

# **THE IMPORTANCE OF ENTREPRENEURSHIP, OPPORTUNITY, AND GOVERNANCE FOR LATIN AMERICA: PROSPERITY INDEX TRENDS BETWEEN 2009 AND 2014**

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## **Abstract**

The Latin American and Caribbean region has witnessed noticeable economic growth over the last decade. How some countries in the region have resisted the financial crisis by continuing to grow has also not gone unnoticed by the international community. Whether said development and growth can keep its pace or not, however, remains the big question. This paper addresses this issue using a multidimensional approach that provides a broader picture of the current situation in Latin America. Using the rich data included in the Legatum Prosperity Index, an index that measures prosperity as a combination of wealth and wellbeing across 142 countries, this paper analyses how entrepreneurship, opportunity, and good governance are key elements to promote prosperity. In particular, this paper discusses how the enhancement of entrepreneurial activities, backed up by improvement in technological infrastructure, can only produce lasting, positive results in Latin America if inequality of opportunity is reduced, and good governance – an area showing acute problems in the region – is promoted.

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**Keywords:** Latin America, Growth, Entrepreneurship, Opportunity, Governance

## **Introduction**

Progress in Latin America has mostly been measured as economic progress, and economic development has traditionally been the main focus in the region not only in organisations such as the World Bank and the International Monetary Fund, but also in the media and in international policy-making strategy. Yet one question remains unanswered: can economic growth remain high and produce the expected development outcomes for the region as a whole? This issue is one of the most important at the moment for Latin America, especially at a time when economic

growth forecasts are low for Latin America and Caribbean in the upcoming year, a situation that has not been helped by current drops in commodity prices (Wharton, 2015). Using the Prosperity Index, which offers a multidimensional view of prosperity, this paper will attempt to explore the importance of entrepreneurship, opportunity, and governance for the Latin American region,<sup>1</sup> and its current and potential impact on development and prosperity. These issues are singled out for analysis not simply because they present interesting trends between 2009 and 2014, but also due to their importance for growth, development, and prosperity in the region.

The connection between high entrepreneurship levels and economic growth is quite consensual in the literature as discussed below, and has been widely acknowledged by the international community. In the 2013 World Economic Forum in Lima, Peru, for example, the whole agenda revolved around how to make the Latin American economy more dynamic through entrepreneurship and innovation (WEF, 2013). Recognising that link, this paper observes regional trends between 2009 and 2014 in order to identify areas of improvement and potential problems with entrepreneurial activity. What will become apparent are the disparities between countries in the region and how inequality of opportunity is still a problem with the potential to curb prosperity in the whole region.

Inequality, in its many dimensions, has been the quintessential problem of Latin America with the region usually being referred to as the most unequal in the world. It is clear that a lot still needs to be done to address inequality in Latin America despite some authors pointing towards the progress the region has seen in recent years.<sup>2</sup> Using the Index, this paper will demonstrate that increases in equality of opportunity specifically have been very low – with decreases occurring in some countries – and how this has the potential to pervert the desired outcome of economic growth.

Lastly, this paper will focus on how good governance and institutions are lacking in the region as a whole and show how full democracies tend to perform better than other countries still climbing up the democracy ladder. Sound institutions are extremely important for growth, development, and wellbeing as it will be argued. The present analysis will demonstrate that governance has been a persistent issue for Latin America over the analysed

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<sup>1</sup> In this paper, the analysis of the Latin American and the Caribbean region will look at the following countries: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela. This refers to the countries the Index measures in the region. Any country not included is due to a lack of available data.

<sup>2</sup> Inter alia see Calva-Lopez & Lustig (2010).

period, with the potential to seriously affect the region's development and prosperity.

In order to proceed with the proposed, this paper will briefly explain the Index's methodology – since the Index will be the main source for analysing outcomes –, followed by a general trend analysis for Latin America and the Caribbean. It will then take an in-depth look at entrepreneurship, opportunity, and governance measures.

