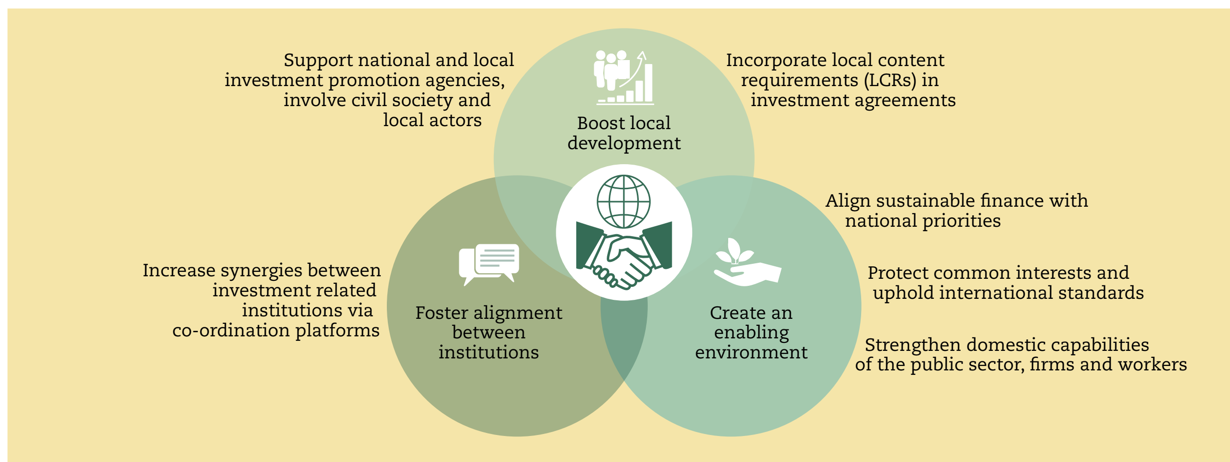
Chapter 5

International partnerships for more and better investments

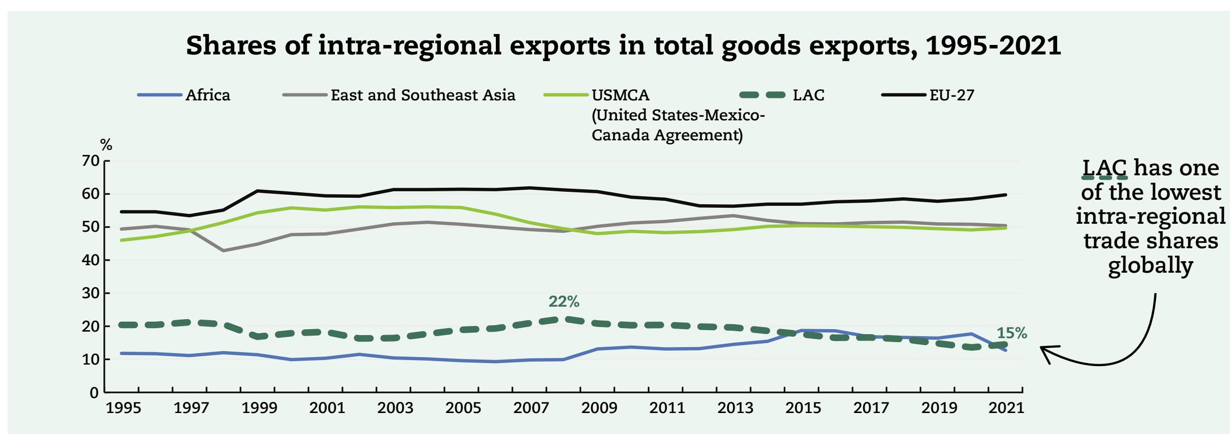
Countries in Latin America and the Caribbean (LAC) must forge stronger, modernised and strategic alliances to attract investments that drive the region's production transformation. New tools in development co-operation, such as blended finance, present an opportunity for LAC to mobilise greater investments through private-sector engagement. To attract investments with the potential to transform the region's economic and productive structures, it is key to maximise the potential of international investment treaties, foster an environment for sustainable finance, provide capacity building and technology transfer, establish co-ordination platforms, and promote linkages to support local and national development. Strengthening international partnerships that stimulate co-operation, investment promotion and policy dialogue will boost LAC's production transformation goals and have positive social impacts. Regional integration is an important step for reaching sustainable production transformation through more and more strategic investment. Finally, maximising the EU-LAC Global Gateway Investment Agenda can promote investments that drive the transformation of LAC's development model.

International partnerships: Keys to mobilising more and better investments

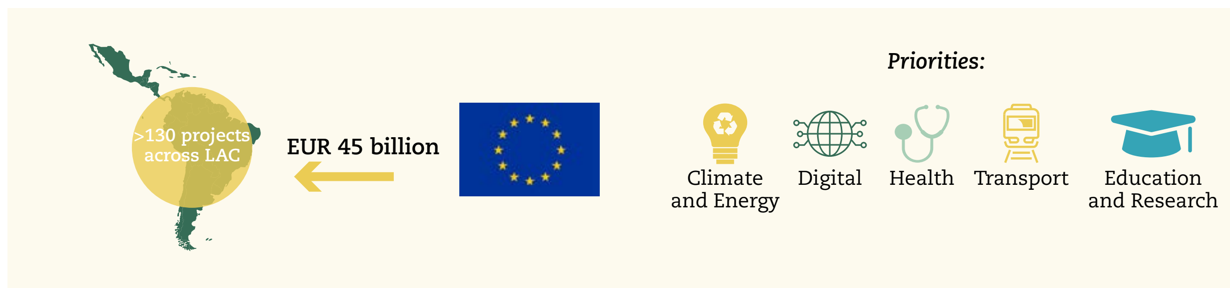
International partnerships can make investments yield greater socio-economic impacts



Further regional integration can accelerate the shift to more sustainable production



A new EU-LAC agenda for production transformation



Introduction

The nature of international partnerships and co-operation is being reshaped by evolving global dynamics and trends. Today's geopolitical landscape is characterised by a confluence of interconnected challenges, from the lingering effects of the COVID-19 pandemic and the Russian invasion of Ukraine to the worsening impacts of climate change. In fact, the world is moving further away from reaching the UN Sustainable Development Goals (SDGs): a preliminary assessment reveals that only about 15% of the targets are currently on track (United Nations, 2023[1]).

This new geopolitical landscape has expedited the imperative for countries of any income level to make progress in their interconnected "triple transition" – green, digital and social. These agendas represent new models of socio-economic development, encompassing the essential framework required to facilitate sustainable production transformation (Chapter 3). For instance, the European Green Deal and the NextGenerationEU programme propose mechanisms to accelerate the EU's triple transition, which includes the climate goals set forth in the Paris Agreement (Sanahuja, 2022[2]).

These new agendas navigate the complexities of an adverse international landscape and its impact on the way international co-operation and partnerships are evolving. Back in 2015, the Addis Ababa Action Agenda was already calling for a more prominent role for the private sector in advancing the SDGs. These calls have grown stronger in recent years, with increasing reliance on concessional funds to attract private-sector engagement.

In this light, countries in Latin America and the Caribbean (LAC) need to advance stronger, modernised and strategic partnerships to attract more and better investments that drive capacity building, create quality jobs, generate production linkages, and facilitate the transfer of skills, innovation and technologies. Governments, international organisations and development agencies, while recognising the importance – but also the limitations – of public resources, are turning towards new approaches to attract private capital to development projects. LAC countries need to ensure that this new model attracts and retains investments that contribute to transforming the region's development models, breaking the vicious circle of low productivity and lack of diversification.

This chapter first explores opportunities to mobilise greater investments in LAC by engaging the private sector in development co-operation. It provides an overview of blended finance as a possible effective tool. Second, the chapter highlights the need to think beyond the amounts mobilised and ensure that investments can promote sustainable production transformation. It examines how international partnerships can promote better investments by supporting an enabling environment, upholding international standards, harnessing the full potential of international investment treaties (IITs), promoting capabilities and skills, creating co-ordination platforms, and boosting local development. Third, the chapter focuses on the potential for regional and subregional integration, and on how trade within LAC can boost partnership efforts for production transformation. Fourth, it explores how strengthening partnerships and co-operation with the European Union has the potential to help LAC countries advance along their paths towards reindustrialisation and sustainable production transformation. Finally, the chapter provides key policy messages.

Opportunities in a changing co-operation landscape: Role of the private sector

A noticeable shift has taken place in international co-operation and development finance towards recognising the potential of the private sector in advancing the SDGs. This shift is captured in the Addis Ababa Action Agenda on Financing Development of 2015, which recognised the importance of private investments to meet the SDGs.

Following the COVID-19 pandemic, the SDG financing gap in developing countries is estimated at USD 3.9 trillion, a 56% increase from pre-COVID estimates (OECD, 2022[3]). With official development assistance (ODA) amounting to USD 185.9 billion in 2021, this gap significantly exceeds the development co-operation budget worldwide (OECD, 2023[4]). While ODA continues to play an important role in supporting development initiatives, recognition of the limitations of public funding has prompted a strategic re-evaluation of financing models. In response, the development co-operation community is scaling up its engagement with the private sector to mobilise additional finance, create and strengthen partnerships, and help build inclusive markets and values chains across key sectors (GPEDC, 2019[5]).

Global co-operation is shifting, with a focus on scaling investments

International partnerships based on a model of mobilising investments for production transformation first came about via developing countries and South-South co-operation actors – with trade and investment playing greater roles in mutual interest partnerships, a more holistic approach to development initiatives emerged (Chaturvedi, 2016[6]).This shift is captured by China's Belt and Road Initiative (BRI), an investment plan launched in 2013 that seeks to connect China with the rest of the world via land and maritime networks (EBRD, 2023[7]). The BRI represents a new approach to global collaboration, albeit with several nuances, placing a strong emphasis on trade and investment as drivers of development co-operation. China has used its global trade networks to engage actively with countries and regions around the world, offering investment opportunities to contribute to their structural transformation (Vadell, Brutto and Leite, 2020[8]). The BRI highlights a departure from the traditional aid-based model of international co-operation, as China actively seeks foreign investments and partnerships to fund and implement ambitious infrastructure projects across Asia, Europe, Africa and the Americas (Freymann and García-Herrero, 2022[9]; Ministry of Foreign Affairs of the People's Republic of China, 2016[10]). Since its inception, the BRI has faced some opposition. Worsened by the COVID-19 pandemic and the war in Ukraine, a growing number of borrowing countries have accumulated unsustainable levels of debt to China, surpassing 20% of GDP in some countries (McBride, Berman and Chatzky, 2023[11]).

