay, Giovanni Escalante, claimed that Uruguay's favourable results were mainly the outcome of compliance with international health regulation and the cooperative relationship between the government and the scientific community (Saldias et al., 2020). Indeed, in March 2020, the National Government appointed a scientific advisory group to inform decision-making and creating effective cooperation between these two corporations. The latter is named The Uruguayan Scientific Advisory Group (GACH), coordinated under Doctor Rafael Radi, composed of 55 members holding meetings with the government and creating reports to act efficiently against the virus spread. Furthermore, GACH was established to make recommendations identifying the best available evidence to advise the government and to provide information transparency to citizens through the

<sup>5</sup> The type of government Uruguay has is a Presidential Republic, in which the president is both the head of government and head of state. Uruguay's government has a Chamber of Representatives and a Chamber of Senators under the legislative branch (CIA, 2021)

Presidency website (Vitoriano, 2020). This suggests that through transparency and coordination with GACH, the government was able to build trust among citizens.

In addition, Uruguay's rapid and timely response to the disease was a key ingredient in stopping the spread of the virus. Indeed, the Uruguayan President declared a national health emergency on the same day that the first case was confirmed. Then, the government was fast closing land, sea, and air borders on March 25. Furthermore, no foreign nationals or tourists were allowed in the country (Horwitz, 2020). In addition, though, due to solid institutions, especially the police authority, the government implemented stricter protection measures around the city of Rivera, located on the border of Brazil. The latter was essential to stop any spread from the second-worst country suffering from the virus.

However, this successful history ended in December 2020, when the public health authorities announced that large outbreaks had led to community transmission in Montevideo.

## 6.2 Economic Dimension

Despite the harsh condition COVID-19 generated for countries in Latin America, Uruguay was seen as a positive outlier in the region. This was mainly attributed to its relatively small population of 3.5 million people and its strong enforcement of testing and tracing. Uruguay tested 233.7 people for every confirmed case in comparison to its neighboring countries like Argentina (1.7), Mexico (1.9) and Colombia (3) (Taylor, 2020). Thanks to the government's initial approach of developing their own testing kit, which helped them become self-reliant and not depend on supplies from abroad like the US or Europe, which would have constrained them.

The pandemic took place while Uruguay was reaching its lowest economic growth levels since 2002 when the government decided to implement reforms after the 2002 banking crisis. These reforms began to regulate banks more and tackled the vulnerabilities of the banking system, managing to improve the country's stability through strong monetary and fiscal policy (IMF, 2005)<sup>6</sup>. By doing so, the country was able to experience healthy economic growth up until 2019 with an average of 3.45% GDP growth during from 2002, even though from 2018 Uruguay's economic growth began to decline due to neighboring countries recessions like Argentina and Brazil's. Uruguay's economic growth was 1.62 % in 2018 (The World Bank Data)<sup>7</sup>.

The country's biggest trading partners are China and Brazil. China is the biggest country it exports to with 28.9% (2.63 Billion USD) in 2019, while Brazil is its biggest importer with 25.1% (2.49 Billion USD) (OECD World)<sup>8</sup>. The country exports mainly Sulfate Chemical Woodpulp, Frozen Bovine Meat and Soybeans indicating how its economy is based on the agricultural sector. However, because of the pandemic, exports declined by 16.2% while imports declined by 10.8% in 2020, leading to a -5.9% GDP growth in 2020 with an expected recovery of 2.7% GDP growth in 2021, according to BBVA (Annex 13) (Haring and Manias, 2021).

Thanks to the country's strong economic performance in the past years, poverty has been able to reduce, and incomes have spiked up. From 2006 to 2018, the poverty rate was able reduced from 30% to 8% (Alexander, Chrol and Philipp, 2020). Yet, the pandemic has caused unemployment to increase in the country, reaching an average of 8.9% in 2019, with projections of reaching 9.9% in 2020. (Annex 14) (ECLAC, 2020)<sup>9</sup>.

<sup>6</sup> International Monetary Fund (2005). Available online at: <https://www.imf.org/external/pubs/ft/scr/2005/cr05202.pdf> .

<sup>7</sup> The World Bank Data. GDP growth (annual %) – Uruguay. Available online at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2019&locations=UY&start=2002>

<sup>8</sup> OECD Website. Uruguay's profile. Available online at: <https://oec.world/en/profile/country/ury> .

<sup>9</sup> Preliminary Overview of the Economic of Latin America and the Caribbean: Uruguay. 2020. Available online at [https://repositorio.cepal.org/bitstream/handle/11362/46504/78/PO2020\\_Uruguay\\_en.pdf](https://repositorio.cepal.org/bitstream/handle/11362/46504/78/PO2020_Uruguay_en.pdf) .



## VII. POLICY RECOMMENDATIONS FOR CRISIS MITIGATION IN LATAM

After analyzing LATAM overall and particularly Brazil, Peru and Uruguay, this section will introduce some policy recommendations to mitigate future crises, similar to COVID-19. Nevertheless, it is essential to point out that the following recommendations are focused on LATAM countries, not just the study cases examined previously.

To do so, this section will propose long-term solutions to LATAM countries in order to prepare them for future crises<sup>10</sup>. The purpose of this section is to help countries to become less vulnerable to future shocks through policies that would enable them to develop further.

### 7.1 Long-Term Recommendations

As discussed in previous sections, governments have implemented short-term policies to mitigate the impact of COVID-19. However, structural problems common to all LATAM countries must be addressed<sup>11</sup>. Indeed, the consequences of the pandemic can be equated to pre-existing conditions in the region: low trust in institutions, political and social polarization perception of state capture, weak mechanisms of political representation, high inequalities, and fiscal fragility (UNDP 2021)<sup>12</sup>. Consequently, the multidimensional magnitude of the pandemic crisis has raised concerns about the need to adapt the rules of the game. Therefore, this sub-section will recommend policies for long-term (Annex 16) development and a more inclusive recovery based on a three-lane road: productivity, inclusion, and resilience.

#### A) Adapting the Rules of the Game

The adaption of the rules of the game suggests that governments must change their nature to strengthen or restore trust between citizens and governments. As previously claimed, one of the challenges that the region faces today is political instability. It seems, as Gonzalo Garland stated during the interview, that governments have forgotten the role, thus, there is a clear need to redefine it. This proposal might seem utopian and challenging to achieve as it is a recommendation but at the same a critique that can be misperceived by LATAM governments. However, institutions need to enhance social cohesion through the strengthening of the rule of law and transparency.

Firstly, there is a need to redefine the state's role in the provision of public services based on reaffirming the universality of access. Therefore, governments must develop, in relation to their strengths and weaknesses, a program aiming to enhance the adaption capacity of public institutions. If the states and public institutions achieved higher levels of efficiency in the provision of such services, it would result in improvements in response times and decision-making mechanisms (UNDP, 2021)<sup>13</sup>. However, this recommendation cannot be made without greater transparency and the co-creation to regain the trust and legitimacy of citizens.

As a result, a legal framework should be created to promote transparency and make available public information for all citizens. In other words, to achieve social cohesion and trust, the transformation of institutions must be accompanied by digital resilience and innovation (UNDP, 2021). For instance,

<sup>10</sup> This section does not introduce short-term recommendations as they have been already discussed through the study cases.

<sup>11</sup> This section has been reinforced with the arguments of Professor Gonzalo Garland, who was interviewed by us in May 2021. The interview was authorized by the professor for this report (Annex 15). <sup>12</sup> "Latin America and the Caribbean: Effective Governance, beyond Recovery" by the UNDP published in January 2021.

<sup>12</sup> "Latin America and the Caribbean: Effective Governance, beyond Recovery" by the UNDP published in January 2021.

<sup>13</sup> "Latin America and the Caribbean: Effective Governance, beyond Recovery" by the UNDP published in January 2021.

investment in digital technologies is required to reduce the digital division, which is clearly a structural inequality. Through innovation and technology, mechanisms of active transparency, accountability and an improved data system can be achieved. This would then establish new mechanisms for political participation, ameliorating democracy and promoting advances in open government policies. In addition, access to the internet and other sources will create a stronger civil society, which can be thus more informed and educated when a crisis erupts. The case of Uruguay shows how important trust and social solidarity are to combat a virus such as COVID-19. Overall, these recommendations would create more responsible governments as accountability would be improved, putting the people at the center of public policies.

## **B) Físical Space**

As discussed, LATAM countries had little fiscal space during the pandemic, thus enabling them to act efficiently. Indeed, in order to make LATAM countries less vulnerable to future crisis and therefore more prepared, the creation of fiscal space is a requirement. Peter Heller defines fiscal space as “room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy” (2005). Through a bigger fiscal space, governments can spend in more sectors. Consequently, this sub-section is essential as it focuses on government’s spending, which would be essential to enhance social inclusion and minimize informality.

