

# World Economic Forum on Latin America

## Laying the Foundation for a Latin American Decade

Rio de Janeiro, Brazil 27-29 April 2011



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## Preface

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**Marisol Argueta de Barillas**

Senior Director, Head of Latin America

The foundation for a Latin American decade was at the core of the 2011 World Economic Forum on Latin America in Rio de Janeiro, Brazil. The meeting was held at an exceptional time in Latin American history, with most countries well positioned for economic growth, and most of them willing to engage actively on international issues. The region's main challenge is to set realistic targets to be attained by the end of the decade, and to mobilize to reach them in a global landscape in deep transformation. To address this challenge, 750 top regional and global leaders from 45 countries convened around three thematic pillars: 1) Strengthening Regional and International Governance; 2) Enhancing Innovation and Productivity for Equitable Growth; and 3) Promoting Effective Partnerships for Sustainable Development.

Latin America is growing in global strategic importance while remaining a region of diverse economic opportunities and challenges. Most countries in the region have made significant progress in achieving sustained economic growth due to a combination of both internal and external factors that places Latin America ahead of other regions with an average 4.6% estimated growth for 2011. The comparatively sound performance of the region has been based on the consistent implementation of responsible domestic fiscal and monetary policies, the promotion of structural reforms, strengthened financial institutions, the diversification of export markets, and the concurrence of other external mitigating factors that include timely multilateral liquidity, availability of financial resources and a sustained

demand for commodities, particularly from China and other Asian countries.

On the social front, innovative poverty alleviation programmes such as conditional cash transfers are benefiting more than 110 million Latin Americans. These measures have already moved 40 million out of poverty in just six years and have positively impacted health and education as well. The expansion of the middle class should have a direct relation with the expected long-term economic growth, but inequality still remains an important challenge. As drugs trafficking, organized crime and violence affect the region's stability, improved education, innovation, modern infrastructure and regional integration will play a critical role in the region's competitiveness. These foundational elements are the key to improving productivity, achieving sustained, inclusive economic growth, and advancing social progress.

Main outcomes and insights resulting from the 2011 World Economic Forum on Latin America are presented in this report, which also includes strategies that have been highlighted and proposed as the groundwork to build the vision for the region. The goal is for Latin America to advance in the creation of thriving green economies that build on the region's real potential and on positive achievements related to long-term economic development, political stability and social progress based on ecological responsibility and sustainable development.

# Executive Summary: Laying the Foundation for a Latin American Decade

The foundation for a Latin American decade represents a vision to create thriving green economies. It builds on the region's real potential and on positive achievements related to long-term economic development and social progress, based on ecological responsibility and sustainable development. Successful programmes for poverty alleviation and social cohesion that have lifted 40 million people out of poverty in the last six years have been important accomplishments to build upon. This vision involves creating sustainable models to manage a significant number of the world's natural resources located within its landmass, and to strengthen the macroeconomic stability and democratic governance that Latin America has attained in recent years.

In the decade ahead, the world's attention will focus on Latin America – and on Brazil in particular – with major events, such as the 2012 Rio+20 UN Conference on Sustainable Development, the 2012 FIFA World Cup and the 2016 Olympic Games, taking place in the region. Mexico's presidency of the G20 in 2012 and the consolidation of the recently created "Pacific Alliance"

that integrates the economies of Mexico, Colombia, Peru and Chile offer important opportunities for global positioning in the coming years. With its population on track to grow to 650 million Latin Americans by 2020, the region is better positioned now than it has been in years to claim this leadership opportunity. Governance has been strengthened, the region enjoyed relative economic stability amid the developed world's fiscal crises, and global demand for its resources continues to grow. The fundamentals are aligned for Latin America to succeed in the years ahead.

Realizing this vision requires Latin America to remove a number of barriers that could stymie growth and even cause backsliding. The 2011 World Economic Forum on Latin America held in Rio de Janeiro, Brazil, brought together 750 global and regional leaders from 45 countries to discuss "Laying the Foundation for a Latin American Decade". Leaders discussed strategies to address the region's challenges and opportunities, and findings were organized under the following pillars.

## Strengthening Regional and International Governance

The growth of intraregional trade and Latin American multinational corporations – "multilatinas" – has increased the interconnectedness of the region. But political collaboration has lagged behind these economic linkages, particularly on shared challenges such as drug trade and resource conservation.

- **Economic linkages** – Strengthening trade and increasing competitiveness of Latin American businesses can continue to bolster intraregional cooperation, trade opportunities and economic prosperity. *Strategies:* Simplify tax codes, promote cross-country production chains for goods and services, encourage private sector leadership in regional trade and streamline the innovation-to-market process.
- **Drug trade** – Drug trade continues to plague the region, despite decades of investment in the "War on Drugs". *Strategies:* Develop home-grown legislation and new policies to combat and control illegal trade and increase regional and international cooperation to jointly and effectively fight drug trafficking, weapons trade, organized crime and all other related criminal activities.





**“What is happening in Brazil is a convergence of opinions towards a great project.”**

**Fernando Pimentel**, Minister of Development, Industry and Foreign Trade of Brazil

- **Good governance** – Democratic governance has been strengthened throughout most of Latin America, but corruption persists. In some nations, executive branches fail to respect limits on power, and judicial systems and the rule of law need to be strengthened. *Strategies:* Simplify administrative processes and use regional alliances and technology to deter corruption and abuses. Improve regional instruments and mechanisms to allow for collective action to prevent breaches to democracy and ensure the preservation of the democratic order.

### Enhancing Innovation and Productivity for Equitable Growth

The recent commodities boom has begun to lay the economic foundation for the Latin American decade, but, like all other economic cycles, this one will eventually end. Latin America needs to promote more value-added production, to invest more in investigation and to introduce more innovation through advanced technology and new modern business models. The region requires using today's gains to prepare for the future by addressing social inclusion, strengthening education and improving infrastructure.