Other development partners are also taking a lead in this shifting focus of development co-operation. The European Union (EU) has been a significant leader in mobilising private finance. The European Fund for Sustainable Development (EFSD), established in 2017 and expanded as EFSD+ in 2021, is an example. These funds aim to encourage investment in developing countries and the European neighbourhood through blending mechanisms, guarantees and other financial operations, combining EU grants with loans or equity from public and private investors to generate higher investment volumes (Box 5.1) (European Commission, 2022[12]). More recently, the European Union has launched the Global Gateway, aiming to significantly expand its efforts. With a commitment to mobilise EUR 45 billion in LAC by 2027, the EU-LAC Global Gateway Investment Agenda (GGIA) aims to enhance smart, clean and secure links in the digital, climate, energy and transport sectors while also strengthening health, education and research systems in partner countries (European Commission, 2023[13]).

The United States has also made a significant step in this direction by approving the BUILD Act of 2018, which established the International Development Finance Corporation (DFC). This legislation was a response to the increasing importance of private finance in development and an attempt to make development finance tools more efficient (CSIS, 2018[14]). The DFC can make equity investments and provide technical assistance; notably, it has a higher spending cap than its predecessor and can facilitate broader engagement with the private sector for development financing. Another initiative is the Americas

Partnership for Economic Prosperity (APEP), which groups the United States, Canada and several LAC countries. The APEP acts as a framework for regional co-operation to foster regional competitiveness, resilience, shared prosperity, and inclusive and sustainable investment (SICE, 2023[15]).

Box 5.1. **EFSD+ in Latin America and the Caribbean**

EFSD+ is part of the EU's investment framework for external action. As such, it serves as the main financial tool for mobilising investments under Global Gateway, the EU strategy for narrowing the global investment gap (European Commission, 2022[12]). To promote sustainable development, the EFSD+ aims to raise financial resources to support investment in partner countries for decent job creation, strengthening public and private infrastructure, fostering renewable energy and sustainable agriculture, and supporting the digital transition, among other goals. Through EFSD+, the European Union will provide stronger leadership for shared investment priorities, respecting the need for financial institutions to diversify their risks (geographically and across sectors).

When projects have a public added value and the de-risking cannot be addressed by guarantees, the European Union can use the EFSD+ blending facilities. These facilities use grants to de-risk investment projects in EU partner countries and subsequently leverage loans from development finance institutions (public investment) that will enhance the investment's sustainability, climate proofing and development impact.

Blending has proven to be a successful and transformative tool in the LAC region. Since 2010, the Latin America Investment Facility (LAIF) and the Caribbean Investment Facility (CIF) have contributed more than EUR 597 million to support 67 projects (LAIF, 2023[16]; LAIF, 2023[17]). The global scope of the Neighbourhood, Development, and International Co-operation Instrument (NDICI) has allowed for the merging of both facilities into one: Latin America and Caribbean Investment Facility (LAIF).

The guarantees are used for de-risking activities and leveraging private investment, working together with the European Investment Bank (EIB) and other European financial institutions. The EFSD+ budgetary guarantees investment programmes are implemented via two main paths. First, in partnership with the EIB, the European Union plans to provide a global-level guarantee of up to EUR 26.7 billion. This funding is intended to bolster investments in areas such as clean energy, environmentally friendly infrastructure, and healthcare (European Commission, 2022[18]). The guarantees focus on facilitating Global Gateway investments in partner countries where issues related to sovereign and public sector risks still pose significant obstacles. Second, through the EFSD+ open architecture, the European Union will extend financial guarantees of up to EUR 13 billion worldwide by 2027 (European Commision, 2022[19]). These guarantees will be administered by a variety of implementing partners, including international financial institutions and European development finance institutions. The overarching aim is to stimulate private investments that contribute to achieving the SDGs in EU partner countries.

The first call of the EFSD+ open architecture, launched mid-2022, was structured around six investment windows: i) micro, small and medium enterprises (MSMEs) finance for inclusive and green growth; ii) sustainable cities; iii) sustainable agriculture (including biodiversity, forests, and water); iv) connectivity (including energy, transport and digital); v) sustainable finance; and vi) human development.

In December 2022, the EFSD+ Operational Board approved EUR 6.05 billion to support 40 new guarantee programmes in Sub-Saharan Africa, LAC, and Asia and the Pacific (European Commision, 2022[19]), with 18 to be implemented in LAC.

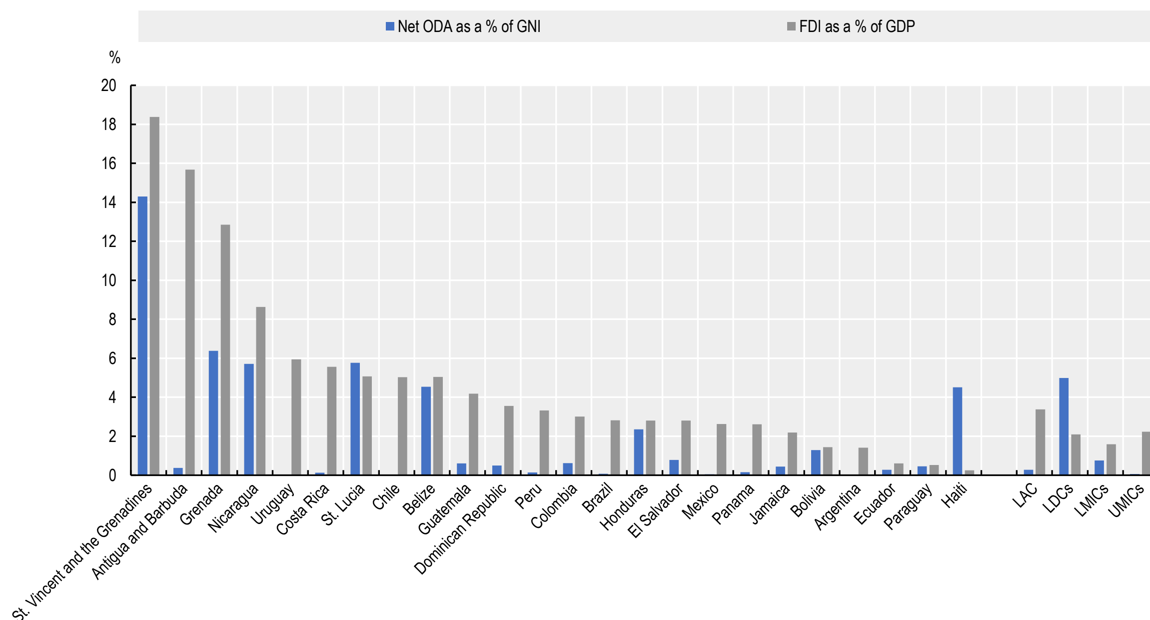
Beyond bilateral investment agendas, the urgent need of scaling development finance has called for the reform of multilateral development banks (MDBs). MDB reform encompasses a series of initiatives aimed at improving the operations and impact of the international financial system to provide financial and technical assistance to developing countries. A key area of focus is to align MDB strategies with the SDGs and expand the overall volume of development finance (Peter Lankes and Prizzon, 2023[20]). These include efforts to enhance project implementation by ensuring transparency, accountability, and efficiency. In response to the MDB reform agenda for instance, the IDB is undertaking multiple efforts in balance sheet optimisation, allowing the IBD to increase its risk-absorbing capacity and lending headroom over the next ten years. For example, the Bank is seeking to: i) receive credit substitution guarantees from high-rated countries which would unlock capital for the Bank, ii) receive committed lines of credit from high-rated countries to replace debt funding liquidity, and iii) issue hybrid capital that is purchased by donor countries to increase the amount of equity in the Bank. These reforms would allow the IDB to be more effective to the evolving development needs of LAC, while aligning their activities with broader development and sustainability objectives.

LAC can boost production transformation by tapping into international flows

The shift in international co-operation towards attracting private investments offers considerable potential for LAC. The region is characterised by a mix of lower middle-, upper middle- and high-income countries, many of which are experiencing important levels of economic growth. However, they also confront ongoing development challenges, including issues such as inequality, low levels of productivity and infrastructure gaps (OECD et al., 2019[21]). Despite these challenges, LAC has positioned itself as an important recipient of foreign direct investment (FDI). Regarding cross-border capital inflows into the region, FDI remained the largest and least volatile source of capital in 2021 (ECLAC, 2023[22]). In addition, LAC's heterogeneous economies and rich environmental resources present a promising landscape for impact investment, offering opportunities to improve the production structure and create positive effects connected to productivity, social, environmental and institutional development traps (Dallmann, 2021[23]). The global impact investing market is estimated at USD 1.164 trillion in 2022, with experts pointing to climate change and increased demand for transparent reporting standards as the main drivers of overall investment activity (Almaguer and Davidson, 2023[24]). While the economic fallout of the COVID-19 pandemic reduced interest from venture investors, overall investment activity in LAC has steadily increased over the last couple of years, with more than USD 25 billion in impact-investing assets focused on the region (Schwartz and Arévalo-Carpenter, 2021[25]).

LAC is mostly comprised of upper-middle-income countries, defined under the World Bank's country classification system as those with gross national income (GNI) per capita of between USD 4 466 and USD 13 854 (Hamadeh, Van Rompaey and Metreau, 2023[26]). As such, the region shows little and decreasing reliance on concessional sources of financing such as ODA, when measured as a share of GNI (Figure 5.1). While the share of ODA as a percentage of GNI remains relatively low on average, ODA represents an important source of finance for the least developed countries (LDCs) in LAC, including small island states in the Caribbean. For instance, ODA accounts for 14.3% of GNI in Saint Vincent and the Grenadines, 6.4% in Granada, and 5.8% in Saint Lucia. In this context, while FDI is a key indicator for LAC economies, ODA continues to provide key support to certain LAC economies, and its importance should not be overlooked.