A government can thus create fiscal space by increasing taxes, cutting lower priority expenditure, borrowing resources or from the banking system, or securing outside grants. Yet, these strategies must not compromise macroeconomic stability and fiscal sustainability (Heller, 2005). Considering this, policy makers can increase tax revenues through an increase in tax rates or through an expansion of the tax base by reducing tax expenditures or improving enforcement (Izquierdo and Pessino, 2021). As shown by Annex 17, in LATAM, tax collection is relatively low, with an average of 22.4% of GDP compared to 34.3% in the OECD. Despite this, tax collection is heterogeneous among LATAM countries. Indeed, countries like Brazil or Uruguay have high taxation collection lying between 29% and 34% of GDP. On the other hand, in countries like Peru or Mexico, tax collection lies between 12% and 16% of GDP (Izquierdo and Pessino, 2021). Thus, even if an increase in taxes might seem the best option, each country must follow a different tax strategy.

Countries with high taxation collection should rethink expenditure allocation. In other words, governments should create a plan in order to evaluate which sector would be more beneficial for the whole society. Indeed, governments should reallocate public spending to eliminate superfluous expenses and improve the quality of social expenditure (Pineda, Valenciam Rastelleti and Angarita, 2021). This would lead to an adequate accumulation of human capital, essentially, among low-income households. Nevertheless, countries with low taxation collection should, as previously mentioned, increase their tax bases to recover. Yet, without substantially damage growth and inequality (Izquierdo and Pessino, 2021).

Both country profiles should couple with better enforcement to reduce inefficiencies in public spending by improving revenue management. Governments should prioritize measures to minimize evasion and eliminate any special tax treatments. By introducing new surveillance programmes, corruption in public purchases would be reduced, allowing countries to accumulate more resources, and thus reducing informality and improving social inclusion. The next sub-section will hence introduce some policies recommendations to encourage formal employment.

## **C) Support Transition to Formal Employment Opportunities**

LATAM countries have a long-term problem which is informality. Thus, it is crucial to propose reforms that promote the recovery of formal employment among low-income workers, as they are the most affected. Informal workers lack a formal source of income and have no access to safety nets or public services. Accordingly, Srinivas Reddy, Chief of the ILO Skills and Employability, argued, “Promoting employability and income opportunities of people working in the informal economy is highly critical for inclusive societies, and more so in times of crisis”<sup>14</sup>. Thus, this sub-section will propose strategies to encourage formal employment.

<sup>14</sup> International Labour Organization Website: “ILO issues call for ideas and solutions to support e formality through skills development in Latin America and the Caribbean” (2021). Available online at: [https://www.ilo.org/americas/sala-de-prensa/WCMS\\_789432/lang-en/index.htm](https://www.ilo.org/americas/sala-de-prensa/WCMS_789432/lang-en/index.htm)

Firstly, it needs to be highlighted that the last sub-section about taxation should be related to informality. In other words, through an increase of the tax base, the government would be able to focus on the upper tier of the informal economy instead than the lower tier of income-generating activities. However, the taxes received by states should be offset by resources distributed to the poor<sup>15</sup>. For instance, governments should deliver financial incentives to facilitate the hiring and integration into the formal labor force of young people. Moreover, VAT registration for SMEs should be facilitated to encourage them to formalize.

Secondly, according to the available data, workers in the informal sector are more than three times likely to have no education or only primary education (ILO, 2021). Consequently, one of the main strategies is to invest in education. There is an urgent need to develop programs<sup>16</sup> with the aim to enhance skills development, ensuring learning opportunities. For instance, short-term programmes that are inclusive both for women and men should be set up. Through education and training, the transition from informal to formal employment would be facilitated. Indeed, developed occupational skills boost productivity in informal business, thus ameliorating products and services. As a result, vocational training would become the main force driving informal companies to the formal sector. Moreover, individuals with higher skills are more prompted to become part of the formal sector, thus, diminishing any desire to opt for the informal one (Jacobs, 2019). On the other hand, education should not only focus on academic background. Instead, governments should follow a compliance policy. In other words, educational campaigns should inform informal workers of the benefits that formal workers have compared to their situation. In addition, community visits and workshops should take place in remote areas to include women, that are the most vulnerable group within the informal sector (Oviedo, Thomas and Karakurum – Ozdemir, 2009).

Finally, education must be accompanied by digitalization and infrastructure. Indeed, rapid technological innovation would reshape the production and consumption of goods and services. These new technologies would offer a transformational solution to financial exclusion driven by informality. For instance, many MSMEs within the informal sector do not provide a reliable form of identification as they do not have the digital platforms to do it. Thus, providing loans to vulnerable enterprises would enable them to have access to financial services and improve their lives or businesses (GPFI, 2018)<sup>17</sup>. Overall, innovation and technology are crucial for a more inclusive economy.

To sum up, it can be claimed that informality is one of the main challenges that LATAM countries face today. In order to encourage formal employment, the government must increase taxes to then invest and create educational and training programs; and help small businesses to become formal. The following subsection will propose strategies to tackle commodity-dependence. However, it is important to keep in mind, that as previously discussed, trust in the government should be at the core of such strategies.

## **D) Productive Transformation**

By productive transformation, this paper means that LATAM economies should diversify to become less dependent on commodities. As discussed, developing countries that depend on commodities are vulnerable to shocks and price fluctuations<sup>18</sup>. Consequently, in order to address long-standing risks associated with price volatility, this sub-section will introduce some recommendations.

Firstly, countries must pursue diversification strategies, aiming to reduce the weight of commodities in their export baskets. Diversification and trade expansion are essential to create new, higher productivity jobs that would tackle structural problems by encouraging economic growth. In terms of diversification strategies, there are two types: horizontal and vertical. While horizontal diversification focuses on exporting diverse types of commodities through the introduction of new products and services, vertical diversification concentrates on already export products by adding value (Llorente and Cuenca, 2016). By the implementation of these two strategies, countries would be able to mitigate the changes in commodity prices and thus becoming less vulnerable to external shocks.

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<sup>15</sup> Policies on the informal sector. A Global Review (2018). RNSF, funded by the European Union.

<sup>16</sup> Programmes: formal and informal vocational education schemes aiming to develop entrepreneurship and start businesses to encourage them to become part of the formal sector. In addition, training informal trainers and upgrading their apprenticeship schemes. On top of this, creation of higher-level skill training programmes to ameliorate their performance.

<sup>17</sup> G20 Policy Guide: Digitisation and informality (2018). Available online at: <https://www.oecd.org/g20/G20-Policy-Guide-Digitisation-and-Informality.pdf>

<sup>18</sup> A decline in commodity prices can have a negative impact on export and fiscal revenues.

In order to achieve economic diversification, governments should introduce fiscal incentives in terms of reducing the costs of investing in new activities. Indeed, governments must follow a counter-cyclical fiscal policy to accumulate savings during price booms and increase government spending during times of low prices. Consequently, horizontal diversification would be attained as financial incentives will develop non-traditional agricultural exports, and other sectors will become stronger (UNCTAD, 2017). Yet, horizontal diversification requires investment in human capital to develop know-how in new sectors, which would, in return, help the formal sector. On the other hand, governments should add value to the already exported products to achieve vertical diversification. In other words, by following the comparative advantage theory, companies must strengthen their supply chain, reduce production costs, and access new distribution channels. To achieve this, governments must invest in infrastructures.

## VIII. CONCLUSION

As observed from this report, Latin America is one of the most affected regions in the world due to its poor infrastructure, crowded cities where citizens live in close proximity and lack of trust from citizens in government institutions. The situation only gets more complicated when understanding the poor coordination some countries have had to fight the virus, such as the case of Brazil, where different measures between the main and local government had been implemented, which often resulted in confusion from the population. If the region previously had issues like corruption, income inequality and informality in the labour market, COVID-19 has magnified them and made the region extremely vulnerable, putting countries in less-than-optimal positions. Countries all around the world have had to make the tough choice between restarting the economy or maintaining restrictions in order to control the spread of the virus. In the case of Latin America, this has not been an exception, and countries like Peru opted for maintaining restrictions in order to ease pressure on the healthcare system to avoid it from collapsing. However, Brazil has been unable to prevent this situation, seeing its healthcare system reaching its limits with 25 out of its 27 states reaching levels above 80% capacity and a death toll of 2,841 deaths in 24 hours. Having said this, countries are now implementing vaccines like Pfizer, Covax and Sinovac on its citizens, but it will take time until countries are no longer in critical conditions and reach herd immunity. Even though the vaccine brings hope that things will return to normal, it is not a quick fix, and countries should not ease restrictions without assessing the circumstances first. Our policy recommendations for Latin American countries are focused on reducing both economic and political uncertainty by maintaining currencies stable, increasing government transparency, and reducing corruption, as well as focusing on future economic development. There is no doubt that this crisis has brought the region to a standstill and will take a few years until pre-pandemic levels are reached again. However, with proper implementation of our policies and regular oversight and support from the OAS, the region will be able to improve its current situation and deal with future economic and political crises better.