- **Education** – The region's education system is currently ill-equipped to provide the entrepreneurship, innovation and employment opportunities that the next generation will need. *Strategies:* Improve teaching quality, provide attendance incentives and expand technical training programmes.

- **Innovation** – Strengthening innovation in Latin America would address two challenges that thwart growth: low productivity and social exclusion. *Strategies:* Enhance education by improving and modernizing curricula, and develop correlation between academia, government and the private sector.

- **Infrastructure** – Deficient infrastructure not only deprives millions of people of basic services, but it also hampers productivity and impedes economic growth. *Strategies:* Improve long-term planning to manage resources more effectively, offset environmental impact and manage funds more responsibly.

- **Credit** – Strengthening small and medium businesses will be essential to bring millions out of poverty, but access to credit is not enjoyed by all Latin Americans. *Strategies:* Expand entrepreneurs' access to credit, and use technology and innovation to expand micro-lending and savings.

- **Employment** – Rigid labour laws, originally designed to protect workers, have decreased employment opportunities in some countries and impeded access of foreign companies to expansion in Latin America. *Strategies:* Reform labour laws to promote inclusion and use tax incentives to expand formal employment.

- **Gender Equity** – In many countries in Latin America, women have achieved equal education levels to men; nonetheless, they are still underrepresented in the workplace. *Strategies:* Increase



**“While we are eager to engage to improve global governance, there is a growing sense in Brazil that our future is inextricably linked to our neighbours.”**

**Antonio De Aguiar Patriota**, Minister of External Relations of Brazil

flexibility of policies that encourage balancing families and careers, and promote women in the corporate and public sectors to increase representation.

### Promoting Effective Partnerships for Sustainable Development

Latin America enjoys a unique relationship to global environmental challenges, such as climate change and water scarcity, given the trove of natural resources it possesses. With 24% of the world's arable land, the region has the capacity to lead the world in developing its green economy and must develop *strategies* for balanced growth.

- **Energy** – Energy resources are abundant in Latin America, and the region must develop policies and private sector expertise to use them efficiently to ensure energy security for future generations. *Strategies:* Use tax credits and other policy incentives to support renewable energy development and incorporate smart grids into the energy infrastructure.
- **Agriculture** – Food production must increase 80% by 2050 to meet global needs, and demand for biofuels is also likely to increase strains on the agriculture sector. Latin America is poised to help solve these challenges, but faces a number of obstacles. *Strategies:* Improve infrastructure, liberalize trade, strengthen partnerships between academia, government and the private sector, and improve water conservation through tax policy and planning.
- **Resources** – Conservation of natural resources will be essential to Latin America's long-term success, but this goal does not need to be pitted against economic growth. *Strategies:* Develop private conservation partnerships that do not depend on governments, improve environmental impact assessments for infrastructure projects, expand metrics for resource valuation and quantify impacts of responsible businesses.



**“A business model is needed to further develop the intellectual property that is already existent.”**

**Orit Gadiesh**, Chairman, Bain & Company, USA; Member of the Foundation Board of the World Economic Forum; Co-Chair of the World Economic Forum on Latin America



**“Big events escalate the development and create a very significant repositioning of countries.”**

**Sir Martin Sorrell**, Chief Executive Officer, WPP, United Kingdom; Co-Chair of the World Economic Forum on Latin America



**“We tend to see innovation as technology and products, but it can also be related to business models and services.”**

**Frederico Fleury Curado**, President and Chief Executive Officer, EMBRAER, Brazil; Co-Chair of the World Economic Forum on Latin America



**“The projects that are in mind in Latin America are truly world-scale.”**

**Vikram Pandit**, Chief Executive Officer, Citi, USA; Co-Chair of the World Economic Forum on Latin America



**“The fundamental problem in Latin America is not employment, like in European countries; it is closing the gaps.”**

**Luis A. Moreno**, President, Inter-American Development Bank, Washington DC; Co-Chair of the World Economic Forum on Latin America





# Strengthening Regional and International Governance



Even at the dawn of the hoped-for Latin American Decade, regional integration remains far from being fully accomplished. Nonetheless, growing intraregional trade and investment bind neighbouring countries together like never before. Common problems, like drug trade, criminality and conservation, seem ripe for cooperative solutions. At the same time, citizens in some countries are calling upon their neighbours for support in the face of domestic political stonewalling.

### Competitiveness beyond Commodities

Dependence on commodities increases the exposure of Latin American countries to global price fluctuations and does not produce high-quality jobs. Investments in innovation and infrastructure might provide the path to a more sustainable future, but the region's governments can also take action to address the current predicament.

- *Simplify tax codes to boost competitiveness.* Besides reducing taxes, Latin American countries must simplify their tax codes to reduce red tape to improve their competitiveness. Brazil and other Latin American countries must not only reduce taxes, but also take steps to confront local currency over-appreciation against foreign currencies to keep exports, notably manufactured exports, more competitive.
- *Expand intraregional trade despite the lack of bilateral agreements.* Intraregional trade would seem to offer excellent prospects for manufactured products and services in Latin America. Nonetheless, Asian countries – which have more significant language and geographic differences – boast greater trade integration. Latin America could catch up. Regional trade is growing significantly, and so-called “multilatinas” are producing more true economic integration than that engendered by trade agreements. One example is the growth in cross-border investment between Mexico and Brazil, which do not have a free trade agreement. Many Latin American firms are also moving into other parts of the world. Some are moving first into countries that share languages or cultural affinities, such as Brazilian firms moving into Portuguese-speaking countries.
- *Improve the innovation pipeline, from research to market.* There are six main factors that enable expansion abroad by Latin American companies: leadership, technology, human resources, finance, social responsibility and innovation. Because Latin American countries generally lag in innovation in particular, technology deserves special attention. Tips to making headway on the



**“Latin America should continue being a source of growth irradiating stability and peace to the rest of the world.”**

Moisés Naím, Senior Associate, International Economics, Carnegie Endowment for International Peace, USA