Figure 5.1. **ODA as a percentage of GNI and FDI as a percentage of GDP, 2021**



Note: As in (World Bank, 2023[27]), the 2022 data for LAC corresponds to a weighted average which includes 33 countries: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sint Maarten, Suriname, Trinidad and Tobago, Turks and Caicos and Uruguay. For Aruba, Curacao and Cayman Islands the latest data available corresponds to 2021, while for Venezuela the latest data available corresponds to 2014. As per UN classification: LDCs = least-developed countries; LMICs = lower-middle-income. countries; UMICs = upper-middle-income countries.

Source: Authors' elaboration based on (World Bank, 2023[27]); (OECD, 2023[28]).

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Development co-operation is essential for LAC to tap into international financial flows. While LAC remains an attractive destination for FDI, countries in the region sometimes face challenges in attracting these investments. This can be partially explained by actual or perceived risks that make it more difficult for the private sector to invest (OECD/UNCDF, 2020[29]). Other challenges include political and administrative transitions, as well as policy and regulatory upheavals across many LAC countries, which can increase uncertainty (Chapter 2). By offering access to de-risking instruments, such as blended finance or guarantees offered at concessional or competitive terms to unlock private finance, development co-operation can help to lower investment barriers such as perceived risks (OECD, 2022[30]). Development partners also play an important role in supporting governments in efforts to enhance the attractiveness of the region as an investment destination.

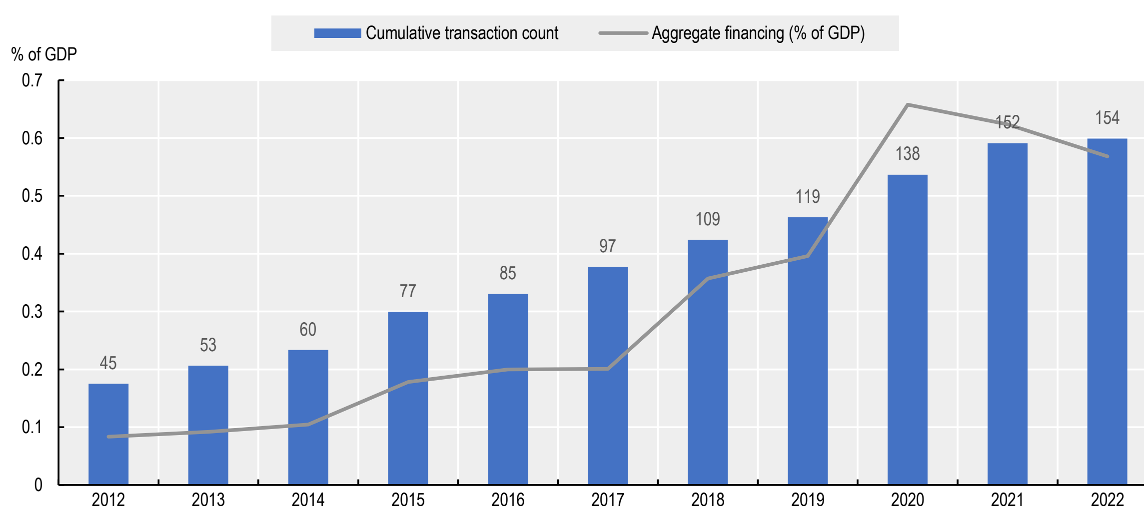
Blended finance can unlock private-sector investments

Increased pressure, particularly since 2015, to narrow the SDG financing gap has placed mobilisation of private-sector finance at the centre of development co-operation (OECD, 2022[30]). Donors have developed various tools to increase private participation in development goals, including the use of blended finance, defined as the strategic use of development finance to mobilise additional finance towards sustainable development projects (OECD, 2023[31]). By leveraging a mix of public and private funds, as well as philanthropic funds, blended finance mobilises new sources of private capital towards the SDGs, especially to address specific targets such as decent work, economic growth and climate action (Convergence, 2022[32]). It achieves this through de-risking instruments

such as guarantees, reducing perceived risks and making investments more financially attractive to private investors. Blended finance also includes provisions for capacity building, strengthening the capabilities of local stakeholders and creating an enabling environment for sustainable investments.

Development finance institutions (DFIs) and multilateral development banks (MDBs) have mobilised significant private finance in LAC (Convergence, 2022[32]; OECD. Stat, 2023[35]). Blended finance flows in the LAC region remained constant, even amid the COVID-19 pandemic, exceeding an aggregate of USD 22 billion in 2021 and 2022 and reaching a total of 154 transactions by 2022 (Convergence, 2023[33])[1] (Figure 5.2). However, compared to domestic resource mobilisation or public debt (Chapter 1), blended finance resources have remained low in the past decade.

Figure 5.2. **Market size and growth of blended finance in LAC, 2012-22**



Note: The year 2012 includes accumulated transactions since 1990.
Source: Authors' elaboration based on (Convergence, 2023[33]).

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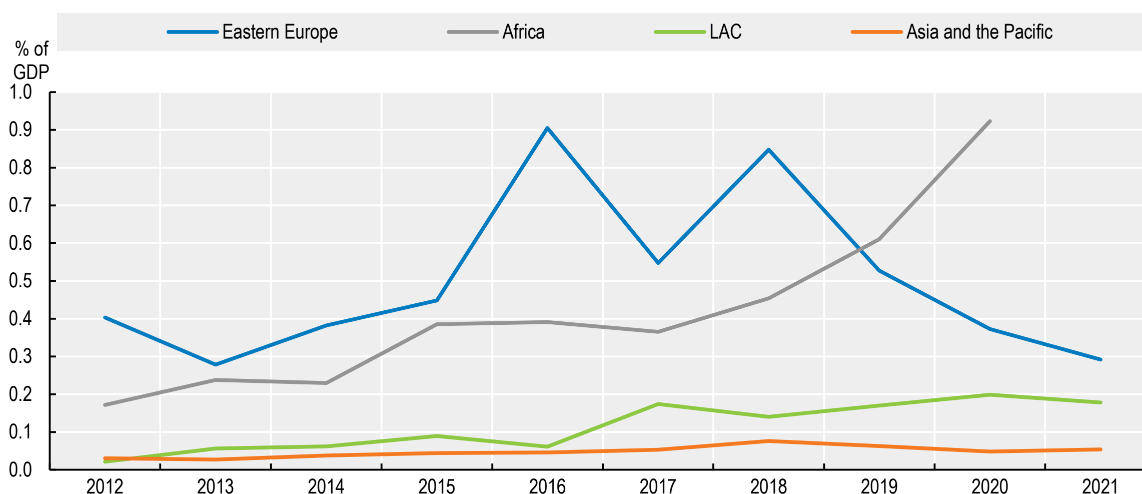
From 2018-20, LAC accounted for approximately 15% of the global total amount mobilised from the private sector by official development interventions (OECD, 2023[4]).[2] During the last decade, LAC has experienced an increase in the share of mobilised private finance as a percentage of GDP, from 0.06% (USD 3 billion) in 2016 to 0.18% (USD 9 billion) in 2021 (Figure 5.3). Top LAC countries include Mexico, Peru, Ecuador and Colombia, in that order (Faty Dembele, 2022[34]).

Figure 5.3. **Amounts mobilised from the private sector by official development finance interventions, 2012-21**



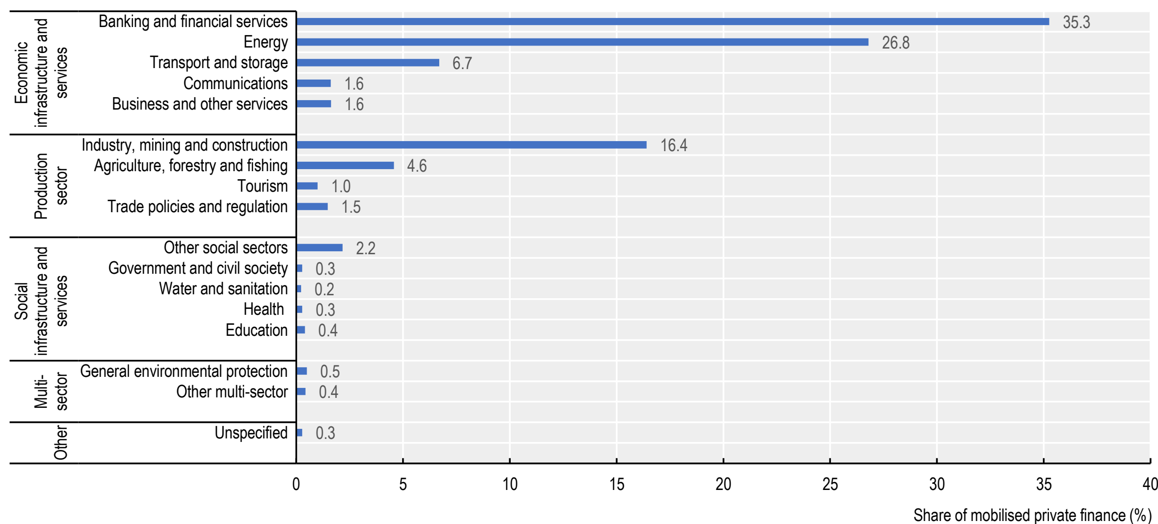
Note: Countries included in Eastern Europe: Albania, Belarus, Bosnia and Herzegovina, Kosovo*, Moldova, Montenegro, North Macedonia, Serbia, Türkiye, and Ukraine. Countries included in Asia and the Pacific: Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Cambodia, China, Fiji, Georgia, India, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Kiribati, Kyrgyzstan, Lao PDR, Lebanon, Malaysia, Maldives, Micronesia, Mongolia, Myanmar, Nepal, Niue, Palau, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Syrian Arab Republic, Tajikistan, Thailand, Timor-Leste, Tonga, Turkmenistan, Tuvalu, Uzbekistan, Vanuatu, Viet Nam, West Bank and Gaza Strip, and Yemen. Countries included in LAC: Antigua and Barbuda, Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Uruguay, Venezuela. Africa includes all African countries. Data for 2021 are being reviewed.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Source: Authors' calculations based on (OECD.Stat, 2023[35]) and (IMF, 2023[110]).