## I.

### The Prosperity Index – Methodology

The Prosperity Index ranks 142 countries around the world, covering 96% of the world's population and 99% of global GDP.<sup>3</sup> The objective of the Index is to provide a multidimensional view of prosperity – one that includes both wealth and wellbeing – in the context of 'GDP and beyond' literature.<sup>4</sup>

The Index ranks countries in eight different sub-indices: Economy, Entrepreneurship & Opportunity, Governance, Education, Health, Safety & Security, Personal Freedom, and Social Capital. The Index's scores and ranks are the result of equally weighting the eight sub-indices, which calculated together create a broad image of a region or country. Each sub-index is made up of several variables – 89 in total – that look into different issues relevant for each sub-index, relevance which is assessed through regression analyses (Legatum Institute, 2012 pp. 35-36). As explained in the Index's methodology:

'The 89 variables across the eight sub-indices are categorised according to whether they impact wellbeing or income or both. A country is then given a score in each-sub-index, one for wellbeing and another for income. This score is based on that country's performance regarding each of the variables and on the level of importance assigned to each variable. The level of importance, or 'weight', attributed to a given variable is determined through rigorous regression analyses; it is not, therefore, based on subjective judgement or discretionary choices. Finally, the sub-index scores are averaged to obtain an overall prosperity score, which determines each country's rank. For each sub-index (...) [the Index] provide[s] individual country scores and rankings.'

Legatum Institute (2012) p.5

The Index includes both objective variables – where 'a comparable standard of objectivity has been applied across observations' (Legatum Institute, 2012 p.9) – and subjective variables, which measure people's

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<sup>3</sup> For more information on the Index, please refer to its website [www.prosperity.com](http://www.prosperity.com) (Legatum Institute2, 2014).

<sup>4</sup> A discussion triggered by Stiglitz, Sen, & Fitoussi (2009) report on moving beyond GDP, where the authors assess GDP's performance as a measure of social progress.

perceptions of several issues relating to their wellbeing. These variables were selected from several sources such as World Bank Indicators, Freedom House, or Gallup World Poll, and the source is consistent for the 142 countries observed between the years of 2009 and 2014, thus allowing for cross-country and time-series comparison.<sup>5</sup>

Other indices based on the ‘GDP and Beyond’ literature and debate, such as the well-known Human Development Index (HDI), point towards country rankings that use more than just GDP in their country-level analysis. As shown, the Prosperity Index includes innovative factors such as measures of subjective wellbeing, resulting in a different perspective of countries’ performance and current states. Briefly comparing the Index’s results with the HDI’s, for example, reveals some differences in the rankings, especially in the positions of Venezuela and Peru (HDI, 2014). On a top-level analysis, Venezuela’s position in the HDI seems much closer to its GDP than in the Prosperity Index, as it will be seen below in several instances. This happens, it is argued, because of the inclusion of several measures of subjective wellbeing in the Prosperity Index, something the UN – the creator of the HDI – is currently considering as well (Yang, 2014).

General Prosperity trends in Latin America and the Caribbean between 2009 and 2014.

Latin American and Caribbean countries have seen strong improvements in overall Prosperity since 2009. Compared with other regions, South and Central America were among the most improved regions between 2009 and 2014, after sub-Saharan Africa and Asia (Legatum Institute, 2014 pp. 11-12). The increase in the whole of Latin America is due to improvements in every sub-index over this period, except for Safety & Security and Education, which have declined slightly – see Figure 1. This overall movement (with the exception of Education) very much reflects a worldwide trend of improvement in all sub-indices, with Safety & Security being the least improved globally (Legatum Institute, 2014 pp. 39-40). Latin America has helped influence certain global trends such as an increase in Entrepreneurship & Opportunity (seen also in the Asia-Pacific, MENA, and Sub-Saharan Africa regions);<sup>6</sup> an increase in the Economy (seen also in the Asia-Pacific and Sub-Saharan Africa regions); an increase in Health (seen across all regions including Europe); an increase in Personal Freedom, (seen

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<sup>5</sup> The Index uses the most recent available data for its analysis, which means that the data points may correspond to 2008 as the earliest data used or 2013 as the most recent – this will be properly signalled in the analysis. This technique is used in virtually every index available, as a way to contravene any lack of data. See, for example, the HDI (2014).