# IX. ANNEX

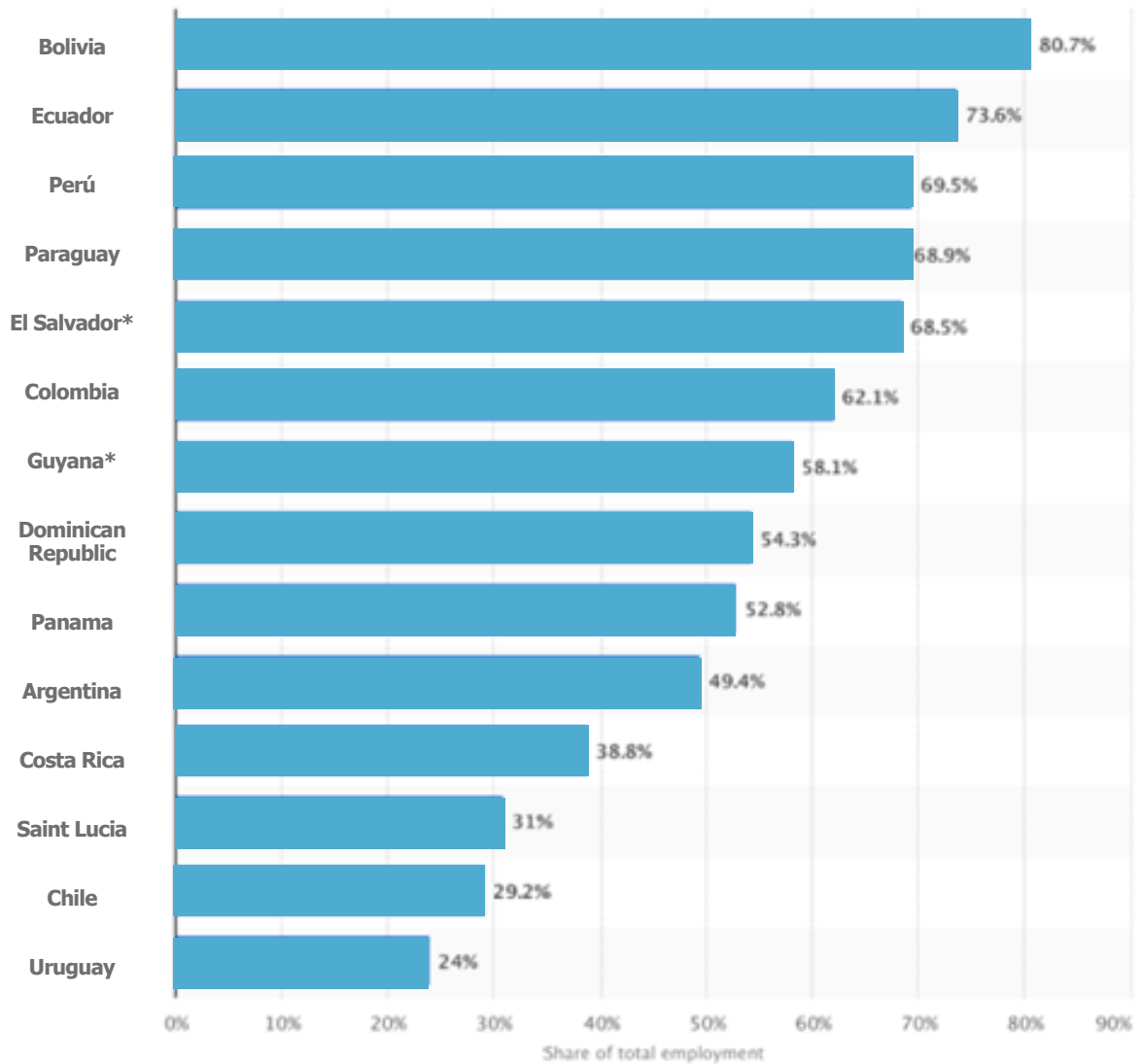
## ANNEX 1: "COVID-19 CASES, DEATHS, AND MORTALITY RATES IN LATIN AMERICA AND THE CARIBBEAN (LAC)

**Table 1. COVID-19 Cases, Deaths, and Mortality Rates in Latin America and the Caribbean (LAC)**  
(countries with more than 2,000 deaths, as of Feb. 22, 2021)

Country	Cases (millions)	Deaths	Deaths per 100,000
Brazil	10.195	247,143	117.99
Mexico	2.043	180,536	143.07
Colombia	2.230	58,974	118.78
Argentina	2.070	51,359	115.43
Peru	1.283	45,097	140.98
Chile	.803	20,126	107.46
Ecuador	.275	15,547	91.00
Bolivia	.243	11,470	101.03
Guatemala	.171	6,306	36.56
Panama	.337	5,756	137.81
Honduras	.166	4,024	41.97
Paraguay	.153	3,080	44.28
Dom. Rep.	.236	3,048	28.68
Costa Rica	.203	2,782	55.65
<b>Total LAC</b>	<b>20.797</b>	<b>661,149</b>	<b>—</b>
United States	28.189	500,244	152.90

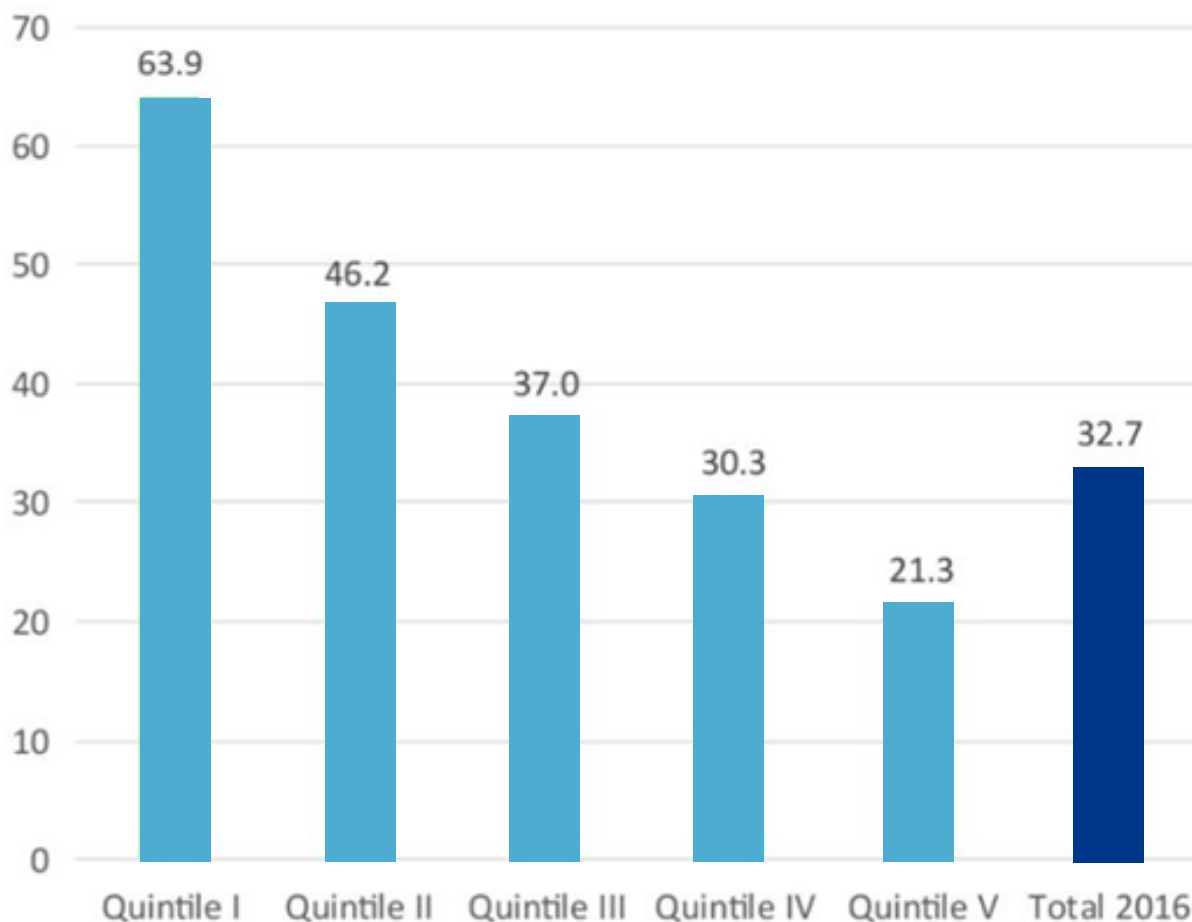
Source: Johns Hopkins University School of Medicine, Coronavirus Resource Center, "Mortality Analyses," February 23, 2021, updated daily, at <https://coronavirus.jhu.edu/data/mortality>.