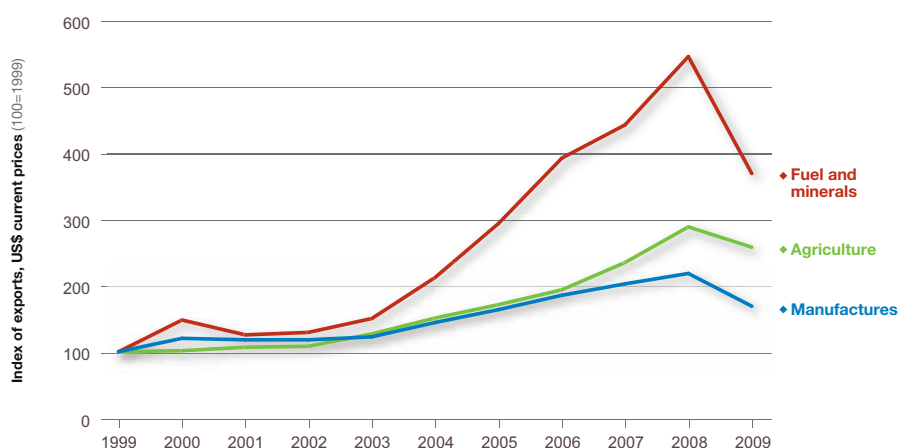


**“There is an urgent need to give a boost to the manufacturing sector so as to increase employment opportunities for the large young population in developing countries”**

Jyotiraditya M. Scindia, Minister of State for Commerce and Industry of India; Member of Parliament, India

### Fuel and mineral exports have boomed since 2003

Latin America commodity exports



Source: WTO (2011)



technology front include: move quickly; make strategic alliances for R&D; register patents; and create good distribution systems to get innovations to the market. Relatively unknown firms can gain an upper hand by using technology that is superior to their better-known competitors.

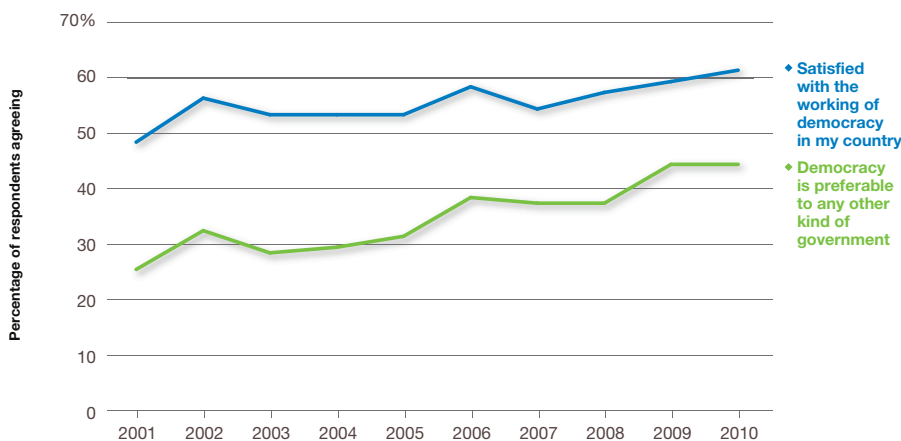
### Beyond the War on Drugs

The War on Drugs has been ineffective. Relative success in one place just pushes drug traffickers across the border. Some countries run the risk of becoming “mafia states” with drug cartels controlling high levels of government. Others merely face growing levels of violence. While demand has not subsided, the already strained US budget cannot afford massive funding increases to continue financing the war on drugs. The time would seem ripe for a home-grown solution to the problem.

- *Improve Latin American coordination and local solutions to combat drug trade.* Once taboo, legalization is beginning to find its way into polite conversation. The debate is likely to be heated with vocal extremes on either side, but intermediate options are being considered, such as partial legalization of some substances under certain conditions. Opponents of legalization claim that use, and abuse, will necessarily rise with legalization, but evidence from Portugal, which launched decriminalization a decade ago, does not support that view. Even though cooperation and

### Public support for democracy is rising in Latin America

Survey on beliefs about democracy



Source: Latinobarometro 2010 Report

## PACI: Laying a Foundation for Transparency

The World Economic Forum Partnering Against Corruption Initiative (PACI) Task Force meetings provide an opportunity for signatory companies to engage with peers from around the world and across industries to address anti-corruption challenges of mutual interest and to guide the future direction of PACI. With reference to the infrastructure projects being implemented for the 2014 World Cup and 2016 Olympic Games in Brazil, the 15th Task Force meeting in Rio de Janeiro recognized the need to:

- Ensure cooperation between enforcement agencies at different levels of government with a responsibility for law enforcement
- Build trust between the public and private sectors and set up secure reporting mechanisms to enable the private sector to highlight incidents of corruption
- Effectively monitor individual authorities/agencies at various levels of government responsible for particular projects to ensure that budgeted funds are accurately used for the projects
- Support public-private initiatives whose aim is to increase levels of transparency, integrity and social control of investment in infrastructure

coordinated action remain vital, the time has come for Latin America to devise its own drug policy independent of the United States and other developed countries where demand is high. This would include coordinated efforts to combat the criminal cartels that control the currently illicit drugs and weapons trade and other related illegal activities.

### Threats to Democracy and Corruption

Most Latin American countries have solid democracies, but the executive branch in a few countries is whittling away the independence of the legislative and judiciary branches. In some places, lack of integrity has contaminated the judiciary, with politicians, businesses and criminals, especially drug cartels, influencing judgements.

- *Streamline administrative processes to reduce corruption.* Transparency is an important tool in fighting corruption. Some countries have led anti-corruption policies by creating websites and other tools available to the public that disclose all government expenditures. Businesses often complain about convoluted bureaucracies that create multiple

opportunities for corruption. Merely streamlining public administrative processes can help reduce bribery.

- *Deter human rights abuses.* Most countries have faced up to human rights abuses of previous eras, but they seem more reluctant to address those taking place in neighbouring countries today. Human rights abuses and “criminalization” of opposition parties in some countries is not only a problem for local citizens, but for the region. International coordination is needed to improve cooperation and accountability to deter the spread of anti-democratic political movements. In addition, a strengthened, independent press could help use technological tools, such as social networking, to expose human rights abuses and increase international awareness.