<sup>6</sup> Europe has also improved in the Entrepreneurship & Opportunity sub-index, but improvements in the region are much lower than in any other region (Legatum Institute, 2014 p. 35).

also in the Asia-Pacific and Sub-Saharan Africa regions); and, finally, the poor performance of Safety & Security (seen in all regions of the world, except for Europe) (Legatum Institute, 2014 pp. 33-37).<sup>7</sup> Entrepreneurship & Opportunity, Economy, and Personal Freedom are the three most improved sub-indices for Latin America since 2009 – see Figure 1 –, while Health, Governance, and Social Capital have improved slightly over this period of time. In the same period Governance has remained the lowest scoring sub-index for the region as it will be analysed *infra*, while Personal Freedom has remained the highest scoring – see Figure 1.

This trend in Personal Freedom has been led by an increase on average in all of the indicators that make up the sub-index. Worthy of highlight is the increase in every country<sup>8</sup> of satisfaction with freedom of choice.<sup>9</sup> Satisfaction with freedom of choice mostly reflects satisfaction with economic freedom according to the literature.<sup>10</sup> It is unsurprising that all countries are more satisfied with freedom of choice, given the economic developments that the region has seen.<sup>11</sup> Other Personal Freedom indicators that reflect tolerance and civil liberties have all increased on average as well, although there are disparities within countries and the increase is not as marked as in satisfaction with freedom of choice – see Figure 2 for Personal Freedom ranks.

The performance in the Economy sub-index also deserves a brief analysis, since it shows a clear upwards trajectory for the region and it is very closely related with the overall argument of this paper. The Economy sub-index shows great improvement, being the second highest scoring sub-index for the region in 2014 and presenting the second highest increase compared with 2009. The distinctive feature of the Index's Economy sub-index is that it does not rely solely on GDP as a measure of economic performance and growth, but also on other objective and subjective indicators to assess economic multidimensionality (Legatum Institute, 2012 pp. 12-13, 55-56). Disparities within the region are most apparent within the

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<sup>7</sup> The analysis on Legatum Institute (2014) on page 33 refers to the Americas region as whole, which includes the United States of America and Canada. However, the trends as presented are mainly influenced by Latin American and Caribbean countries, given the higher number of countries in analysis and the different trends that the United States and Canada present for the same period comparing with Latin American countries.

<sup>8</sup> It excludes Belize due to data only available for 2007; and Haiti, since the country has only been added to the Index in 2012.

<sup>9</sup> Survey question: In (country of respondent), are you satisfied with your freedom to choose what you do with your life?' (yes %) Source: Gallup World Poll®

<sup>10</sup> Inter alia see Veenhoven (2000).

<sup>11</sup> In spite of this, there is not clear association of rising or high satisfaction with freedom of choice with rising or high ranks and scores in the Economy sub-index that can be drawn in this instance.

Economy sub-index, with improvements led by Central & North America and South America,<sup>12</sup> where the Economy has been its highest scoring sub-index since 2011 and 2013, respectively. In Central & North America, Panama (33<sup>rd</sup>), and Mexico (34<sup>th</sup>) have been particularly strong, and in South America the highlight goes to Chile (30<sup>th</sup>), Brazil (37<sup>th</sup>), Paraguay (38<sup>th</sup>), and Colombia (39<sup>th</sup>). On the other hand, in the Caribbean the Economy is the second lowest scoring sub-index after Governance in 2014, due to the overall poor performance of Trinidad and Tobago (71<sup>st</sup>), Dominican Republic (81<sup>st</sup>), and Jamaica (128<sup>th</sup>) – see Figure 2. Plus, the Economy sub-index shows a slight decline in 2014 compared with 2009 for the Caribbean.