Almost three-quarters (72%) of private finance mobilised in LAC in 2018-20 was directed towards sectors that fall under economic infrastructure and services. This includes banking and financial services, energy, and transport and storage (Figure 5.4). Most of the financing for banking and financial services came from guarantees, credit lines and syndicated loans, instruments that are generally used for supporting the development of small and medium-sized enterprises (SMEs) and financial inclusion (OECD, 2023[4]).

Figure 5.4. **Share of mobilised private finance by sector (%), LAC 2018-20 average**



Note: Data for 2021 were not included since a large share of mobilised private finance went to the health sector due to the COVID-19 pandemic. Listed sectors are based on the Development Assistance Committee (DAC) sector classification.
Source: (OECD.Stat, 2023[35]).

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Energy sector transactions are essential in the region, with ten countries in LAC committing to generate 70% (above the current target of 40%) of their total energy consumption from renewable energy by 2030 as part of the Renewable Energy for Latin America and the Caribbean (RELAC) initiative. The main financial instruments used to mobilise private finance in the energy sector were guarantees (47.6%), and direct investment in companies (DIC) and project finance special purpose vehicles (SPVs), with 41.4% going to DIC/SPVs. Blended finance can help bridge the financing gap for critical sectors such as renewable energy, sustainable agriculture and infrastructure by unlocking resources for projects that have both financial viability and positive social and environmental impacts. For example, Uruguay is using a blended finance approach to accelerate its second energy transition (Box 5.2).

Box 5.2. **Uruguay's Renewable Energy Innovation Fund (REIF)**

Uruguay is supporting its second energy transition through its Renewable Energy Innovation Fund (REIF), a blended finance approach that combines private capital and UN funds to promote energy transition projects in the country. The fund mobilises private and public investments to stimulate innovative private projects in the renewable energies sector, which presents a certain level of risk and therefore requires an initial blended finance contribution to attract financing and de-risk private sector investments (REIF, 2023[36]). The REIF programme was due to receive a grant of USD 10 million from the UN's Joint SDG Fund and to leverage co-financing of more than USD 77 million from regional development banks and private commercial banks (UNIDO, 2022[37]). Four major banks in Uruguay have signed a co-operation agreement with the programme: BBVA, Heritage, Santander and Itau.

Box 5.2. **Uruguay's Renewable Energy Innovation Fund (REIF)** *(cont.)*

REIF works in collaboration with several government agencies: the Ministry of Industry, Energy and Mining; the Ministry of Environment; the Office of Planning and Budget; and the National Administration of Power Plants and Electrical Transmissions (the country's government-owned power company, better known as UTE). The programme seeks to accelerate Uruguay's compliance with the UN's 2030 Agenda for Sustainable Development. REIF's main impact areas include: enhanced private-sector competitiveness; environmental sustainability; social and gender inclusiveness; and enhanced financial sector capabilities for SDG investment.

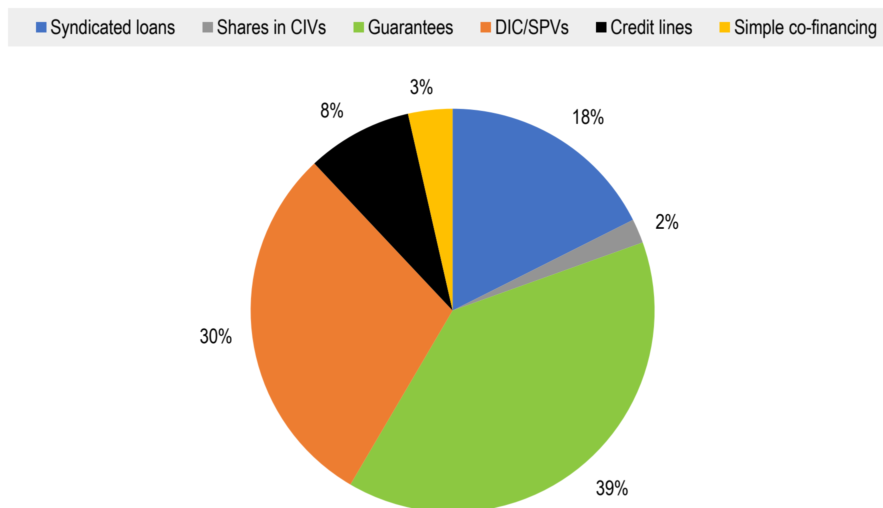
Note: Other partners include United Nations Industrial Development Organization (UNIDO), United Nations Development Programme (UNDP) and UN Women.

Source: (REIF, 2023[36]); (UNIDO, 2022[37]).

Only 3% (USD 282 million) of total private finance mobilised in LAC in 2018-20 was directed towards the social infrastructure and services sectors. However, private investments in social sectors have been gaining traction in recent years to address social and development challenges in the region. Most notably, and in response to the pandemic, investments in the health sector increased dramatically between 2020 and 2021, from USD 47.9 million to USD 334.5 million, a rise of 598.3% (OECD.Stat, 2023[35]). While private investments in social infrastructure and services may have positive impacts, important factors must be considered. Since private investments tend to be driven by profit motives, blended finance projects need to be carefully monitored and their development impacts measured (Attridge and Engen, 2019[38]). Ensuring a robust monitoring and evaluation mechanism is essential to maximise the positive impact of private investments, particularly in the social infrastructure and services sector.

In 2018-20, the main private mobilisation leveraging mechanisms in LAC were guarantees (38%) and DICs/SPVs (30%) (Figure 5.5). Guarantees, which have the advantage of not requiring upfront funding as loans do, accounted for one-third of the private capital mobilised between 2012 and 2020 (Alvarez Pagliuca et al., 2022[39]). Syndicated loans, which usually arise when a project requires too large of loan for a single lender, represented 17% of the total. Although amounts mobilised through credit lines (8%), simple co-financing (4%) and shares in collective investment vehicles (CIVs) (3%) were relatively low, these leveraging tools can still be effective in certain mobilisation contexts, such as access to SME financing and projects with limited bankability potential (OECD, 2023[4]).

Figure 5.5. **Private mobilisation by leveraging mechanism, LAC, 2018-20 average**

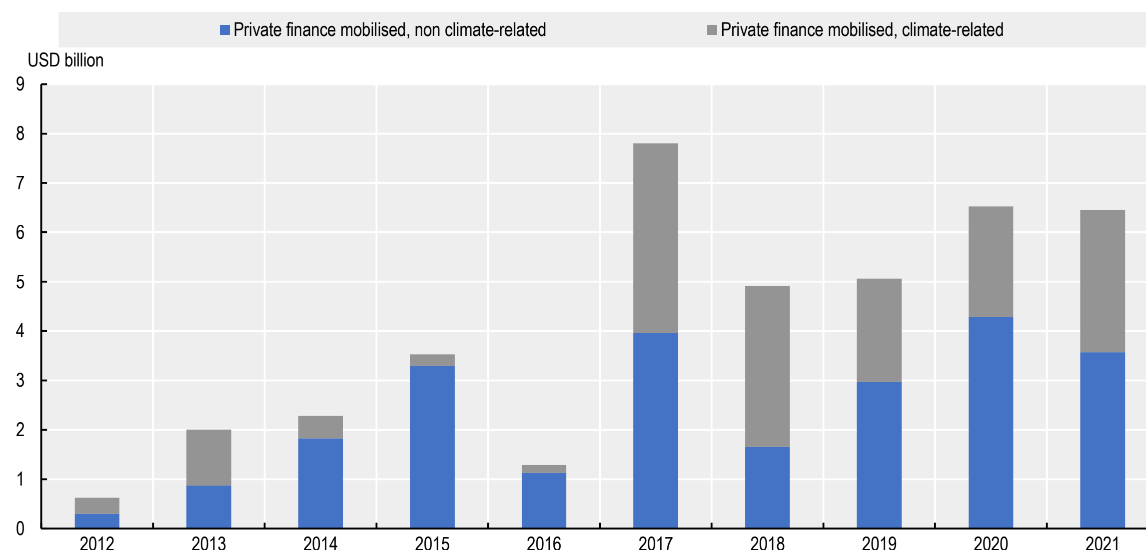


Note: CIVs = collective investment vehicles; DIC/SPVs = direct investment in companies and project finance special purpose vehicles.
Source: (OECD.Stat, 2023[35]).

Blended finance operations targeting SMEs in several key sectors of LAC economies are also essential for filling private investment gaps and fostering the region's economic transformation. As climate change adds to the challenge of protecting and sustainably managing this natural wealth, blended finance initiatives play a crucial role though the support of domestic SMEs. For instance, in 2022, the Central America Small Enterprise Investment Fund IV (CASEIF IV) committed USD 75 million of growth capital to SMEs operating in Central and South America and the Caribbean, with a particular focus on the agro-industry, food and beverage, manufacturing, and telecommunications sectors (SIFEM, 2023[40]). Moreover, the European Union LACIF has contributed EUR 16.4 million to support the Eco.business Fund, a collaborative effort channelling funds to local financial institutions to promote the sustainable use of natural resources and to mitigate the impacts of climate change (LACIF, 2023[41]; Eco.business Fund, 2023[42]). Since the fund's inception in December 2014, it has supported more than 816 000 jobs related to sustainable resource management, sustainably managed 1 093 700 hectares of farmland, kept 144 000 litres of herbicides out of the environment, and saved 5.3 million cubic metres of irrigation water in both LAC and Sub-Saharan Africa (Eco.business Fund, 2023[43]). The EU's financial support has enabled technical assistance for 62 projects in 14 countries in the region, guiding investments towards more sustainable outcomes.

MDBs have assumed an increasingly important role in global efforts to address the climate crisis and its far-reaching consequences. Since 2016, the emergence of new climate-focused multilateral providers, such as the Global Environment Facility and the Green Climate Fund, has significantly increased the mobilisation of private finance for climate-related investments. In recent years, a notable rise has been evident in the proportion of private funds allocated towards climate-related initiatives by MDBs, with a peak in 2017 (Figure 5.6). Of USD 7.8 billion mobilised in 2017 by development funds, nearly half (USD 3.84 billion) targeted climate-related projects. In 2022, the Inter-American Development Bank (IDB) alone mobilised USD 2.82 billion to support the region's development, engaging in 111 transactions with over 61 partners (IDB, 2023[44]). The bank prioritised key areas of focus, including climate action and addressing the social issues impeding the region's recovery.