## ANNEX 2: "INFORMAL EMPLOYMENT AS A PERCENTAGE OF TOTAL EMPLOYMENT IN SELECTED COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN IN 2019.



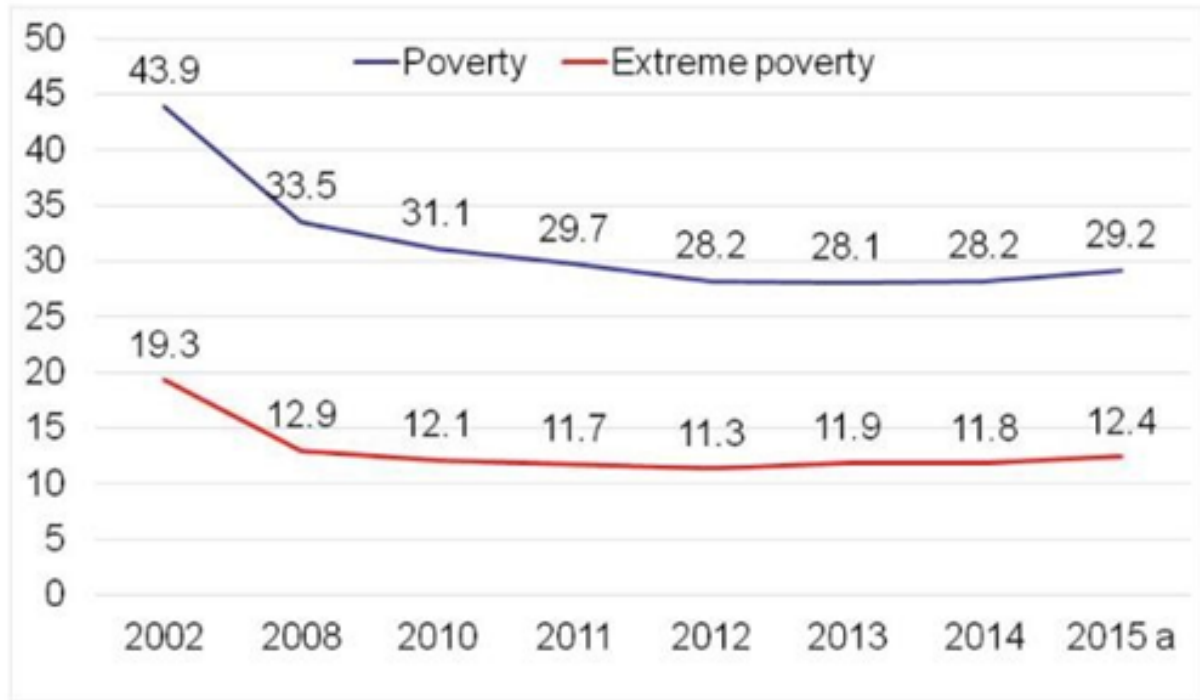
Source: Statista, Available online at <https://www.statista.com/statistics/1037216/informal-employment-share-latin-america-caribbean-country>

### ANNEX 3: LATIN AMERICA (SIMPLE AVERAGE FOR 18 COUNTRIES): UNSKILLED SELF-EMPLOYED WORKERS AGED 15 OR OVER, IN THE HIGHEST AND LOWEST INCOME QUINTILES, AROUND 2016 (PERCENTAGES)



Source: ECLAC, on the basis of Household Survey Data Bank (BADEHOG).

## ANNEX 4: LATIN AMERICA, POVERTY AND EXTREME POVERTY RATES, 2002 -2015



Source: ECLAC (2015), Social Panorama of Latin America 2015. Available online at: <https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2017/04/Simone-Cecchini-Reducing-poverty-amidst-high-levels-of-inequality.pdf>

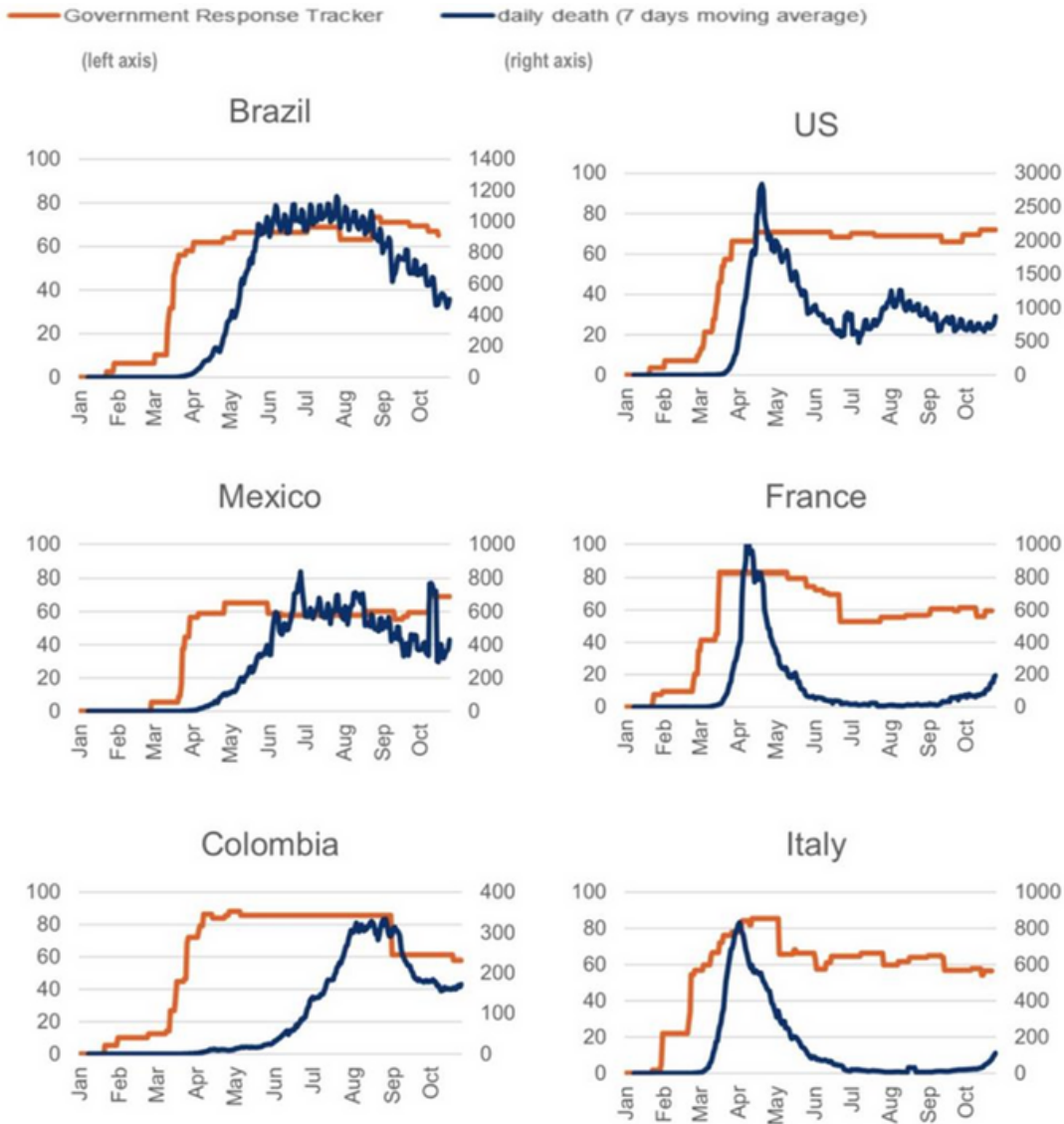
## ANNEX 5: TIMELINE FOR THE INITIAL MAJOR RESPONSES TO THE COVID -19 PANDEMIC IN EIGHT LATIN AMERICAN COUNTRIES, BY COUNTRY.