This result for the Caribbean is in part the result of extremely low satisfaction with standards of living.<sup>13</sup> Haiti (21%), Jamaica (44%), Trinidad and Tobago (57%), and Honduras (60%) are four of the five countries most dissatisfied with standards of living in the Latin American and Caribbean region in 2013,<sup>14</sup> accurately reflecting the current situation in these countries in the Caribbean.<sup>15</sup>

### **Entrepreneurship & Opportunity**

As it has been argued *supra*, the link between both entrepreneurship and opportunity, and continued economic growth and development is quite established in the literature. There have been studies looking at the specific case of Latin America, with authors such as Larroulet & Couyoumdjian (2009) describing a paradox where there seems to be a thriving entrepreneurial environment, which does not, on the other hand, seem to translate necessarily into faster economic growth. This has been especially true since 2014, when growth has declined and predictions of growth in the future for the region are not particularly favourable<sup>16</sup> – even though the Economy sub-index for the region has presented some improvements as observed above. As the analysis will show, the potential pernicious effects of

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<sup>12</sup> The sub-regions are divided here as: the Caribbean (the Dominican Republic, Jamaica and Trinidad and Tobago), Central & North America (Belize, Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Panama and Mexico) and South America (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Paraguay, Uruguay and Venezuela). The inclusion or exclusion of countries is dictated by the data available.

<sup>13</sup> Survey question: ‘Are you satisfied with your standard of living, all the things you can buy and do?’ (%yes) Source: Gallup World Poll®.

<sup>14</sup> The other one is Venezuela where only 56.1% of Venezuelans declared to be satisfied with their standards of living.

<sup>15</sup> See inter alia UN (2013).

<sup>16</sup> See inter alia Wharton (2015).

inequality might have something to do with curbing the positive effects of increases in entrepreneurship.<sup>17</sup>

Looking at the trends the Index is capturing, Entrepreneurship & Opportunity is the most improved sub-index for Latin America between 2009 and 2014 – see Figure 1. This improvement on the sub-index reflects two interconnected global trends: (i) a worldwide improvement on Entrepreneurship & Opportunity indicators, where the sub-index has been the most improved sub-index on average between 2009 and 2014 for all the regions of the world (Legatum Institute, 2014 p. 37); and (ii) the global increase in technological infrastructure by means of increasing mobile and internet communications around the world. These are interconnected because the increase of technological infrastructure around the world has been the main reason for why the Entrepreneurship & Opportunity sub-index has increased so much compared with the other sub-indices in this time-period. This is especially true for sub-Saharan Africa, the biggest improver in this sub-index since 2009 (ibid.) where the increase in mobile internet communications has been presented as the most auspicious advance for the region in terms of entrepreneurship, opportunity, and more even development.<sup>18</sup>

The improvement in technological infrastructure that the sub-index reflects in Latin America is, therefore, due to increases in mobile phones<sup>19</sup> – where in average there are 115 mobile phones per 100 people –, mobile phones per household,<sup>20</sup> secure internet servers,<sup>21</sup> and internet bandwidth.<sup>22</sup> In mobile phones per 100 people there is variation between countries in terms of increase, but all countries have improved in this measure. Argentina, Belize, Bolivia, and Brazil show the highest improvements, while Panama, Argentina, and Paraguay are the countries with the highest numbers. Panama registered 163 mobile phones per 100 people in 2013, just behind Finland on this measure. On the contrary, Trinidad and Tobago, and Uruguay are the least improved.

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<sup>17</sup>Larroulet & Couyoumdjian (2009 p. 96) conclude that ‘the combination of high levels of entrepreneurship and mediocre rates of economic growth in Latin America is thus not as paradoxical as it may seem because Latin American nations have a lower proportion of productive entrepreneurship than developed countries have’. This paper does not dispute this conclusion; rather it intends to add to this debate.

<sup>18</sup> Inter alia see Madon (2000).

<sup>19</sup> Cellular devices per 100 people. Source: Int. Telecommunication Union.

<sup>20</sup> Survey question: ‘Does your home have a cellular phone?’ (yes%) Source: Gallup World Poll®.

<sup>21</sup> Servers using encryption technology in internet transactions, per one million people. Source: World Development Indicators.

<sup>22</sup> The contracted capacity of international connections between countries for transmitting internet traffic, mega bites per second. Source: Int. Telecommunication Union.