**“A bigger emphasis on the rule of law and national strategies for development are needed in Latin America.”**

**Leonel Fernández**, President of the Dominican Republic

# Enhancing Innovation and Productivity for Equitable Growth

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The stage for the Latin American decade has been set in large part by the commodities boom. Like all other cycles in economic history, this one will not last forever. Latin America needs to use today's bonanza to prepare for its next play. Part of the current windfall should be earmarked for investments in innovation and equitable growth.

Innovation is needed to address two stubborn issues facing Latin America: low productivity and social exclusion. These two factors are linked, since low productivity contributes to divided societies. Low productivity can be blamed on several factors. Most often mentioned are insufficient and deficient infrastructure and poor educational systems. Add to that a lack of credit and financing for small companies, start-ups and poor individuals, and a societal climate that fails to encourage entrepreneurship.

Impressive strides have been made in terms of inclusion and equitable growth in recent decades. In most countries of the region, macroeconomic stability established the preconditions for growth that helped millions of people to ascend into the middle class, while public transfer payment programmes in some countries have pushed significant numbers of others above the poverty line. However, starting as it did from a position of extreme inequality, Latin America still has a long way to go.

## Education for Innovation and Entrepreneurship

Everyone agrees that the problem is not a lack of talent but rather what is done with talented people. Especially because of technology, students often arrive in school better prepared than before. But are schools ready to take advantage of this?

- *Improve teaching quality.* Countries such as China have boosted educational performance thanks to the commitment of the entire society. They have flip-flopped UNESCO's motto "Education for All" into "All for Education". Improved education begins with better prepared and empowered teachers. Teachers should be encouraged to take initiative, and merit-based promotion systems should complement or replace traditional seniority-based hierarchies.
- *Provide attendance incentives.* To reduce dropout rates, cash-for-attendance programmes could be extended from primary to high school and post-secondary education. One novel programme in the region provides grants to high school graduates to attend college. Companies can provide stipends for training or offer more internships. Entrepreneurs should be brought into schools to interact with students and faculty. In all of these initiatives, girls deserve special attention.



**"We have given women more education, but we have not changed the world to take advantage of this fantastic investment."**

Ricardo Hausmann, Director, Center for International Development, Harvard Kennedy School, Harvard University, USA; Global Agenda Council on Competitiveness

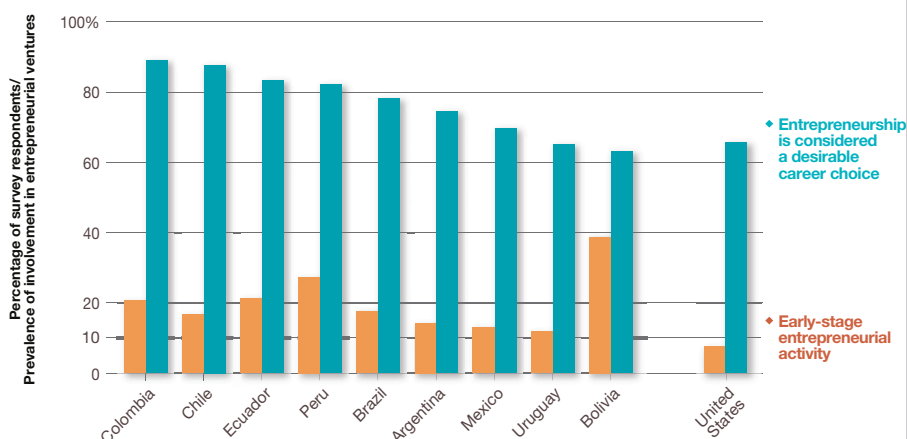


**"The current landscape of predictability in Brazil is conducive to public and private investments in the area of infrastructure, but these investments should be closely linked to education."**

Henrique Meirelles, President, Olympic Public Authority, Brazil

## Entrepreneurship in Latin America

Latin Americans value entrepreneurship



Note: Mexico entrepreneurial activity is 2008.

Source: Global Entrepreneurship Monitor 2010 Global Report

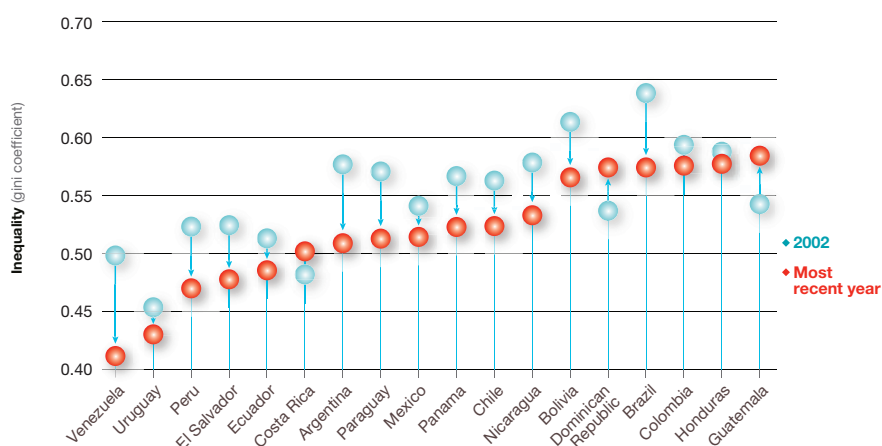


**“We’d like to show the world a new Brazil.”**

**Renato Augusto Villela**, Secretary of State for Finance, Government of the State of Rio de Janeiro, Brazil

## Inequality is falling across most of Latin America

Inequality in select Latin American economies



Note: Most recent year is most recent survey from 2006-9

Source: ECLAC (2010)