Figure 5.6. **Total mobilised private finance by MDBs, 2012-21**



Note: Multilateral providers in LAC include the Caribbean Development Bank, Development Bank of Latin America, EU Institutions, International Fund for Agricultural Development (IFAD), IDB Group, World Bank Group, Nordic Development Fund, Private Infrastructure Development Group, Global Environment Facility, Green Climate Fund, North American Development Bank, and OPEC Fund for International Development.

Source: (OECD.Stat, 2023[35]).

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MDBs also facilitate private sector financing for development through innovative mechanisms that de-risk investments and target sustainability goals. For instance, the IDB and The Nature Conservancy agreed on a debt-for-nature swap with Barbados that provided the country with USD 10 million to support its blue economy and partnered with the U.S. Development Finance Corporation to implement another debt-for-nature swap worth USD 450 million to protect the Galápagos Islands in Ecuador (IDB, 2022[45]) (Reuters, 2023[46]). In addition, the IDB has become the first multilateral development bank to offer a financing tool – the Biodiversity and Climate-Linked Mechanism for Ambition (IDB CLIMA) – that rewards countries for achieving nature and climate objectives. This will provide the borrower with a discount when nature and climate objectives of selected loan projects are met (IDB, 2023[47]).

Beyond these opportunities from blended finance, the shift in development co-operation towards mobilising private finance must be taken with caution. Setting up de-risking initiatives to attract private capital to development projects still raises some concerns. For instance, the very definition of blended finance is still under debate. Institutions take different approaches regarding the actors involved in blended finance, the underlying presumptions regarding beneficiaries and how best to measure its impact. The lack of an official definition can present problems in data collection and comparability (OECD/UNCDF, 2020[29]). Furthermore, MDBs and DFIs also compile data on blending, giving importance as well to combining concessional finance from donors or third parties alongside the normal own-account finance and/or commercial finance from other investors (IFC, 2023[48]).

Another crucial concern with the blended finance approach is the risk of diverting public funds away from the poorest countries, which are less attractive to private investors due to higher perceived risks and lower return potential (Attridge and Engen, 2019[38]). This could exacerbate inequalities between and within countries. There is also a concern about transparency and accountability in blended finance operations

(Hausmann, 2023[49]). As public and private actors have different accountability structures and reporting standards, this could complicate the process of tracking how funds are used and guaranteeing that they contribute to sustainable development (Oxfam/Eurodad, 2017[50]). In terms of transparency and public access to information, it is crucial as well to ensure the participation of civil society and local actors in monitoring and accountability (Chapters 2 and 4). Blending also presents the challenge of ensuring that the private sector's needs and motivations do not overshadow development objectives and outcomes (Attridge and Engen, 2019[38]). Blended finance must be based on careful and measured consideration of the impact of partnerships, while also ensuring that assumptions made regarding the actors involved are borne out by evidence (Oxfam, 2019[51]). Therefore, blended finance projects should be evaluated across both the short and long term, while also ensuring their transparency through public accessibility.

International partnerships to ensure better investments in LAC

International partnerships are important in LAC not only for mobilising greater resources from the private sector, but also to ensure that investments yield greater socio-economic impacts. A key challenge for LAC countries is to achieve a sustainable production transformation via a fair, green and digital transition. This is important given the region's structural and systemic economic growth problems, which have been exacerbated by the COVID-19 pandemic, inflation and disruptions in global value chains (Chapter 1).

The challenges faced by LAC in attracting quality FDI can be attributed (in large part) to three main factors: lack of adequate infrastructure; gaps in skills and education compared to other regions; and lags in research and development (R&D) and technological innovation. Together, these can limit the region's attractiveness to knowledge-intensive sectors (Chapter 3). Due to the drop in FDI relative to GDP, LAC may have missed out on 0.08-0.64 percentage point of GDP growth per capita every year from 2013 to 2020 (Chapter 2) (Maloney et al., 2023[52]).

Leveraging LAC's comparative advantages – in sustainable energy production, the commodities necessary for emerging green industries and its unique natural capital – offers a new potential source of growth. But this will require policies to facilitate access to global markets, capital and technology. The effectiveness of foreign investment in these sectors that hold potential may depend on various factors. For example, better absorption capacities are related to higher FDI productivity, enhanced human capital, deeper financial systems, improved institutional quality, and the stability of regulatory and political systems (Maloney et al., 2023[52]).

International partnerships can play a significant role in attracting quality FDI to the region. By pooling expertise, knowledge and resources, LAC countries can address critical regional needs, such as stimulating a production transformation across all economies or creating forward linkages in value chains in a more comprehensive manner. FDI quality is typically seen as investment that goes beyond mere financial contributions, leading to sustainable economic, social and environmental outcomes. FDI quality is measured in terms of its contribution to promoting productivity and innovation, employment, job quality, skills and gender equality while also reducing the carbon footprint (OECD, 2019[53]) (Chapter 2).

Foreign investment in LAC countries has already had positive impacts in terms of productivity, innovation, R&D investment and real wages (Chapter 2). However, further efforts to attract quality FDI are needed in order to promote an inclusive and sustainable transformation model. Development partners have a key role to play. The OECD's FDI

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Qualities Guide for Development Co-operation provides a framework for reinforcing the role of the development co-operation community in mobilising FDI and enhancing its impact in developing countries (OECD, 2022[30]).

Focusing on three main objectives can help international partnerships to ensure that they mobilise more and better investments. First, these partnerships can strive to create an enabling environment that attracts and facilitates investments conducive to the region's production transformation. Second, they can foster alignment and collaboration among institutions, such as MDBs and DFIs, to enhance co-ordination and effectiveness. Third, they can boost local development by implementing measures such as local content requirements that strengthen local economies and value chains, and by aligning support with national development strategies (Table 5.1).

Table 5.1. **International mechanisms to ensure better investments**

Objective	Existing or potential instrument	Description
Create an enabling environment	International standards and frameworks	Creates an environment and common understanding of due diligence for investors and private capital mobilisation.
	International investment treaties	Commits contracting parties to afford specific standards of treatment to foreign investors.
	Capacity building and technology transfer	Supports governments in: i) design of coherent strategies on investment attraction and production transformation through training in strategic sectors; ii) assessing and monitoring the impact of investments in job creation; and iii) improving transparency and standards.
		Ensures commitment from the private sector to invest in education and training.
		Ensures the transfer of technology within investment in specific sectors, building upper value chains in key strategic sectors.
Foster alignment between institutions	Co-ordination platforms among institutions	Articulates development and non-development instruments and institutions by increasing synergies between the public actors of development policies and public actors supporting commercial endeavours (e.g. IPAs, trade and export credit agencies).
		Articulates efforts of MDBs and DFIs operating in LAC, avoiding overlap and creating synergies within strategic sectors and countries.
		Promotes business-to-government dialogue, enabling feedback about policies and investment barriers.
Boost local development	Platforms for aligning investments with national priorities	Supports national and local IPAs and local financial institutions to align sustainable finance with national priorities.
		Provides support to strategic sectors in co-ordination with national development strategies, aligning all relevant actors.
		Ensures the participation of civil society and local actors in monitoring projects to promote transparency and accountability.
	Local content requirements	Strengthens the development of local supply chains and increases labour productivity.

Source: Authors' elaboration.

Creating an enabling environment to attract more and better investments

Establishing favourable conditions and frameworks can encourage both domestic and foreign investors to allocate their resources in a particular country or region. This includes adopting policies and regulations that promote transparency, predictability and legal protection for investors. It also entails adhering to international standards and best practices in areas such as governance, environmental protection and labour rights. Furthermore, it involves adhering to international investment treaties to provide additional safeguards and incentives for investors.

Aligning domestic frameworks with international standards can support sustainable investments in LAC. By joining major international instruments, such as the Paris Agreement, core conventions of the United Nations (UN) and the International Labour Organization (ILO), and international instruments on responsible business conduct (RBC), governments can protect the public interest from potential negative impacts of business

activities (OECD, 2015[54]). Ensuring RBC can attract responsible investors, mitigating the risks of potential adverse impacts of investments, and can promote broader sustainable development (OECD, 2018[55]).

To date, 50 countries, including Argentina, Brazil, Costa Rica, Colombia, Mexico, Peru and Uruguay, have adhered to the OECD Due Diligence Guidance for RBC (OECD, 2022[56]). These guidelines provide non-binding recommendations designed to assist businesses in managing risk and promoting positive impacts on matters related to environmental protection, human rights, labour rights, bribery and corruption, and other issues related to sustainable development. They also seek to promote a common understanding among governments and other stakeholders on due diligence for RBC (Table 5.2) (OECD, 2018[55]). Recently, momentum has been growing around mandatory due diligence legislation on RBC and mandatory human rights due diligence (mHRDD) to ensure companies undertake environmental and human rights due diligence (OECD, 2022[57]; OHCHR, 2023[58]). Examples include the French Duty of Vigilance Law and the proposal in 2022 for an EU-wide law (Business & Human Rights Resource Centre, 2023[59]). These steps towards mandatory due diligence legislation can establish new requirements for companies to adhere to, thereby protecting the public from the negative impacts of business activities.

Table 5.2. **Key elements of OECD Due Diligence Guidance**

Topics	Recommendations
Human rights	Provides recommendations on how businesses can respect human rights, including issues such as child labour, forced labour and freedom of association; draws on and is aligned with the UN Protect, Respect and Remedy Framework and Guiding Principles on Business and Human Rights.
Employment and industrial relations	Focuses on the role of due diligence in promoting observance among multinational enterprises of international labour standards developed by the ILO.
Environmental responsibility	Urges businesses to identify and manage environmental risks, actively mitigate pollution and address climate change impacts within their operations and supply chains.
Combating bribery, bribe solicitation and extortion	Encourages businesses to level the international playing field by fighting to eliminate bribery.
Disclosure	Encourages businesses to report on their due diligence efforts and to communicate with stakeholders about their responsible business conduct.

Source: Authors' elaboration based on (OECD, 2018[55]).