Adding to the overall trend of increased technological infrastructure, business opportunities have also increased in Latin America, with business start-up costs<sup>23</sup> declining overall. Countries such as Colombia and Chile have shown particularly large falls in start-up costs. On the other hand, there are still countries that present extremely high start-up costs in 2013: Nicaragua at 77% of GNI per capita; Bolivia at 72%; and Guatemala at 46.4%, for example. This contrasts highly with Trinidad and Tobago (0.8%) and Chile (0.7%) in the same year, showing the big disparities in this measure within the region. This and other increases on average – such as in royalty receipts<sup>24</sup> – have the potential to bare good fruit in terms of the future economic advancement of the region.

If there are encouraging signs coming from the region in some measures of entrepreneurship, measures of opportunity such as uneven economic development<sup>25</sup> indicate cause for concern. This is where the problem may lie when examining why an entrepreneurial environment does not seem to produce the expected results. Whilst it is true that uneven economic development levels have declined on average, the declines are very small, and the values are still extremely high for most countries in the region. Plus, there are countries that now have more uneven economic development than in 2009, with Chile, Paraguay, and Panama showing the highest increases. Haiti, Bolivia, and Paraguay present the highest levels of uneven economic development in the region, with Haiti at 9.1, Bolivia at 8.9 and Paraguay at 8.6 in 2013. Haiti is the third most uneven country in the world<sup>26</sup> – after Angola, Central African Republic, and Nigeria –, Bolivia is the fifth, and Paraguay the ninth.

In the 2014 Prosperity Index, the connection between this measure of opportunity with inequality of opportunity and social mobility is quite strong (Legatum Institute, 2014 pp. 19-20). The Index in this instance cites the work of Brunoni, Ferreira, & Peragni (2013), where the authors ‘show a strong correlation between unequal access to opportunity and higher social stagnation’ (Legatum Institute, 2014 p.20). The Index uses the uneven economic development variable to replicate their exercise and ‘show that countries with low mobility are characterised by a more uneven economic

<sup>23</sup> Start-up business costs measured as a share of GNI per capita. Source: World Development Indicators.

<sup>24</sup> Royalty and license fees are payments and receipts between residents and non-residents for the authorised use of intangible, non-produced, non-financial assets and proprietary rights. Source: World Development Indicators.

<sup>25</sup> It measures group-based inequality, or perceived inequality, in education, in jobs, and economic status. It also measures by group-based poverty levels, infant mortality rates, and education levels. Ordinal rating: 1 to 10, in which 10 represents the worst possible outcome. Source: Failed States Index.

<sup>26</sup> In the 142 countries the Index includes.

environment' (ibid.). Two of the least mobile countries as presented are Brazil and Peru, together with India and South Africa (ibid.).

Although the relationship between inequality and entrepreneurship is somewhat controversial in the literature – with authors such as Lecuna (2014) arguing that certain levels of income inequality may generate an entrepreneurial impetus in certain models – the impact of inequality of opportunity on social mobility as generated by entrepreneurship has been defended by many.<sup>27</sup> As it has been demonstrated by the study based on the 2014 Prosperity Index, highly unequal access to opportunity can prevent mobility. It is argued in this paper that this is true even in an environment where internet and mobile communications make access to information more widely available, given what has been said above.

### **Governance**

The importance of institutions and good governance should not be underestimated. The connection between income and wellbeing, and good governance and institutions has been widely and continually debated, with present debate arguing for their importance for development and prosperity.<sup>28</sup> Problematic for Latin America and the Caribbean is the fact that the Governance sub-index has consistently been the lowest scoring sub-index for the region. Whilst there has been a very small improvement between 2009 and 2014, the comparative finding holds across this time period – see Figure 1. Improvement is due to very slight increases on average in some measures, such as government effectiveness,<sup>29</sup> or rule of law,<sup>30</sup> but Governance remains low due to the overall poor performance of most variables in the sub-index throughout the years analysed. Governments' poor performance has been met consistently with widespread mistrust towards governmental policies and enforcement bodies.

There is a clear distinction, however, in terms of performance between countries that are full democracies according to government type

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<sup>27</sup> See Solimano (2014) for an overview of the literature on entrepreneurship, opportunity and inequality, with a special focus on Latin America.