- Expand technical training.* For young people who do not continue their academic studies, “skilling” (as it is known in India) can be more important than education. Many countries, including Brazil, are beefing up their technical schools. Rio de Janeiro state is taking a step further to prepare young people for what used to be called “unskilled” jobs like restaurant work. Global events taking place in Brazil will require qualified services and specialized skills.
- Increase innovation by enhancing university governance, curricula and linkages to the private sector.* Innovation is needed to address Latin America’s low productivity and fragmented societies. Allowing university governance to be more flexible and to adapt curricula would enable institutions to modernize and tackle 21st century challenges. Brazil, for example, generates a significant number of scholarly papers, but the region generates only a tiny fraction of the world’s new patents. Improving connections between universities and businesses would help correct this deficit.
- deprives parts of the population from accessing basic services. Investment in infrastructure can promote equitable growth and social inclusion. Upcoming global sporting events present an opportunity in the region to construct legacy infrastructure that will create jobs, help brand the region and provide benefits to future generations.
- Adopt guidelines to improve infrastructure planning and implementation.* While projects are often overwhelming in their size and complexity, governments can boost infrastructure investment by following a relatively straightforward set of guidelines:

  - ensure macroeconomic stability and a stable regulatory environment, which are essential for long-term predictability
  - engage in long-term planning that does not hinge on electoral cycles
  - help provide and/or create the conditions for long-term financing
  - attract state-of-the-art technology
  - manage public finances responsibly so that public money is available for projects that do not attract private-sector investments
  - assess environmental and social costs
  - give affected communities a voice in the process



**“We cannot trample the rule of law.”**

**José Miguel Insulza**, Secretary-General, Organization of American States (OAS), Washington DC

## Infrastructure for Everyone

The infrastructure deficit in Latin America is reflected directly in the quality of life of the region’s citizens. It puts a drag on economic growth and



## World Economic Forum on Latin America Rio de Janeiro, 27-29 April 2011



### Credit to the People

Large companies and medium-to-high wealth individuals in Latin America enjoy a full range of world-class banking services and financial products. The problem of access to credit and remunerated savings lies with small businesses, start-ups and poor individuals – many of whom run micro-businesses.

- *Improve access to credit and savings for entrepreneurs.* Small companies need reasonably-priced funding. The government can play a role by assuming some of the risk involved in investing to expand or innovate. There is evidence that grants are better than loans as tools to encourage innovation. Brazil is launching a programme by the Brazilian innovation agency FINEP to provide financing for entrepreneurs. Governments can also establish incentives to encourage the creation of venture capital funds.
- *Use technology and innovation to expand micro-lending.* Microfinance and mobile phone banking can extend the reach of financial services to millions of poor people, but, even then, millions will remain fully or partially excluded from the banking system. Creative programmes can be devised to meet the needs of the poor. For instance, one fund manager has taken advantage of the fact that poor youngsters have better

access to computers than to bank accounts. It places university loan applications (for US\$ 1,000 to US\$ 8,000) on its website. The bank runs background checks, and, if the loans are approved, the money is sent directly to the universities. (How do you run a credit checks on poor high school students? One way is to find out whether they have defaulted on their mobile phone bills.)

### Gender and Employment

Many Latin America countries have succeeded in closing the education gap between women and men, with women now more educated than men in some cases. But education is not enough, as the women continue to lag in economic and political indicators. Likewise, the formal employment sector has excluded thousands of would-be workers at a time when the region greatly needs to increase workforce productivity.

- *Improve flexibility of corporate policies and increase leadership positions for women.* Talent shortages in some highly specialized fields have caused sharp wage inflation, yet the under-representation of women denies the region's workforce a valuable asset. By adopting incentives and policies that encourage balancing family and career demands, businesses in the region could help close the gender gap.

- *Reform labour laws to promote inclusion.* Many Latin American countries have rigid labour laws that are designed to protect workers but ultimately reduce employment opportunities. For example, restrictions in some countries on part-time work keep people with other major commitments, such as students and mothers of small children, out of the formal job market. By adding flexibility into the legislation, governments can effortlessly create thousands of jobs.

- *Use tax incentives to expand formal employment.* Other relatively simple measures can have remarkable results. For instance, household maids have generally been employed informally, meaning, among other things, that they have not been covered by the social security system. By providing a tax break to families that register their maids and pay social security contributions, the Brazilian government is helping the women without criminalizing their employers.

## An Innovation Decade for Latin America

Latin America is falling behind in terms of innovation, with only 0.2% of patents in the world originating in the region. The Regional Agenda Council on Latin America has determined that strengthening innovation is a central priority for Latin America. It is imperative for both reaping the benefits of growth and addressing regional challenges in a timely manner. Building on the insights and analysis of the Regional Agenda Council, four dimensions form the foundation of a Latin American decade of innovation:

1. Innovation for Technology and Business Productivity
2. An Institutional and Public Policy Framework for Innovation
3. The Role of Higher Education and Training for Innovation
4. Innovation for Sustainability and Social Inclusion

### Innovation for Technology and Business Productivity

- Ensure the rule of law, especially IT laws – the right laws will bring the right kind of investment
- Create a climate for innovation – for example, provide government grants for innovation that are more effective for innovation than tax breaks
- Change the mind-set of businesses – R&D must be viewed as an investment and not an expense
- Encourage collaboration in the region with transparency in administrative processes
- Build clusters of businesses and research centres, and promote the creation and growth of a venture capital industry – small companies need reasonably-priced funding

### An Institutional and Public Policy Framework for Innovation

The innovation process must involve three actors: research institutions, the public sector and the private sector.