COVID-19 RESPONSE IN LATIN AMERICA



Source: (Garcia et al., 2020)

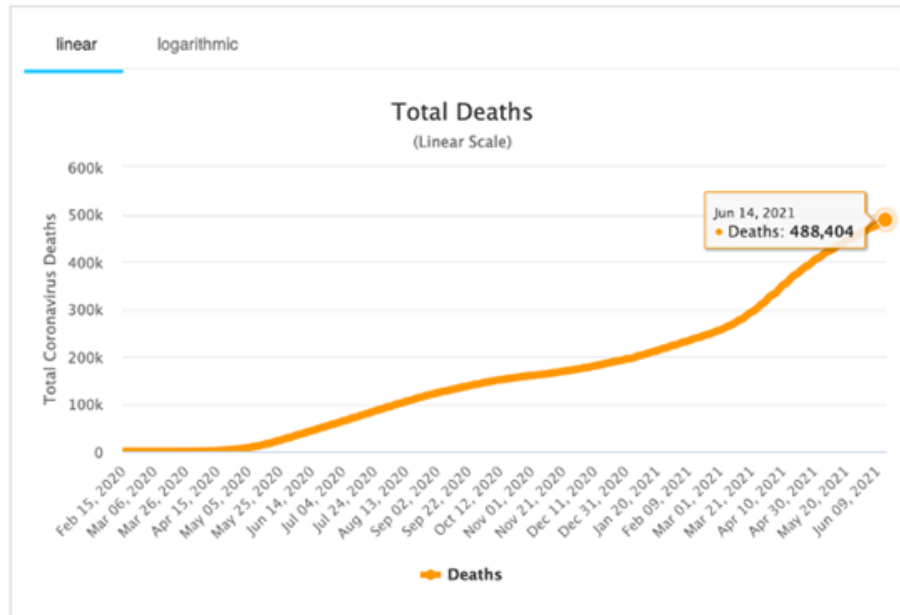
## ANNEX 6: GOVERNMENT RESPONSE AND DEATH TOLL OF TRACKER - THE OXFORD COVID-19 GOVERNMENT RESPONSE TRACKER



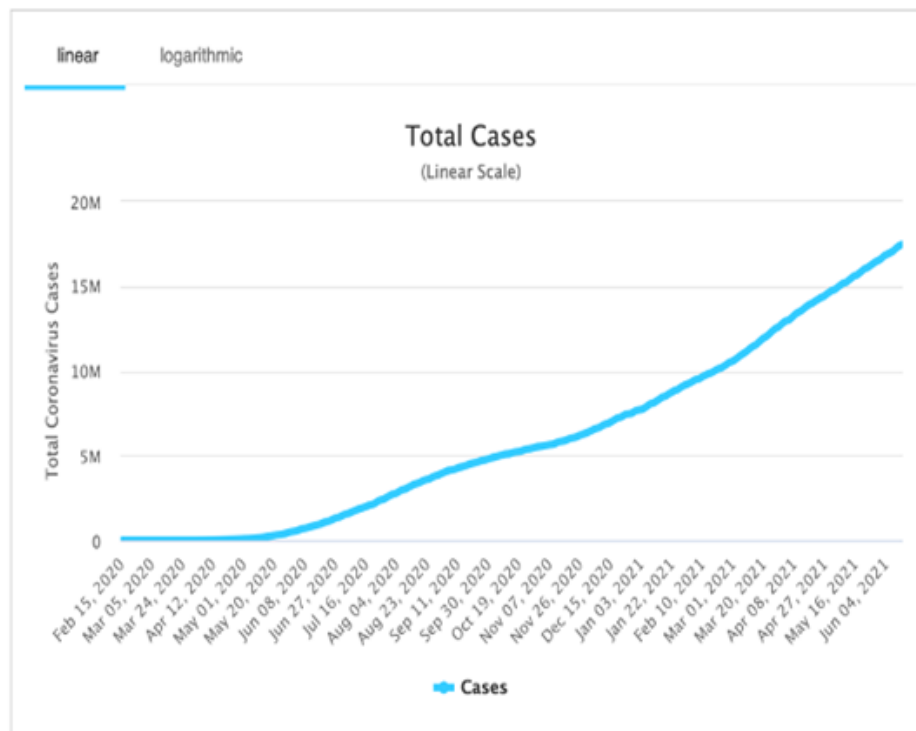
Source: OECD Report: "COVID-19 in Latin America and the Caribbean: an overview of government responses to the crisis". Published in November 2020.

## ANNEX 7: BRAZIL'S DATA BY THE WORLD METER (UP TO JUNE 15TH, 2021)

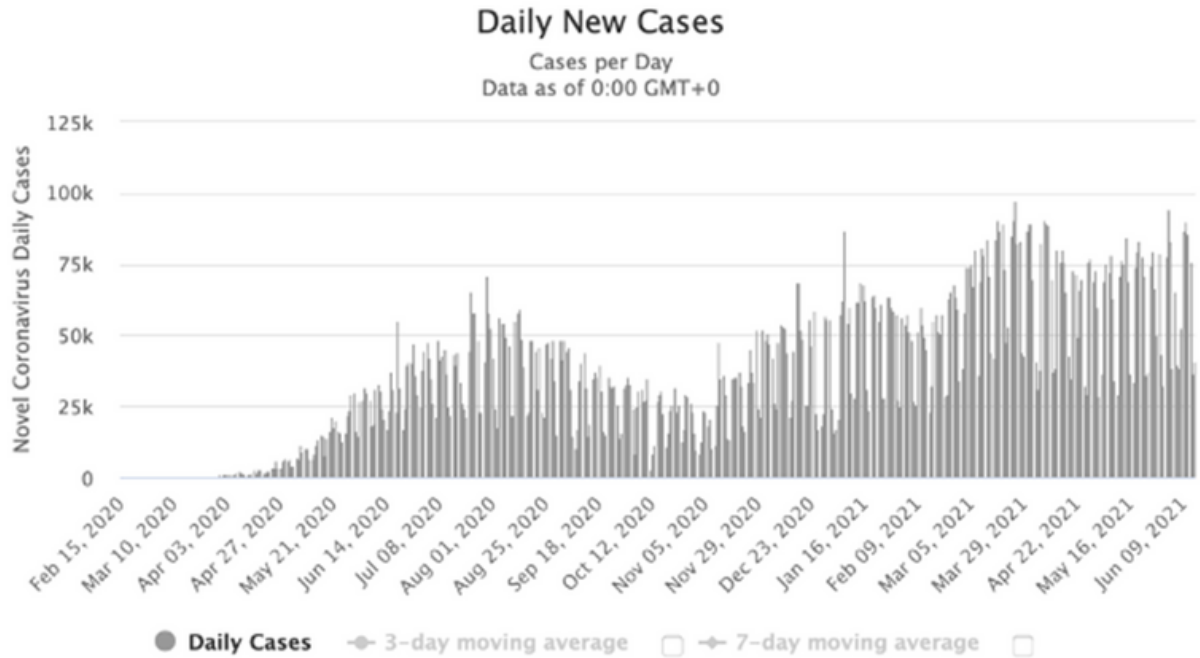
### Total Coronavirus Deaths in Brazil



### Total Coronavirus Cases in Brazil



## Daily New Cases in Brazil



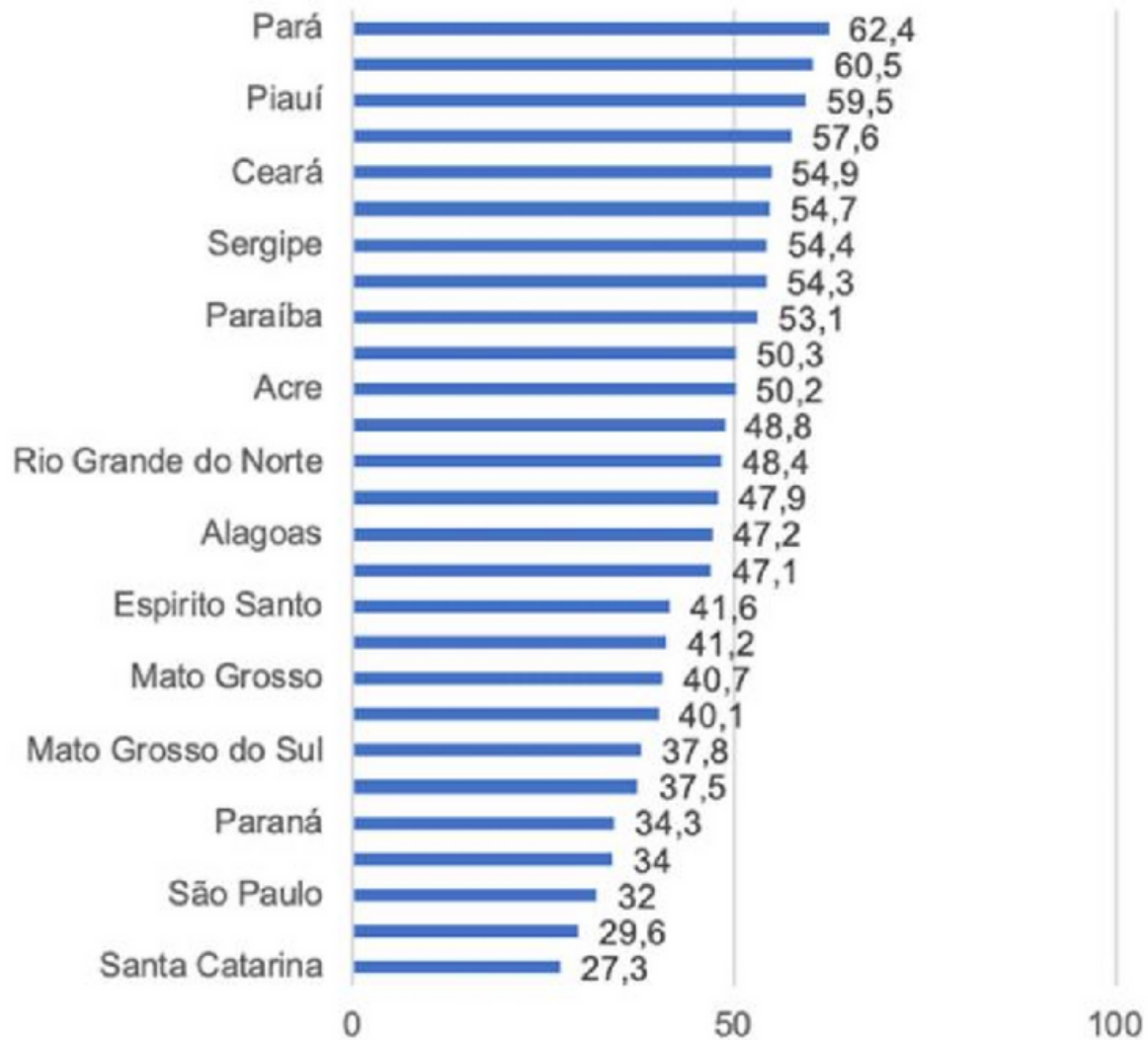
These three graphs are available online at: <https://www.worldometers.info/coronavirus/country/brazil/#graph-deaths-daily>.