Consideration of environmental, social and governance (ESG) standards in financial decision making is a crucial aspect that is advancing in LAC (Chapter 4). Financing from banks, private equity, multilateral financial institutions and institutional investors is increasingly linked to ESG criteria (Beeber, Li and Schulz, 2022[60]). ESG taxonomies, i.e. criteria for evaluating which investments are considered environmentally or socially sustainable, are a key example (UNCTAD, 2022[61]). They provide guidelines for classifying investments based on their ESG characteristics. Taxonomies now exist at the global and regional levels to support the development of investment markets. Many are the result of partnerships between countries within a given region and other institutions. Colombia's national green taxonomy, for example, was developed with the support of the World Bank and the International Finance Corporation (World Bank, 2022[62] ; Chapter 4).

Common standards will be imperative for protecting the Amazon, an ecosystem shared by eight countries in LAC. By establishing standards for projects, countries can ensure responsible business activity to minimise environmental and social impacts. In 2023, the IDB launched Amazonia Forever, an umbrella programme that brings together relevant stakeholders to strengthen the planning and execution of projects in the Amazon region (IDB, 2023[63]). Through this platform, partners can share knowledge, evidence-based innovations and leverage expertise to support policy development, enhancing regional collaboration and co-ordination. Within Amazonia Forever, the IDB and the Brazilian Development Bank (BNDES) launched the Green Coalition to carry out

collaborative, sustainable development initiatives among development banks from the Amazon basin countries (IDB, 2023[64]). This has increased the scale and impact of projects in the Amazon region, while respecting local and regional characteristics. By establishing these platforms for shared practices and common standards, countries can mitigate conflicts over land use, resource extraction, and infrastructure development, as well as protect the Amazon's ecosystem, biodiversity and local communities.

International frameworks that specifically target infrastructure also contribute to creating an enabling environment for investments in strategic sectors related to production transformation. Such frameworks can enable LAC countries to guarantee the quality of infrastructure investments. The region has experienced a persistent decline in infrastructure investments since the 1990s, leading to a widening infrastructure gap. As a result, countries are now looking into measures that can ensure FDI quality. The G20 Principles for Quality Infrastructure Investment (QII) provide a set of voluntary, non-binding principles for countries to maximise the positive impacts of infrastructure in order to achieve sustainable growth and development (OECD, 2023[65]). These principles provide a framework to bridge the infrastructure gap while ensuring quality infrastructure investments that promote strong, sustainable and balanced growth. Chile has proved to be a success story in terms of strong institutions, processes and regulatory frameworks for quality infrastructure investments, often in line with international good practices and standards (OECD, 2021[66]).

Policy dialogue and exchange also play important roles in fostering investments by creating a conducive environment for investors through the development of transparent, stable and investor-friendly policies. These processes build trust among investors and policy makers, ultimately attracting capital that can drive economic growth and development. The OECD-LAC regional networks provide a mechanism for member countries to engage in constructive policy discussions by facilitating dialogue among policy makers, experts, and stakeholders to exchange ideas, experiences, and best practices (Box 5.3).

Box 5.3. **Regional policy networks: contributing to the enabling environment for investments**

The OECD Latin America and the Caribbean (OECD-LAC) regional policy networks play a crucial role in enhancing a conducive environment for investments across the region. These networks act as knowledge-sharing platforms that bring together policy makers, experts and stakeholders from diverse sectors to collaborate on shaping policies that promote investment, integrity, regulation, competition and effective corporate governance. By fostering cross-border co-operation and dialogue, these networks facilitate the exchange of best practices, experiences and data-driven insights, which are essential for creating robust frameworks that attract and sustain investments in the LAC region.

In terms of investment, these networks enable member countries to pool their collective expertise and devise strategies to attract both domestic and foreign investments. Through shared experiences, participating countries can design targeted policies that address investment challenges, reduce barriers, and provide transparent and predictable rules for investors. For instance, a focus on integrity ensures that anti-corruption measures are in place, enhancing the trust of investors and safeguarding their interests. By collaborating on regulatory frameworks, the networks assist member countries in developing efficient and streamlined processes that encourage business growth while

Box 5.3. **Regional policy networks: contributing to the enabling environment for investments** *(cont.)*

upholding necessary standards. The emphasis on fair competition drives economic dynamism, innovation and efficiency, thereby fostering an environment that appeals to investors seeking vibrant markets. In addition, the networks' guidance on corporate governance practices nurtures responsible business conduct, which not only attracts investors but also strengthens the overall business ecosystem in the LAC region. Lastly, the fiscal policy network facilitates discussions on fiscal responsibility, transparency and effective resource allocation. This network helps member countries design fiscal policies that create the necessary fiscal space for public investments while maintaining macroeconomic stability.

Source: (OECD, 2023[67]).

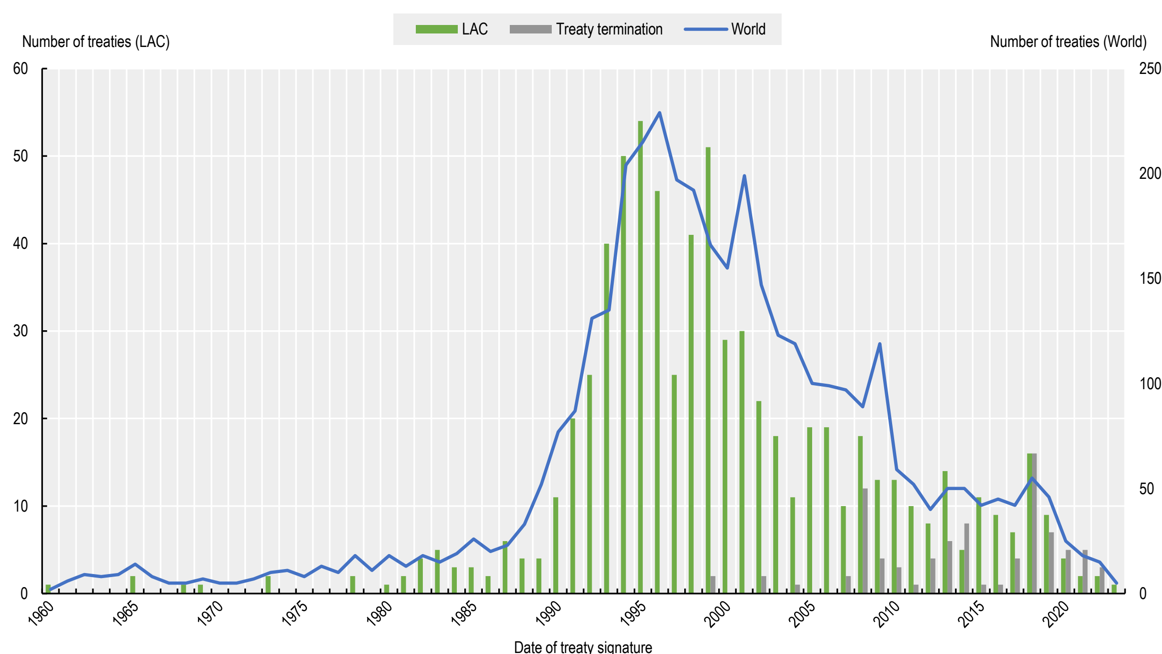
LAC countries have also made use of IITs (also known as international investment agreements) as a mechanism for reducing investor uncertainty. Such treaties commit contracting parties to afford specific standards of treatment to foreign investors (OECD, 2015[54]). The general purpose of IITs is to promote investments by granting certain protections and benefits to foreign investors, including recourse to investor-State dispute settlement (ISDS) to resolve disputes with host states. In general, IITs aim to provide a level of certainty and security for investors, reducing the risks they perceive and encouraging investment. However, in the last decade more IITs have been terminated than new ones created. In 2021, for example, 86 IITs were terminated but only 13 were created, bringing the total number of agreements to 3 288 (UNCTAD, 2022[61]). As of June 2023, LAC countries had signed a total of 706 treaties related to international investment (Figure 5.7).

The design and negotiation of IITs is a complex, evolving process, and such treaties have both critics and proponents (Dixon and Haslam, 2016[68]). Many of these treaties were designed decades ago, within a different global economy and with different concerns in mind. Proponents argue that they provide necessary protections for investors to encourage capital flows; critics argue that IITs can constrain the policy space of host countries and erode their ability to regulate in the public interest. Despite these opposing views, IITs continue to be signed in LAC. Therefore, it is essential to ensure that new IITs pursue a development policy agenda favourable to all parties and to production transformation in the region. This requires transparent regulatory frameworks for investment flows.

Today's challenges – such as climate change, achieving the SDGs and pandemic recovery – are global in nature with local impacts. As such, they can be met only through international co-operation. Investment treaties establish frameworks through which countries can address complex transnational issues collectively. Well-designed IITs that protect common interests and uphold international norms and standards can help countries face these global challenges (Gaukrodger, 2021[69]). For example, recent revisions to EU agreements with Chile and Mexico introduce provisions on e-commerce, environmental sustainability, labour standards, gender equality and support for small businesses. These agreements also establish a contemporary framework for foreign investment and dispute resolution, encouraging investment in vital sectors for sustainable and inclusive growth. Over time, a common foundation of similar agreements with the European Union could facilitate the alignment of diverse economic integration efforts within the LAC region (ECLAC, 2023[70]).

Investment treaties are being reconsidered in this new context to ensure that they address new social and environmental standards. Issues being revisited are related to climate change, pandemic recovery and digital transformation, as well as how to deal with disputes over existing agreements. New approaches have emerged that would lead to better outcomes on matters related to the efficient allocation of capital, regulation in the public interest and the promotion of sustainable development. These include recommendations to: i) ensure that treaties contribute to sustainable development and do not hamper legitimate regulation in the public interest; ii) provide a framework to support market openness, facilitate investment and promote responsible business conduct; iii) consider a more flexible range of procedures and remedies when treaties are implemented; and iv) examine which issues may be best addressed in treaties, and which may be better suited for regulation through domestic law, international guidance or other tools (Gaukrodger, 2021[69]). Other notable developments in recent years include the conclusion of new-generation, megaregional economic agreements, the termination of bilateral investment treaties, and multilateral discussions on reforming investor-state dispute settlement mechanisms (UNCTAD, 2022[61]). Within the World Trade Organisation (WTO), plurilateral negotiations towards a new agreement on investment facilitation for development were successfully concluded in July 2023. More than 110 WTO members participated in the talks, including a large number of LAC countries.