- Focus – countries should choose their role and install an appropriate system
- Improve relations between universities and the business community
- Create a long-term vision in the public sector to guide the process
- Help small companies assume risk – the government should assume some of the risk of innovation for small companies
- Take advantage of the positive economic climate and encourage innovation
- Improve the patent system – more regional cooperation is needed

### The Role of Higher Education and Training for Innovation

- Make university governance more agile to encourage change
- Improve the curriculum – because of technology, students start school better prepared
- Provide incentives – government grants to families help keep children in school, and could be extended to high school and beyond; grants to high school graduates can be used for college
- Provide incentives for faculty, including extension services as part of the job evaluation process
- Inspire – both education and inspiration are needed for innovation; bring entrepreneurs into schools to interact with students and faculty, with focus on women

### Innovation for Sustainability and Social Inclusion

- Recognize the role of the public sector for innovation – governments are needed to reach “hard to reach” populations, such as the growing number of older persons
- Promote the convergence of economics and social development – their separation is not conducive to innovation
- Focus on social innovation – set up a fund to sponsor social innovation and create new incentives, e.g. tax breaks for employers who register their maids and make social security contributions
- Collect, evaluate and disseminate best practices
- Encourage accountability in the private sector – few major companies in Latin America are publicly traded, and the truly “private” companies are not accustomed to accountability, transparency and dealing with outside stakeholders
- Encourage private-private partnerships towards a green economy – for example, shared R&D

Latin America should set aside part of the current windfall for investments in innovation. The commodities boom will not last forever, and the region needs to prepare for an even more challenging future.



# Promoting Effective Partnerships for Sustainable Development

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Next year, the UN Conference on Sustainable Development Rio+20 will focus global attention on sustainability and climate change. This will not only be a discussion about the environmental agenda, but necessarily about an economic agenda as well. Latin America is positioned to lead the decade in promoting the green economy. Economic leadership in today's world requires having a balanced approach to resource consumption. Given the region's wealth of natural resources – from the Amazon to oil deposits – Latin America has the potential to leapfrog existing business models and become the world's largest supplier of energy, food and oxygen.

Achieving this goal will require removing a number of barriers to achieve energy security and food security, promote resource conservation and increase corporate responsibility. The Latin American private sector has the innovative capacity, scale, expertise and will to partner with governments and civil society to create new models of sustainable development.

### Energy Security

Latin America possesses a wide range of energy sources, and Brazil already boasts one of the world's cleanest energy matrixes. Renewable energy constitutes 44% of its total energy requirements, as compared to the world average of 14%. The region can

advance energy security, continue to grow its clean energy sector and mitigate rising costs with the following strategies:

- *Advance policies that support research and investment in renewable energy.* Companies have demonstrated the willingness and ability to develop this sector; however, government funding – such as subsidies of fossil fuels – actually deter investment. Adjusting tax policies, subsidies and other incentives would reduce the barrier to entry and allow for the growth of new markets – in bio-plastics, for example – that expand sustainable industries.
- *Use smart grids in energy infrastructure.* Smart grid technology allows electricity to flow to and from multiple points, varying with needs and supplies, rather than simply from the source to the point of consumption. Small-scale deployments of the technology have generated 10-15% savings for customers. These systems do not reduce overall energy consumption, but they use grids more effectively to allow maximal benefit from available resources.

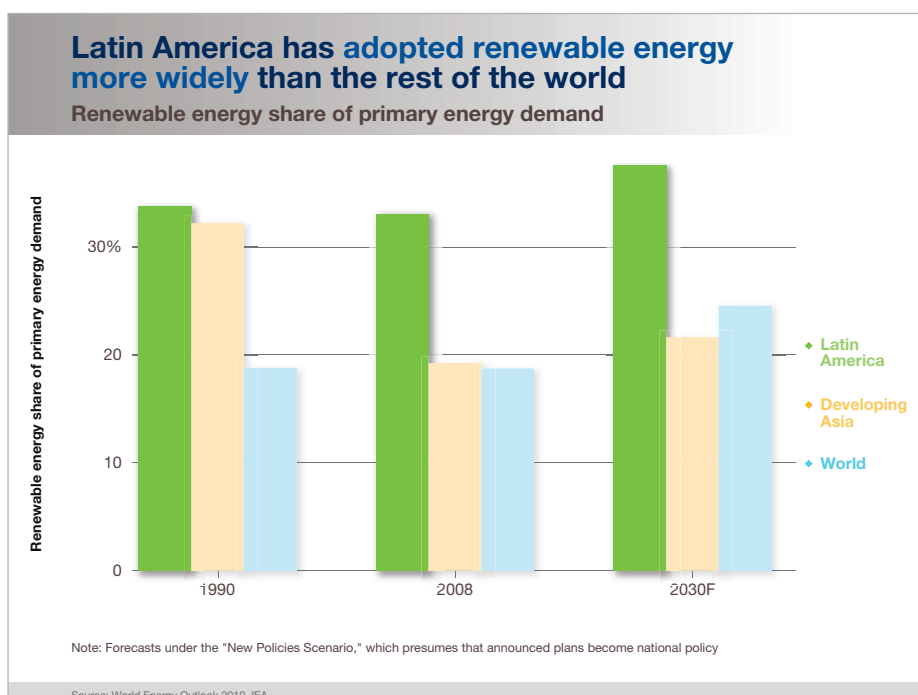
### Agricultural Production

With increasing demand from population growth and biofuels, the world could face a food crisis in the years ahead. Global food prices have



**“Latin America is actually a potential solution to the food supply problem in the world today.”**

**Pamela Cox**, Vice-President, Latin America and the Caribbean, World Bank, Washington DC; Regional Agenda Council on Latin America



**“Public-private partnership initiatives should incentivize voluntary investments in natural conservation through REDD while global agreements are being negotiated.”**

**Luiz Fernando Furlan**, Co-Chairman of the Board of Directors, Brasil Foods, Brazil

already hit record highs in 2011, which places tremendous strains on the world's poor. With 24% of the world's arable land, Latin America can harness its competitive advantage in agriculture and help increase global supply by focusing on the following areas:

- *Improve infrastructure.* Lack of investment in roads, ports, rail, communications and other infrastructure increases costs to Latin American farmers and contributes to waste of perishable goods. Upgrading transportation networks would improve efficiency of the agricultural market at a time when both food and biofuel material are greatly needed.
- *Liberalize trade.* Tariffs, subsidies and other barriers prevent agricultural surpluses in the region from meeting demand in the developed world and Asia. Given the potential of Latin America's agricultural sector, reducing these barriers would add incentives for farmers and permit greater access to food worldwide. The stalled Doha trade negotiations present an opportunity to help correct inefficiencies in these markets.
- *Strengthen partnerships between government, academia and the private sector.* Technology will be essential to unlocking the region's agricultural potential, but the

region's educational system has languished in fostering innovation. Improving agricultural productivity will require greater coordination among governments, universities and the private sector to convert scientific breakthroughs into market outputs.