They permit the reader to have a visual representation of how the virus spread in Brazil since its outbreak in February 2020.



## ANNEX 8: INFORMAL WORKERS IN BRAZIL BY STATES IN 2019

### Percentage of informal workers by state, 2019



Source: IBGE. Available online at: <https://blogs.lse.ac.uk/latamcaribbean/2020/06/03/the-impact-of-covid-19-on-brazils-precarious-labour-market-calls-for-far-reaching-policies-like-universal-basic-income/>

In 2019, more than 50 per cent of workers were in the informal sector in 11 out of 27 states in Brazil.

## ANNEX 9: GDP GROWTH (ANNUAL %) – PERU BY THE WORLD BANK

### GDP growth (annual %) - Peru

World Bank national accounts data, and OECD National Accounts data files.

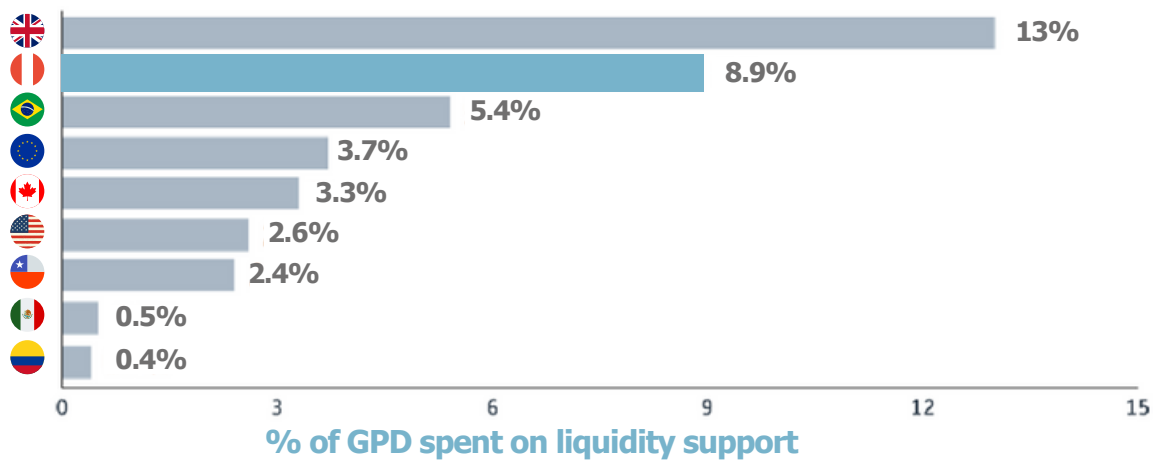
License : CC BY-4.0 [i](#)



Source: The World Bank. Available online at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=PE>

## ANNEX 10: % OF GDP SPENT ON LIQUIDITY SUPPORT, PERU

Between March and May, Peru's government spent a higher percentage of its GDP on liquidity support than other major markets in the region, as well as many advanced economies



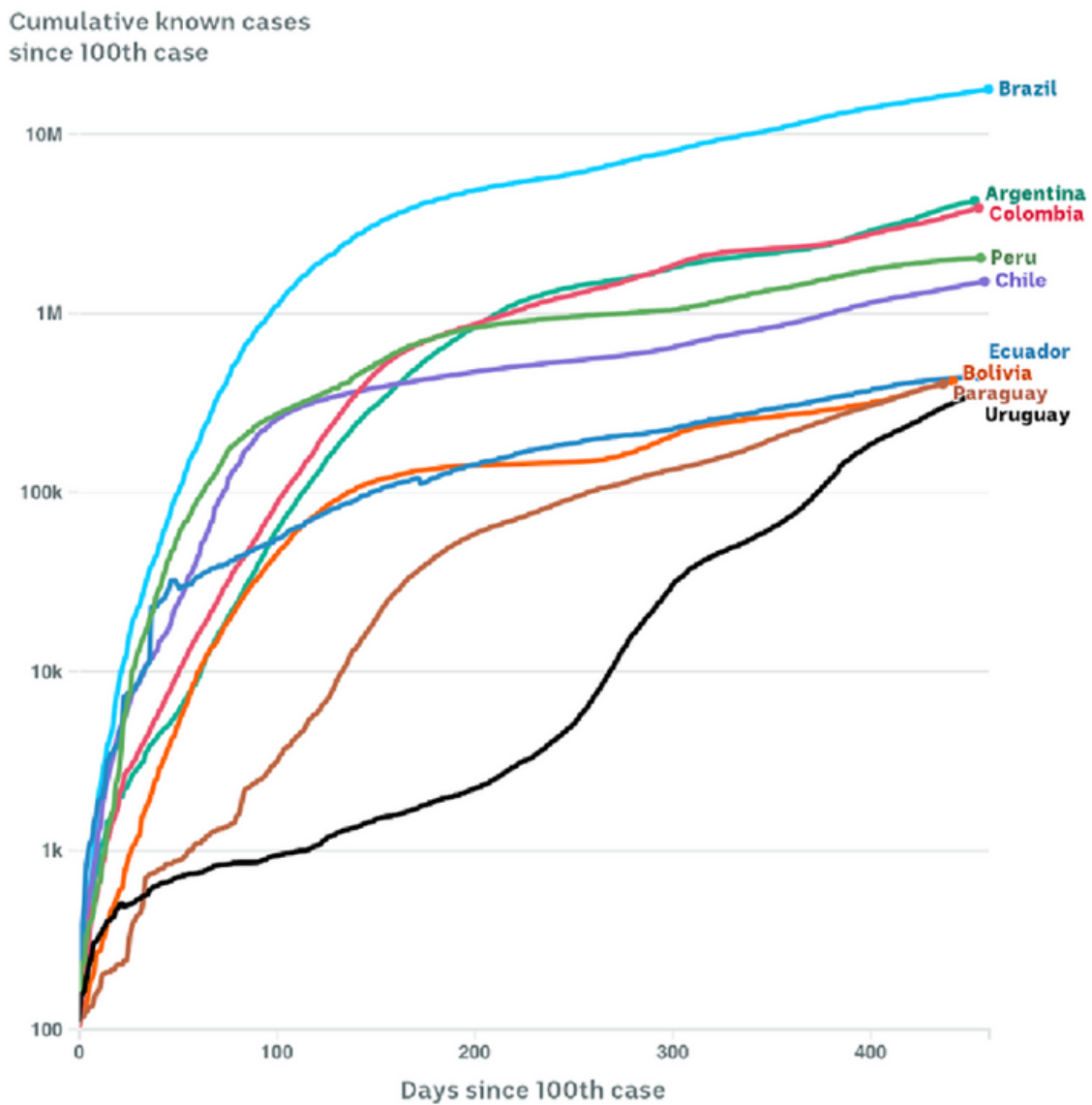
**6.7%**  
Developed  
country  
average

**2.4%**  
Latin America  
average

**3.7%**  
Global  
average

Source: IMF; Covid-19 Economic Stimulus Index – Elgin, C, Basbug, G, Yalaman, A (2020)