Figure 5.7. **Number of IITs signed and terminated in LAC and worldwide, 1960-2023**



Note: Type of agreements include bilateral investment treaties (BITs) and treaties with investment provisions (TIPs). Date of signature includes treaties that are in negotiation, signed, in force and terminated.
Source: (UNCTAD, 2023[71]).

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Domestic conditions are also a key enabler for investments. Development partners can help build the domestic capabilities of firms and workers by supporting local capacity building, thereby driving the LAC region's production transformation and fostering sustainable economic development. Capacity building initiatives focused on enhancing human capital development, including training programmes and re-skilling in sectors in transition, will help to attract FDI and foster positive impacts in LAC (OECD, 2022[30]).

This involves identifying strategic sectors with high potential for job creation and growth that align investment with production transformation goals. In turn, these strategic sectors should be aligned with those prioritised by LAC countries and their territories under their productive development policies. By investing in vocational training centres and R&D institutions, LAC can equip workers with the skills and knowledge necessary to participate in high value chains and foster decarbonisation, productivity and innovation, as well as job quality and gender equality (OECD, 2022[30]). For instance, to support the region's research in genomics databases, the European Bioinformatics Institute (EMBL-EBI) collaborated with nine research institutes in Latin America in 2017 to launch the CABANA project (Stroe, 2017[72]). Funded by the Global Challenges Research Fund, CABANA aims to accelerate data-driven biology in the LAC region through capacity-building programmes that will train Latin America's diverse biological and biomedical sciences communities (CABANA, 2023[73]).

Fostering alignment among investment-related actors will enhance their effectiveness

The finances and policies of MDBs and other international actors are regaining centre stage in debates on financing for development. Securing resources to progress toward the SDGs remains a major challenge, with developing countries facing a growing finance gap estimated at USD 4.2 trillion per year in key sustainable development sectors (Joint SDG Fund, 2023[74]). Multilateral and public development banks are crucial in this context given they jointly manage USD 23 trillion in assets and provide over USD 2.7 trillion in development financing each year (FICS, 2022[75]). MDBs have the potential to boost their contribution to financing sustainable development by expanding their lending capacity and increasing their effectiveness when addressing global challenges, including by adopting common standards and co-ordinating better as a system, including with other financial institutions such as DFIs (Bilal, 2021[76]).

The problem of co-ordination among MDBs and DFIs primarily stems from their overlapping roles and responsibilities, as well as the diverse nature of their operations. While both aim to promote economic development and poverty reduction in developing countries, their approaches, mandates and financing mechanisms often differ, leading to co-ordination challenges. MDBs primarily provide loans, grants and policy advice to governments, whereas DFIs focus on financing private-sector projects through equity investments, loans, guarantees or technical assistance. The differing financing mechanisms can result in differences in project selection, risk tolerance and evaluation criteria. Co-ordinating these diverse financing approaches can be challenging, especially when joint projects or co-financing arrangements are pursued. Effective co-ordination requires timely sharing of information, experiences and best practices. However, MDBs and DFIs may have different reporting mechanisms, data requirements and evaluation frameworks, making it challenging to exchange relevant information. Insufficient knowledge sharing can result in missed opportunities for collaboration and hinder the efficient use of resources.

By signing co-financing agreements, MDBs and DFIs can mitigate co-ordination challenges and expand the volume of co-financing. These agreements are key mechanisms for leveraging resources for development projects as they help reduce transaction costs and processing times. For example, the IDB holds co-financing agreements with the French Development Agency (AFD), the European Commission, the EIB, and the Spanish Agency for International Development Cooperation (AECID) to streamline co-financing procedures and pre-define terms and conditions for co-financing projects. As such, co-financing agreements can help mobilise greater investments and enhance the impact of development initiatives.

Another important dimension is to better articulate and operationalise the synergies among international development actors such as MDBs, international financial institutions (IFIs) and public actors supporting commercial endeavours, including export credit agencies (ECAs), trade entities and investment promotion agencies (IPAs). IPAs promote the country's advantages, business opportunities and incentives via marketing efforts and collaboration with relevant government departments, fostering an investor-friendly environment. Between 2002 and 2018, the number of national and subnational IPAs grew from 112 to 170 worldwide (Steenbergen, 2023[77]). IPAs not only support the creation of an attractive economy for investments, but also help to ensure that FDI generates positive spillovers for developing poorer areas, fostering skills transfer and job creation, and enhancing the overall competitiveness of the respective region (OECD, 2020[78]). Development actors have an important role in ensuring co-ordination across various actors, thereby fostering the scalability of the support and further alignment with national priorities.

Existing collaboration platforms could be put at the service of scaling co-ordination for production transformation. CooperaNet, an online co-operation exchange hub run by the Organization of American States (OAS), facilitates regional co-operation and technical assistance through horizontal and South-South co-operation among OAS member states and with the private sector, sectoral experts, civil society, foundations, international organisations and others (OAS, 2023[79]). CooperaNet currently has 214 co-operation offers from 7 OAS member states, 20 co-operation offers from OAS development partners, and 10 needs from 8 countries in the areas of technological innovation, sustainable agriculture, food security, environmental conservation, sustainable communities, risk management, renewable energy, micro-, small- and medium-sized enterprises (MSMEs), education and gender equality. Another co-ordination mechanism is the European Financial Architecture for Development (EFAD), a network of institutions that includes EU member states, DFIs, public development banks, implementing agencies, MDBs and private actors. Through co-ordination of development and commercially-focused public actors, private entities have the potential to participate more effectively and at a greater scale (Bilal and Karaki, 2023[80]).

FDI, when aligned with national strategies, can boost sustainable local development

Beyond supplying capital, FDI can be a source of valuable technology and know-how for local firms, and thus contribute to production transformation.

A relevant approach for development partners is to align FDI with national priorities to the greatest extent possible, as defined under countries' productive development policies, for example. Supporting and strengthening national and local IPAs and financial institutions can enable co-ordination with the country's sustainable development objectives. With enhanced capacity and outreach, these institutions can play a pivotal role in attracting foreign investments that align with national development strategies, focusing on strategic sectors with high growth potential.

Another way of promoting local development and the social impact of foreign investment is through local content requirements (LCRs). Incorporating LCRs in investment agreements can enhance the social and economic transformation impact of FDI. These requirements incentivise foreign companies to engage with and invest in local firms, fostering valuable technology transfer, knowledge exchange and skills development. This can significantly contribute to jumpstarting the local economy and creating long-term sustainable benefits for the nation.

The incentives provided by LCRs can be key to strengthening the development of local supply chains and catalysing labour productivity, for instance in green industries. An

example is the successful expansion of the solar and wind energy sectors in Uruguay and Brazil. In 2009, Uruguay opened an auction call to expand small wind farms, requiring 20% local content and 80% local contracting, and that the control centre be based in Uruguay. This initiative not only provided quality employment to expand the renewable energy sector, but also leveraged local content requirements to benefit local manufacturing. Similarly, in 2002, Brazil launched the Alternative Electricity Sources Incentive Programme, with a 60% local content requirement. This catalysed the national supply chain and has given rise to more than 300 companies; in 2014, the Brazilian wind energy manufacturing sector used 89% national content (IDB/ILO, 2020[81]).

The success of LCRs depend, however, on balancing rising local production costs with appropriate public policy instruments. LCRs do not offer guaranteed results, and the evidence on how best to apply them is mixed (Hansen et al., 2019[82]). Literature suggests that countries with better local content outcomes, both in LAC and Africa, use sound local content frameworks that are well structured and positioned within the country's legislation, and that include clear implementation and monitoring mechanisms (Mushemeza et al., 2017[83]).

Examples indicate that LCRs are best applied in countries where the level of skills and human capital is sufficient for the adoption of new technologies to improve productivity locally, thereby increasing efficiency while supporting national growth. This illustrates the need to, at the same time, invest more in training and skills development, and to expand the capabilities of existing industries (Da Costa and Caicedo, 2023[84]).

It is important to consider that policies aimed at attracting FDI must be accompanied by measures to enhance the local capacity to absorb investment to ensure that FDI becomes effective as a mechanism to transfer knowledge and technology. These measures include investing in education, strengthening institutional frameworks, and developing physical, scientific and technological infrastructure. It is thus crucial to establish a comprehensive framework that combines efforts to attract FDI with production development policies. Development partners can support efforts to upgrade productive development policies via international partnerships and co-operation. A good example of how international co-operation is helping local production transformation is Mexico's *Sembrando Vida* programme in El Salvador and Honduras (Box 5.4).

Box 5.4. **International co-operation for production transformation: Mexico's *Sembrando Vida***

Across the LAC region, bold international development policies are needed to help the most disadvantaged communities. One such innovative initiative is the Mexican government's *Sembrando Vida* ("Sowing Life") project, which seeks to contribute to food security in low-income rural localities of Honduras and El Salvador through agro-forestry systems that encourage self-consumption and the sale of surpluses. The programme is currently helping 10 000 small producers in each country with monthly economic support, as well as support in kind and technical assistance for contributing to food security.

The design of *Sembrando Vida* incorporates monitoring and follow-up mechanisms. A total of 40 biofactories have been built in El Salvador and 232 in Honduras; in El Salvador, 300 irrigation systems were also built. In terms of results, the planting of vegetables and fruit and/or timber trees has increased by more than 150%, with more than 90% of the beneficiaries reporting increases in their production. Positive spillovers are also evident.

Box 5.4. **International co-operation for production transformation: Mexico's *Sembrando Vida*** *(cont.)*

For example, *Sembrando Vida* also generated additional jobs, as the beneficiaries hired day labourers. More than 20 000 additional jobs were created in each country. In turn, the intention to migrate was reduced by 90% among the beneficiaries.

With this work, Mexico seeks to contribute to changing development models, as well as being a leader of innovation and an agent of transformation.

Source: (UNDP, 2022[85]).