- *Improve water efficiency through tax policy and planning.* Agriculture consumes 70% of the world's available water, so efficient uses of water will be an important component of the region's strategy to increase agricultural production. Governments can play a critical role in incentivizing water efficiency by adopting programmes that link loans with water efficiency and offer tax incentives to farmers who conserve. Mexico has developed a comprehensive plan – the 2030 Water Agenda – to balance supply and demand, improve access and other such goals. A comprehensive strategy could help the region's governments improve planning to reduce water scarcity.

### Biodiversity and Resource Conservation

From rain forests to mineral deposits, Latin America contains a trove of natural resources that enhance the region's prosperity but must also be used responsibly to ensure benefits to future generations. These resources have been depleted and harmed through deforestation, large-scale



**“A nation cannot progress if half of its population is left behind.”**

**Kamla Persad-Bissessar**, Prime Minister of Trinidad and Tobago



**“The world has to worry about inflation”**

**William R. Rhodes**, Senior Adviser, Citi, USA



## Preparing for Extreme Events

As the recent earthquake in Japan has illustrated, no nation – wealthy or developing – is immune to the risks posed by natural disasters. The differential impacts of the earthquakes in Japan, Chile and Haiti show that planning and early warning systems can mitigate the effects of such events and leave decimated regions better positioned to rebuild. The following strategies are based on collective global experiences to improve preparedness, response and recovery.

- **Develop early warning systems.** In Japan, disaster preparation helped stop bullet trains seconds before the quake, but better detection and evacuation systems might have helped save lives in coastal areas. Latin American nations should construct and test such systems to prepare for future disasters.
- **Strengthen regional coordination to ease delivery of medical aid and humanitarian relief.** An international crisis response institute could help countries exchange information and techniques for responding to extreme events.
- **Improve building standards via partnerships between builders, financiers, insurers, governments and communities.** Improving building codes throughout the region would increase resilience. In rebuilding the Gulf of Alabama, one novel programme linked insurance payments to building inspections and safety codes. Such collaboration among insurance agencies, mortgage financing, builders and inspectors offers a model that requires little government intervention and could benefit the region.
- **Conduct rigorous risk assessments.** Risk analysis should be a top priority for any country looking to better prepare itself for possible future catastrophes. Efficient planning depends on knowing risks, and insurers can play a role in mapping and sharing information about these threats.

infrastructure projects, irresponsible mining and other such activities. The following strategies would improve conservation:

- *Develop private-sector partnerships to raise conservation standards.* In 2006, NGOs and the private sector collaborated to create a pledge prohibiting trade of soybeans from deforested Amazonian areas. Such agreements achieve conservation goals without requiring government intervention. Governments can – and should – play a role in this field, particularly in coordinating regional conservation.
- *Improve environmental impact assessments for large projects.* Historically, impact analyses often neglected to focus on appropriate, environmentally-directed compensation to offset ecological harms. Multinational banks, which often fund such projects, can partner with businesses and government to set minimum requirements and standards for sustainable construction.
- *Expand metrics for resource valuation.* Economic calculations should account for the wide set of benefits of natural resources such as water and energy. In the case of the Amazon, valuations of logging could show the market value of felled trees, but they would neglect the forests' importance to water supply, hydroelectric energy and niche export markets, such as Brazil nuts. Expanding these considerations would give policy-makers and businesses tools to appreciate the resource value.
- *Quantify impacts of responsible businesses.* The private sector excels at meeting quantifiable targets. Defining responsibility and sustainability in terms of metrics, such as water consumption, emissions and workforce education, will allow companies to benchmark performance, articulate clear goals and take credit for successes. Integrated reporting also encourages companies to become leaders in achieving sustainable development.



**“The economic impact is massive, because the thing about sport now is that it is about so much more than sport.”**

**Tony Blair**, UN Middle East Quartet Representative; Global Agenda Council on Conflict Prevention

# Meeting Insights: The Foundation for a Latin American Decade

The 2011 World Economic Forum on Latin America held in Rio de Janeiro, Brazil, brought together more than 750 global and regional leaders from 46 countries to discuss the foundation for a “Latin American Decade”. Among many insights, the following seven strategies have been highlighted and proposed as the groundwork to build this vision for the region. The goal is for Latin America to advance in the creation of thriving green economies that build on the region’s real potential and on positive achievements related to long-term economic development, political stability and social progress based on ecological responsibility and sustainable development.

## Decouple Economic Growth and Resource Consumption

- *Expand metrics for resource valuation.* Economic calculations should account for the wide set of benefits of natural resources such as water and energy. In the case of the Amazon, valuations of logging could show the market value of felled trees but neglect the impact on water supply, hydroelectric energy and niche export markets. Expanding these considerations would give policy-makers and businesses tools to appreciate resource value.
- *Quantify social and environmental indicators to boost corporate responsibility.* Companies can improve sustainability and responsible behaviour by quantifying metrics, such as water consumption, emissions and workforce education. Integrated reporting of this data allows companies to articulate clear goals and take credit for successes.

- *Develop private-sector partnerships to raise conservation standards.* NGOs and the private sector can generate conservation commitments that minimize resource exploitation without necessitating government action.
- *Improve environmental impact assessments for large projects.* Multinational banks, which often fund large infrastructure projects, can partner with businesses and governments to set minimum conservation requirements and offset environmental damage.