## ANNEX 11: CUMULATIVE KNOWN CASES SINCE 100TH CASE. THE CASE OF URUGUAY COMPARED TO OTHER LATAM COUNTRIES.

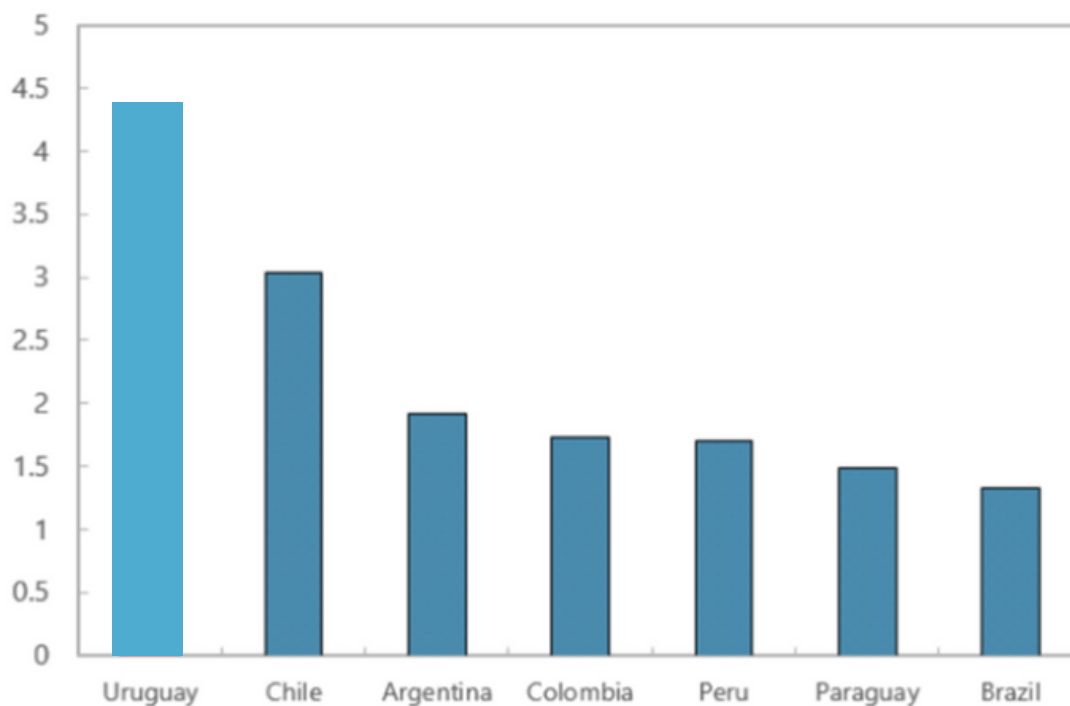


Available online at: <https://www.abc.net.au/news/2020-11-03/uruguay-unified-response-to-coronavirus-latin-america/12838608>

This graph shows the success of Uruguay compared to Brazil and Argentina, its two neighbours' countries that were hard hit by COVID-19.

## ANNEX 12: TRUST IN URUGUAY'S GOVERNMENT

**Yes, we trust**  
Strong public confidence in politicians.  
(public trust in politicians - 2018 or the latest)



Source: Global Competitiveness Index. Available online at: [https://blog-dialogoafondo.imf.org/?page\\_id=13879](https://blog-dialogoafondo.imf.org/?page_id=13879)

This graph shows the trust of citizens towards governments. Indeed, pre-existing confidence in the institutions and transparency in terms of reliable communication have led Uruguayans to accept and follow the containment measures.

## ANNEX 13:

<b>Y/Y change</b>	<b>2019</b>	<b>2020</b>	<b>2021 f</b>	<b>2022 f</b>
Total consumption	0.6%	-6.2%	1.6%	3.2%
Private consumption	0.5%	-6.2%	1.7%	3.5%
Public consumption	1.1%	-6.4%	1.3%	2.1%
Investment	-5.2%	8.0%	11.7%	7.3%
<b>Domestic demand</b>	<b>-0.3%</b>	<b>-3.8%</b>	<b>3.3%</b>	<b>3.9%</b>
Exports	3.6%	-16.2%	4.7%	4.8%
Imports	1.5%	-10.8%	8.3%	7.3%
<b>Balance of trade</b>	<b>0.7%</b>	<b>-2.1%</b>	<b>-0.6%</b>	<b>-0.4%</b>
<b>GDP mp (2016 prices)</b>	<b>1,769,071</b>	<b>1,665,426</b>	<b>1,709,571</b>	<b>1,768,594</b>
GDP (% change y/y)	0.4%	-5.9%	2.7%	3.5%

Source: Haring and Manias, 2021. Available online at: <https://www.bbva.com/en/publicaciones/uruguay-economic-outlook-2021/>

## ANNEX 14: URUGUAY – MAIN ECONOMIC INDICATORS (2018 – 2020)

### Uruguay: main economic indicators, 2018-2020

	2018	2019	2020 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	1.6	0.2	-4.5
Per capita gross domestic product	1.2	-0.1	-4.9
Consumer prices	8.0	8.8	9.9 <sup>b</sup>
Real average wage	0.2	1.3	-1.7 <sup>b</sup>
Money (M1)	5.5	7.1	9.7 <sup>b</sup>
Real effective exchange rate <sup>c</sup>	-2.9	1.9	5.7 <sup>b</sup>
Terms of trade } }	-4.9	3.6	7.3
	<b>Annual average percentage</b>		
Open urban unemployment rate	8.3	8.9	9.9 <sup>d</sup>
Central government			
Overall balance / GDP	-2.1	-3.1	...
Nominal deposit rate <sup>e</sup>	4.7	4.4	4.4 <sup>b</sup>
Nominal lending rate <sup>f</sup>	14.2	13.3	13.2 <sup>b</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	16 241	16 286	6 666 <sup>g</sup>
Imports of goods and services	13 093	12 924	5 464 <sup>g</sup>
Current account balance	-81	744	106 <sup>g</sup>
Capital and financial balance <sup>h</sup>	-327	-1 855	898 <sup>g</sup>
Overall balance	-408	-1 111	1 004 <sup>g</sup>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

## **ANNEX 15: INTERVIEW GONZALO GARLAND, PROFESSOR AT IE UNIVERSITY. CONDUCTED IN MAY 2021.**

### **Question 1: Why do you think LATAM became the epicentre of COVID-19? What were the main challenges faced by LATAM when the virus started?**

Well, you know, I would say at least that part of the answer is that Latin America was quite vulnerable as the health situation is weak due to poor access to public health services. In addition, the informal sector. In these countries, a lot of people work within the informal sector. As a result, to survive, they need to go out and work. They cannot stay at home, and for that motive, I believe that it might be one of the reasons why Latin America was hit so hard. It is a combination of poor health systems and this tendency to go out and work to survive. However, there are other things that we do not know. In other words, it is a relatively mystery why Africa has not been hit so hard. I have been reading articles about the age variable, or other explanations, arguing that Africa was already prepared for "another virus", as they have been already exposed to other pandemics. Yet, it is essential to mention that some LATAM countries did not recognise the importance of crisis, such as Mexico. That would be my impressions.

### **Question 2: To contain the spread of COVID-19, many LAC countries reacted swiftly by adopting strict social distancing and sanitary measures, however many of the lockdowns in the region (Argentina, Peru) extended through various months. Initially, it allowed the virus to remain controlled but was unable to bring cases down. Do you think having extended lockdowns harm the economy more?**

That is a critical question. I don't know if I have the answer, to be honest. Let me start by saying that, of course, severe lockdowns do have an impact on the economy. But at the same time, China had a strict lockdown and now is growing again. Also, countries that were not so strict also were hurt. The pandemic does not follow logical rules. For instance, Germany, in the beginning, was successful, yet now it is suffering. If you are asking to go back and ask if lockdowns should be avoided, my answer is no since it was a requirement. COVID-19 has led the world to a stage of uncertainty. It is difficult to know, and we need more information.

### **Question 3: The informal sector is big in LATAM, as a result, many individuals do not benefit from essential services. How should LATAM address this issue for future crises?**

I think that LATAM has a challenge in incorporating the informal sector into the formal one. It is not only that governments want to incorporate the informal sector into the formal sector because of taxation – of course, but that's also an element – people should be able to pay taxes. But that's just one part. I think the most crucial matter it's not so much how much they pay; but how much they could get by being in the formal sector. So, in a way, by being in the formal sector, they would have access to health services like pensions. Thus, right now, the problem is that if you work in the informal sector, you have to go out of work; otherwise, you can get any incoming, you cannot survive. Moreover, they do not have excellent access to health services. Even if supportive governments want to help people in the informal sector, they don't have the means to do it.

Overall, higher taxes would allow the state's government to provide some services to the people and thus beneficial for them. So, I think it is a big challenge as it has been a problem for a long time. So, trying to widen the tax base is essential to get minimise the informal sector. As a result, the informal sector would become formal and integrated into the rest of the economy.