<sup>28</sup> On the relationship between governance and income see inter alia Kaufman, Kraay, & Mastruzzi (2008) and Kaufman & Kray (2002).

<sup>29</sup> It captures the efficiency and quality of bureaucracy, level of government stability and effectiveness with respect to the implementation of policies. Ordinal rating, where 2.5 represent the best possible outcome, and -2.5 the worst. Source: World Bank Governance Indicators.

<sup>30</sup> The extent to which individuals within a society respect property rights, the police and the judiciary system, as well the quality of police and legal safeguards. Ordinal rating, where 2.5 represent the best possible outcome, and -2.5 the worst. Source: World Bank Governance Indicators.

data<sup>31</sup> and countries that score lower or are not actually democracies – as is the case of Haiti and Venezuela. The connection between democracy and growth is quite well established,<sup>32</sup> and it proves to be an interesting point when looking at Latin America, since the Index shows that full democracies tend to also present the best results in other variables of the Governance sub-index in the region. All countries score quite highly in government type data in Latin America, except for Ecuador (although still a democracy, it scores lower than any other democracy in the region at 5), Haiti (at 0, meaning effectively an autocratic regime as defined by the government type data), and Venezuela (at -3, another autocratic region, scoring even lower than Haiti). Out of the five countries to score the highest in government type at 10, four are also the highest ranked countries in the Governance sub-index:<sup>33</sup> Chile (23<sup>rd</sup>), Costa Rica (29<sup>th</sup>), Uruguay (31<sup>st</sup>), and Trinidad and Tobago (47<sup>th</sup>).<sup>34</sup> These four countries stand out from others in the region mainly due to positive scores in objective measures such as government effectiveness, regulation quality,<sup>35</sup> and separation of powers.<sup>36</sup> In this last variable, these four are the only countries in the region to obtain the maximum score of 32. On the contrary, Venezuela and Haiti are the region's poorest performers in the Governance sub-index at 134<sup>th</sup> and 139<sup>th</sup> respectively, whilst presenting the lowest scores for government type. In fact, Venezuela and Haiti are amongst the ten lowest ranked countries in the world for Governance, with

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<sup>31</sup> The extent to which a society is autocratic or democratic; this measure depends on the competitiveness of executive recruitment, constraints on chief executives, regulation of political participation and competitiveness of political participation. Ordinal rating: 10 represents the best possible outcome (full democracy) and -10 the worst possible outcome (full autocracy). Source: Polity IV project 2010 – Central for Global Policy, Centre for Systemic Peace.

<sup>32</sup> On the links between types of governance and growth, see inter alia Acemoglu, Johnson, Robison, & Yared (2008), Avellaneda (2006) and (Barro, 1997).

<sup>33</sup> This not happen due to the weight the government type variable is given in the sub-index. In fact, out of the eight objective variables in the sub-index, government type's weight is the second lowest. See the Index's methodology (Legatum Institute, 2012 pp. 59-60).

<sup>34</sup> The only exception here is Belize, which scores 10 in government type and ranks 72<sup>nd</sup> in the Governance sub-index.

<sup>35</sup> Captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Ordinal rating, where 2.5 represents the best possible outcome, and -2.5 the worst. Source: World Bank Governance Indicators.

<sup>36</sup> Composite variable including five components that are highly correlated: competitiveness in executive branch, competitiveness in legislative branch, judiciary independence, regulation of executive election and political participation. Ordinal rating, where 1 represents the worst possible outcome and 32 the best. Source: Cingranelli-Richards (CIRI) Human Rights Dataset

Venezuela presenting the greatest decline of the whole region in Governance between 2009 and 2014.<sup>37</sup>

Apart from these four countries, others in the region continue to present low results in objective measures of Governance, with only a few countries presenting significant increases in the sub-index variables since 2008. The overall results do show on average increases, but these increases are still very low and the speed of improvement appears to be quite slow.

Reflecting these poor performances in objective indicators, people's perceptions of government and enforcement bodies are generally low as well – which contributes to the successive low ranks in this sub-index in general. The regional average for each subjective variable is actually always lower than the global average, except for measures of corruption<sup>38</sup> where the average in Latin America and the Caribbean is 5% higher than the global average.