## Improve Business Competitiveness

- *Simplify tax codes.* In addition to reducing taxes, Latin American countries must simplify their tax codes to reduce red tape. In Brazil and other Latin American economies, devaluing the local currency against foreign currencies would make exports more competitive.
- *Integrate regional economies by further expanding “multilatinas”.* Intra-regional trade in Latin America lags behind regions such as Asia. So-called multilatinas are helping close this gap, even among countries that do not have free trade agreements, for example Mexico and Brazil.
- *Improve preparation to mitigate effects of natural disasters.* Governments must work to improve preparedness for natural disasters as well as public awareness of dangers during and after a disaster. Financial incentives could be offered for use of adequate construction techniques. Early warning systems are the key to ensuring communities rebound from extreme events.

- *Boost infrastructure investments through stable regulatory rules.* Consistent, transparent regulatory environments are needed to attract infrastructure projects with state-of-the-art technology, fiscal responsibility and clear social benefits. Global sporting events should be a platform to attract new businesses and investment, create jobs and improve infrastructure projects in such a way as to build a legacy and rebrand nations in the region.

## Enhance Technological Innovation

- *Improve the innovation pipeline, from research to market.* Latin American countries lag in innovation, but technology is needed to meet regional challenges. Many junctures of the innovation process need improvement: making strategic alliances for R&D, registering patents, and improving delivery of innovations to the market. Value-added manufacturing is needed to avoid raw material commodity export dependency and to promote better quality jobs.
- *Expand technical training.* Many countries are enlarging technical schools. Further steps are being taken to prepare young people for what used to be called “unskilled” jobs, such as hospitality services.
- *Improve access to credit for entrepreneurs.* The government can help expand job opportunities by assuming the risk involved in small business expansion and encouraging the creation of venture capital funds.
- *Use technology and innovation to expand microlending and savings.* Microfinance and mobile phone banking can extend the reach of



financial services to millions of poor people, and banks can use technology to increase access to education loans, for example.

### Strengthen Governance

- *Streamline administrative processes to induce integrity.* Businesses often complain about convoluted and corrupt bureaucracies, and transparency is an important tool in fighting corruption. Simplifying public administrative processes can help reduce bribery.
- *Leverage technology and regional cooperation to deter human rights abuses.* Good governance has improved in much of Latin America, but challenges still remain. Regional collaboration is needed to keep non-democratic governance models from expanding. Social media also provide tools to challenge governments, mobilize protests and galvanize the new generations.
- *Improve collaboration to fight drug trade and organized crime, and reduce violence.* International and hemispheric collaboration is required to fight drug trafficking, pursue disarmament and reduce insecurity. An integrated, multidimensional approach is required to address crime and violence and their political, social and economic consequences. Greater cooperation between law enforcement agencies across borders could be immediately beneficial, and countries should be helped to improve their justice systems and strengthen the rule of law. New approaches to control drug trafficking should be discussed.

### Promote Energy Security

- *Improve local expertise and investment in renewable energy.* The region already boasts models of clean energy matrixes, but renewable energy needs to be significantly expanded. Latin America lacks some of the local expertise required – from engineers to management – to fully develop home-grown innovative industries.
- *Reduce subsidies on fossil fuel and provide credits for R&D in renewables.* Adjusting tax policies, subsidies and other incentives would reduce the barrier to entry and allow for the growth of new markets – in bio-plastics, for example – that expand sustainable industries.
- *Use smart grids in energy infrastructure.* While smart grid systems do not reduce overall energy consumption, they distribute energy more effectively and maximize benefits derived from available resources.

### Boost Agricultural Production

- *Improve infrastructure.* Poor roads, ports, rail, communications and other infrastructure increase costs to Latin American farmers and contribute to waste of perishable goods. Upgrading transportation networks would improve efficiency and maximize output.
- *Liberalize trade.* Tariffs, subsidies and other trade barriers prevent surpluses in the developing world from meeting demand in the developed world. Reducing these barriers – through the Doha trade negotiations, for example – could permit greater access to food worldwide.
- *Strengthen partnerships between government, academia and the private sector.* Innovation is needed to improve agricultural

production, but the region lags in patent filings and other such metrics. Ties between government, universities and the private sector should be strengthened to convert scientific breakthroughs into market outputs.

### Increase Entrepreneurship and Employment

- *Improve teaching quality and curricula.* The region's teachers should be encouraged to take initiative, and merit-based promotion systems should complement or replace seniority-based hierarchies. Curricula should also be redesigned to be more relevant to the job market of the 21st century.
- Cash-for-attendance programmes have reduced primary-school dropout rates and could be extended to high school and post-secondary education. The private sector can play a role in providing training stipends, expanding internship programmes and bringing entrepreneurs into classrooms.
- *Reform labour laws to promote inclusion.* Many Latin American countries have rigid labour laws designed to protect workers, which ultimately reduce employment opportunities. Increasing flexibility of these codes would increase access to new jobs.
- *Improve opportunities for women.* Taking advantage of the underutilized investment in women's education can help Latin America face the worldwide talent crunch. Businesses and governments should encourage flexible labour policies, access, quality and empowerment to the benefit of women and society as a whole.

# Acknowledgements

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The World Economic Forum would like to thank the following companies for their support as Partners or Supporters of the World Economic Forum on Latin America:

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CA Technologies  
Cisco  
Citi  
Clayton, Dubilier & Rice LLC  
The Dow Chemical Company  
DuPont  
Ernst & Young  
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## **Meeting Supporters**

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The World Economic Forum would like to thank the Government of the State of Rio de Janeiro for serving as a host of the sixth World Economic Forum on Latin America. The Forum would also like to thank the Brazilian Trade and Investment Promotion Agency (Apex-Brasil), the Brazilian National Confederation of Industry (CNI) and the Group of Fifty (G50) for their contributions to the success of the meeting.

The World Economic Forum would also like to thank The Coca-Cola Company and PepsiCo for their support.



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## **Editing and Production**

Helena Halldén, Editor  
Kamal Kimaoui, Associate Director, Head of Production and Design  
Floris Landi, Graphic Designer

## **Photographers**

Alexandre Campbell  
Bel Pedrosa  
Cicero Rodrigues (editor)

The World Economic Forum would like to thank PwC for its help in preparing the data and statistics underpinning this report.





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