### **Question 4: In the short term, social programs might diminish the negative effects of COVID-19, yet, once these programs end, a rebound of poverty might occur. What should governments do then?**

First, I have heard that some countries have tried to offer cash transfer to people working in the informal sector, such as in Brazil. Yet, your question is that poverty will go up again after the pandemic. Indeed,



LATAM has been affected hardly in terms of GDP. The pandemic would increase poverty. However, I hope that this situation does not continue in the future.

Now people are waiting for the United States' recovery, the "new deal". China has also been investing money for other countries. I am saying that particularly, in recent months, the US economy would impact the recovery of LATAM. For instance, Mexico's forecast is becoming more positive related to US recovery. Therefore, I do believe that by 2023, the situation would back to normal.

Do I believe that the pandemic has been a backlash for LATAM? Definitely, yes. In future years, the relation between LATAM and developed countries is vital in terms of economic terms.

**Question 5: How do you explain Uruguay's success at the beginning of the pandemic? Many believe that civil society / civil responsibility was the leading cause of its success. Therefore, should other LATAM governments build public institutions to strengthen their civil societies?**

Let me start by the end. Absolutely yes, education and responsibility for others are fundamental for LATAM. I have heard about Uruguay, yes, now they have also seen some increases in the case due to its proximity to Brazil. However, without knowing all the details, education and civil society were key factors explaining Uruguay's success. Overall, yes, absolutely, in any case, that is important.

**Question 6: Do you think a joint response from the region would have allowed LATAM countries to respond better to the health and economic crisis? (e.g. vaccination plan).**

I don't think it's very realistic to believe that a joint response would have allowed them to respond better. The European Union has a common policy, and some people – including myself – believe that due to this, the process of vaccination has been slower compared to other countries such as the UK or the US. Indeed, inside Europe, they have been discrepancies and even in the US. So, let's imagine LATAM. For instance, in Brazil, Bolsonaro wants to do whatever he wants. Thus, I don't think it would be a very efficient way or even realistic. I mean, if the United Nations or the World Health Organization would have tried to coordinate, maybe. Yet, from my point of view, it would have been a disaster.

**Question 7: Latin America has been described as a commodity-dependent country. Thus, due to a decrease in global demand, many countries have been affected by price volatility. Do you think that LATAM countries should diversify their economies?**

Dependence on natural resources and commodities, in general, works well with commodity booms. For instance, at the beginning of the 2000s. It is important to remember that right now, a commodity boom might occur, thus becoming an opportunity for LATAM countries in their path to economic recovery. Yet, I do believe that there is a need to diversify their economies for future crises mitigation. Diversification would minimise adverse shocks, and the economy would benefit from a more stable macroeconomic scenario.

**Question 8: Overall, LATAM countries were hit by the COVID-19 when their fiscal space had a small space to change. Thus, what policies or reforms should they follow to achieve success and stability in the future?**

One of the top priorities that I believe LATAM countries should focus on is education. When I say education, I do not only mean school education but also on their responsibility and knowledge about their rights. Overall, social responsibility. What I am trying to say is that school education is essential, but also that citizens should know their rights. Secondly, I believe that states must become "states", meaning that they should become more responsible. For instance, Brazil and Argentina have high taxes, yet the rest of the countries have very low taxes. Therefore, I want to emphasise that if you don't collect taxes, benefits for citizens are not going to be delivered. Fiscal reform is a must for LATAM countries. Governments need to think about incorporating informal sectors into the economy and spending that money more responsibly so that society has access to health services and education.

In the long run, governments should improve income distribution by creating channels accessible for everyone through an improvement of living standards. Overall, if you improve education, states will make social mobility.

**Question 9: Overall, what policies do you believe LATAM should follow to become less vulnerable to future crisis, similar to COVID-19?**

Overall, I believe the main priorities are:

- 1) Diversify the economy.
- 2) Rethink the state's role. In other words, create more responsible states (if there is an absence, people would not have trust). They need to ask themselves how they can assure the benefits of the population.
- 3) Create trust in the state, for instance, following the example of Uruguay.
- 4) Monetary and fiscal policies solve short-term problems; however, in the long terms, we need other policies to solve structural problems.

## ANNEX 16: SUMMARY OF LONG-TERM RECOMMENDATIONS

### Long-term recommendations.

#### Transformation of the capacities of the state with innovation.

- Transparency to enhance government accountability and public management.
- Reconstruction of trust and legitimacy.
- Educated citizens becoming an active part in the construction of agreements

#### Fiscal Policies.

- Transformation to allow guarantee tax collections that would strengthen the capacity of the state to provide quality public service.
- More inclusive spending promoting universal social protection
- Reduction of the informal sector.

#### Productive Transformation.

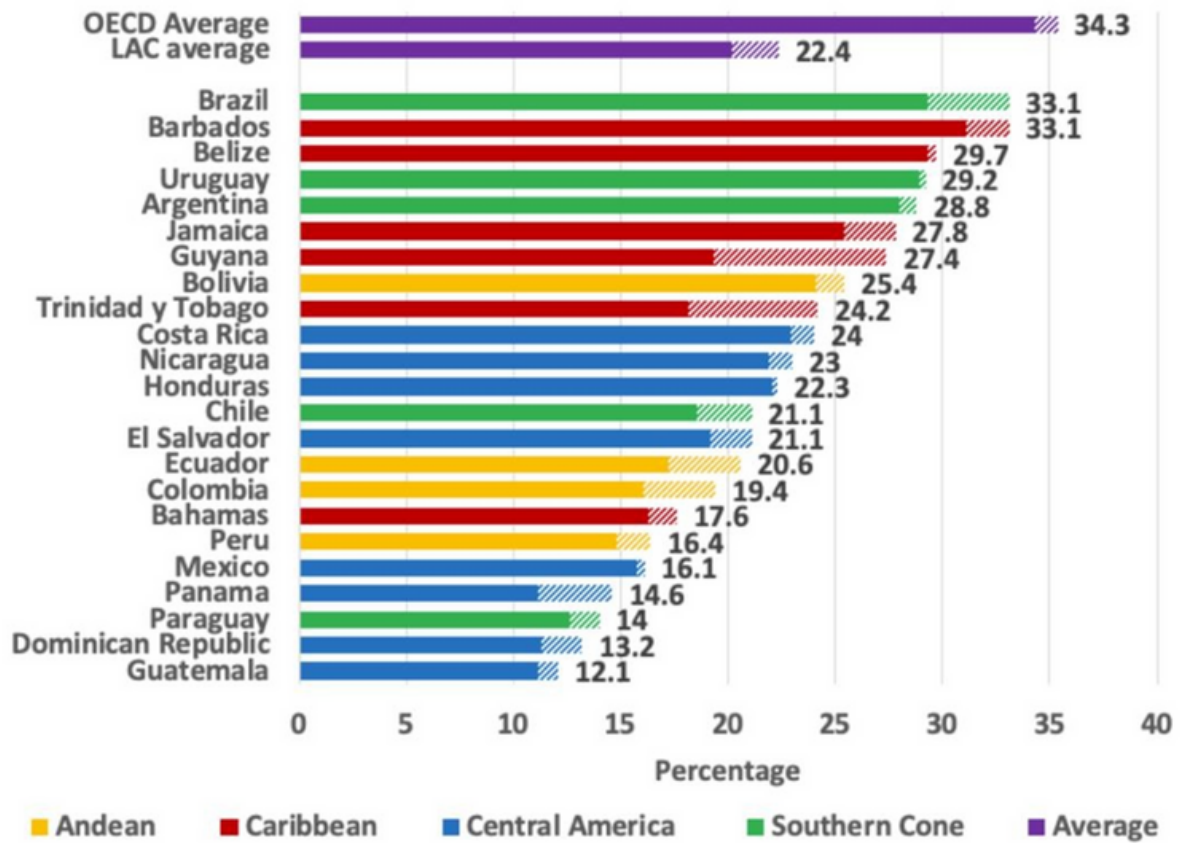
- Spending in infrastructure to improve accessibility to remote areas.
- Diversification to diminish commodity-dependence and thus minimize price volatility vulnerability.

#### Support transition to formal employment opportunities.

- Basic income programmes to ensure all citizens receive support during crises.
- Investing in education and upskilling programmes to facilitate the transition to more productive forms of formal employment.
- Policies to support job creation in the formal sector for youth and women job-search and job counseling / training and apprenticeship.
- Information campaign to show people the benefits of working in the formal sector and encourage them.

This diagram was created by the authors, based on the UNDP Report published in January 2021, "Latin America and the Caribbean: Effective Governance, beyond Recovery".

## ANNEX 17: TAX COLLECTION IN LATIN AMERICA AND THE CARIBBEAN.



Source: Izquierdo and Pessino, 2021. Available online at: <https://blogs.iadb.org/ideas-matter/en/a-post-covid-19-fiscal-strategy-for-latin-america-and-the-caribbean/>

This graph includes the estimated losses in revenues (lines) from the pandemic in 2020.



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