Starting with corruption, although presenting high levels, it has decreased on average since 2009, with countries such as Nicaragua, Mexico, and Ecuador presenting the greatest declines. On the other hand, there are countries where people's perceptions of widespread corruption have increased significantly over the same period, such as El Salvador and Colombia. It is interesting to note that Trinidad and Tobago and Jamaica present the highest levels of perceived corruption in the region in 2013, at 85% and 88% respectively, denoting people's concerns in the Caribbean with this issue. These two are followed by Colombia (85%) and Honduras (83%), this last one also in the Caribbean.<sup>39</sup> Uruguay stands as the least corrupt country in the region, with only 47% of people declaring corruption to be widespread, placing between Belgium and Japan in this measure.

The discontent with and mistrust of government and judicial bodies in the region is quite clear when looking at confidence in the judicial

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<sup>37</sup> The 2014 Prosperity Index highlights how Venezuela is the country that has fallen the most globally in overall Prosperity, due to declines in the Economy, Governance, Personal Freedom and Social Capital sub-indices (Legatum Institute, 2014 p. 8).

<sup>38</sup> Composite variable which includes two survey questions: 'Is corruption widespread within business located in (respondent's country)?' and 'is corruption widespread throughout the government in (respondent's country)?' (%yes) Source: Gallup World Poll®

<sup>39</sup> Very surprisingly, also in the Caribbean, Haiti is the second country least concerned with widespread corruption at 54.5%, preceded only by Uruguay, which ranks very much above Haiti in the Governance sub-index – see Figure 2. It is worthy of highlight that the results from Haiti are the result of a much smaller sample size than for any other Latin American and Caribbean country in Gallup World Poll®, with only 504 people survey in Haiti in 2013 compared with 1000 in Uruguay for the same year for example. This may have had an impact on the results.

system,<sup>40</sup> in the honesty of elections,<sup>41</sup> and in government.<sup>42</sup> In all of these perception variables, the regional average is always lower than the global average and in some cases substantially so: the regional average (34%) for confidence in the judicial system is 18% lower than the global average, for example. Also, all of those three variables present declines since 2009. The low averages on objective indicators together with overall low scores (and declines) in the perception variables point to a widespread discontent and suspicion of government in the region.

## Conclusion

First and foremost, it is quite apparent from the analysis *supra* that there are big disparities among Latin American and Caribbean countries, given that the region is a large area containing an array of different types of governments and economic systems.<sup>43</sup> Countries such as Chile, Costa Rica, or Uruguay stand out as countries presenting good performance in many areas, while Honduras, Venezuela, and Haiti standing almost at the other end of the spectrum, present several areas of concern.

Although big disparities between countries within the region exist, the trends analysed reveal overarching issues, showing a different approach on how to look at Latin American and Caribbean countries' development and future prosperity. There is good and bad news on the sub-indices analysed, but overall the trends are ones of improvement, especially in Entrepreneurship, Personal Freedom, and the Economy sub-indices. Although not analysed in-depth in this instance, Education and Safety & Security are two other areas of concern for the region, besides Governance.

Governance presents itself as the most worrying indicator for the region, which ultimately can severely affect the region's future prosperity and development if not improved. While it is clear that full democracies are doing better in objective measures, the overall levels in both objective and subjective measures are very low for the region. If it is clear that at the present any economic development that has occurred in the region has not yet produced better governance, it is unclear whether governance will improve in Latin American and the Caribbean in the next few years – in spite of slight improvements in the Governance sub-index. Governance remains the biggest issue for Latin America, and one that needs the immediate

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<sup>40</sup> Survey question: 'In (respondent's country) do you have confidence in the judicial system and courts?' (%yes) Source: Gallup World Poll®

<sup>41</sup> Survey question: 'In (respondent's country) do you have confidence in the honesty of elections?' (%yes) Source: Gallup World Poll®

<sup>42</sup> Survey question: 'In (respondent's country) do you have confidence in the national government?' (%yes) Source: Gallup World Poll®

<sup>43</sup> As it was recently highlighted by Tommasi (2014), for example.

attention of civil society and policy makers. Improvements on tackling corruption, improving regulation quality, and guaranteeing separation of powers are all areas that need greater improvement overall. If these and other issues such as inequality of opportunity are not dealt with, economic and social progress in the region could be compromised.

Specific measures on how to tackle each issue will be different for different countries, but in face of these general trends, greater regional cooperation in dealing with them has been argued for, by Alfaiate (2014) for example. It is also important to continue to stimulate investment in technological infrastructure – besides other kinds of infrastructure – with special attention for those countries who are falling behind the general trends of improvement. Such countries require much wider access to technological infrastructure than is currently available to the general population. Policy-making strategies need to take into account inequality, not only of income, but of opportunity and put in place measures that can promote social mobility. The increment of entrepreneurship is definitely a policy area to consider as a means to promote social mobility, as suggested by Velez-Grajales & Velez-Grajales (2014) in the case of Mexico.

The hurdles that Latin American and Caribbean countries have to jump over are quite clear in the specific areas analysed and a further look into the Index's findings will continue to offer further insights on which areas need improvement.

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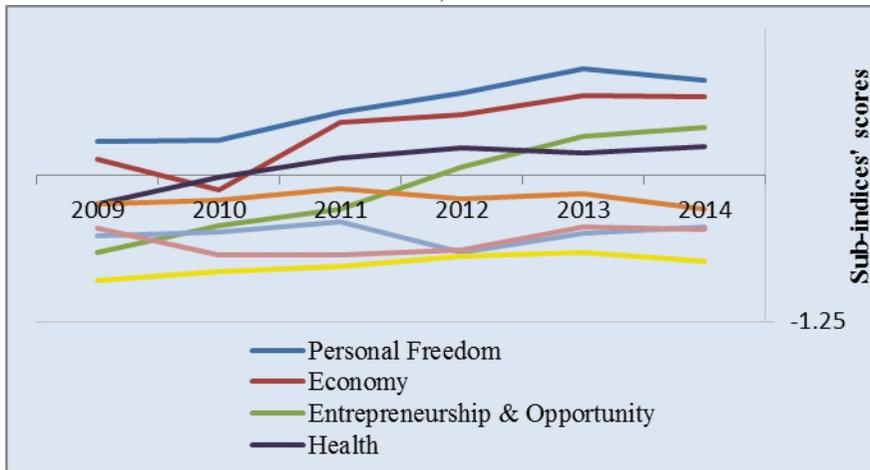
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**Appendix**

**Figure 1:** 2009-2014 sub-index trends Latin America and the Caribbean. Source: Prosperity Index, 2014



**Figure 2:** Overall Prosperity and sub-indices rank for 2014. Source: Prosperity Index, 2014

	Overall Prosperity	Economy	Entrepreneurship & Opportunity	Governance	Education	Health	Safety & Security	Personal Freedom	Social Capital
Uruguay	30	55	52	31	68	41	27	8	31
Chile	33	30	32	23	63	48	41	33	71
Costa Rica	34	43	45	29	53	46	48	15	48
Panama	41	33	43	60	65	51	52	34	38
Trinidad and Tobago	43	71	36	47	77	69	45	25	54
Argentina	46	54	55	97	44	42	47	30	53
Brazil	49	37	51	63	86	63	86	27	65
Belize	58	60	81	71	72	68	66	61	52
Jamaica	61	128	59	67	78	79	55	38	42
Mexico	64	34	83	59	85	49	99	75	76
Colombia	66	39	61	64	84	72	127	52	66
Paraguay	70	38	86	110	100	84	73	35	61
Dominican Republic	72	81	79	86	88	90	91	54	58
Ecuador	73	47	76	99	75	81	98	37	123
Nicaragua	76	77	99	91	90	88	69	36	81
Peru	78	48	74	83	87	86	100	69	106
El Salvador	83	68	88	75	101	83	76	82	88
Bolivia	87	51	98	96	91	102	88	46	98
Guatemala	90	72	90	87	107	93	104	68	63
Venezuela	100	104	87	134	52	74	116	108	94
Honduras	105	112	100	111	98	82	81	118	101
Haiti	135	133	138	139	115	139	124	131	97