The role of regional integration in production transformation and employment

Regional integration in LAC plays a vital role in promoting productive diversification, employment and industrialisation. Regional and subregional trade blocs can create larger markets and increase participation in regional value chains. By creating a favourable environment for economic integration, scalability of projects, and co-operation among member countries and development partners, they can also promote investments in LAC that are conducive to production transformation.

Intra-regional trade and production integration can drive sustainable development

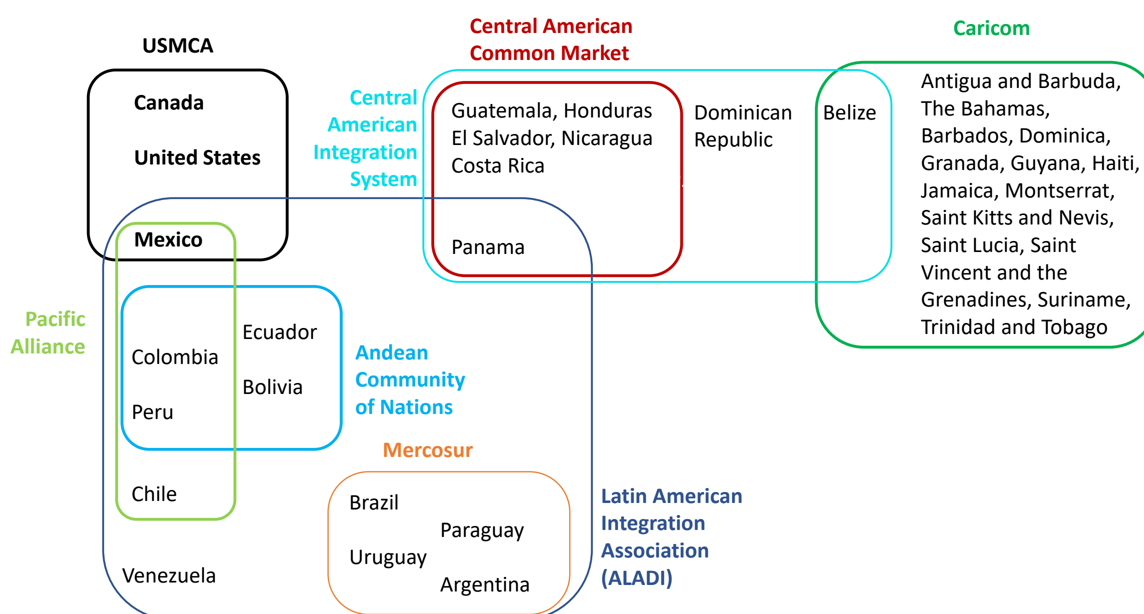
It is important to consider that the organisation of productive activity spans national borders, and many forces exist by which internationalisation can drive production transformation. Regional integration opens opportunities to generate more sophisticated, resilient and secure value chains. For LAC countries to leverage these opportunities, public policies geared toward productive development and trade, and international dialogue and co-operation are essential.

One key achievement of LAC economic integration lies in its significant reduction of tariff barriers, making entry to the regional market more attractive for FDI. As of 2019, the average tariff imposed on trade within the region was a mere 2% (ECLAC, 2021[86]). Establishing a normative framework of rules for trade and FDI is another valuable asset.

Subregional trade blocs can also help to harmonise regulations and standards across member countries. Aligning regulations related to customs, taxation, investment procedures and business practices helps to reduce barriers for investors. It can also enhance transparency and predictability, making it easier for businesses to operate and invest across borders. Various subregional blocs in LAC have made noteworthy progress in formulating regulations pertaining to service trade, trade facilitation, public procurement, foreign investment treatment and electronic commerce, among other relevant subjects. As the literature suggests that regional integration has a positive effect on extra-region inward FDI, an indeterminate effect on intra-region FDI and a positive overall effect on FDI attraction, these assumptions should be analysed case by case (Sánchez-Martín, de Arce and Escribano, 2014[87]).

LAC countries have established several regional integration mechanisms (Figure 5.8), although not all share the same characteristics and depth in terms of liberalisation policies. The Common Market of the South (Mercosur), the Andean Community of Nations (CAN), the Central American Common Market (CACM), and the Caribbean Community (Caricom) were formally founded as customs unions. In these bodies, in addition to the internal liberalisation of tariffs and non-tariff barriers (NTBs), a common external tariff (CET) was to be established. In practice, implementation of a CET varies widely among these blocs. In contrast, the Pacific Alliance (PA) and the United States-Mexico-Canada Agreement (USMCA) are free trade agreements, in which the signatory countries have reduced tariffs and NTBs to internal trade and co-ordinated a series of other policies (e.g. government procurement, services) but maintain their independence in terms of external tariffs (CAF, 2021[88]). The Pacific Alliance aimed to facilitate trade and investment flows with the Asia-Pacific region. The integration of the Andean Community, Mercosur and the Central American Common Market, should be revitalised to open paths for productive transformation. Improving co-ordination among subregional integration mechanisms would help overcome the current fragmentation of the regional market and consolidate partnerships at the international level to further attract investments in the LAC region.

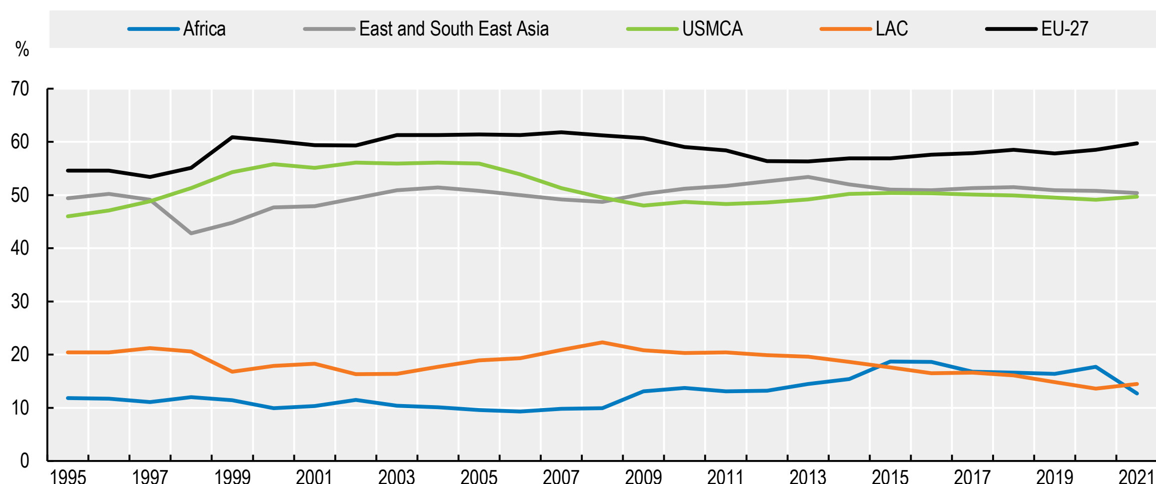
Figure 5.8. **LAC subregional integration mechanisms**



Note: The USMCA entered into force in July 2020 and substituted the North America Free Trade Agreement (NAFTA).
Source: Authors' elaboration based on (CAF, 2021[88]).

Regional trade agreements, however, are not sufficient for fostering productive and commercial integration. Despite some progress, LAC countries show limited levels of such integration among themselves, with only a few exceptions. This trend has become more pronounced since the 2010s. In 2008, intra-regional trade accounted for a maximum of 22% of LAC total goods; this figure has since declined steadily. It fell to 15% in 2021, one of the lowest intra-regional trade shares globally (Figure 5.9). In 2017, the share of imported goods from the region in total exports of major LAC economies averaged only 3% (Figure 5.10).

Figure 5.9. **Participation of intra-group exports in total goods exports, 1995-2021**



Note: USMCA = United States-Mexico-Canada Agreement.

Source: Authors' elaboration based on (UNCTADStat, 2023[89]).

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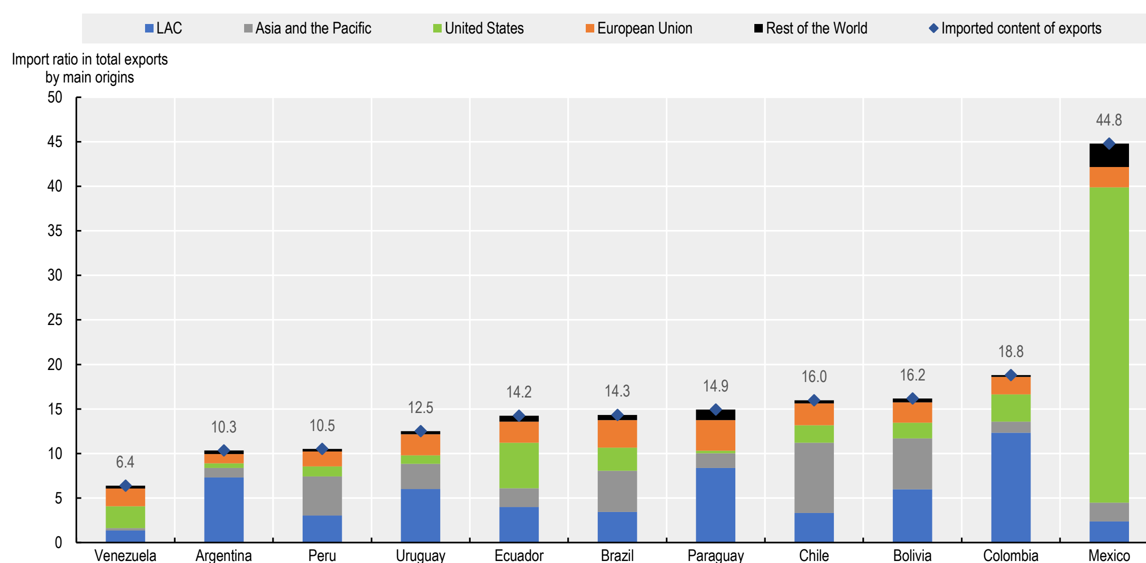
Figure 5.10. **Structure of the imported content of exports, 2017**



Source: Authors' elaboration based on the 2017 global input-output matrix on (ECLAC, 2020[90]).

StatLink https://stat.link/hjr9am

The decline in economic integration observed in the LAC region since the mid-2010s is concerning, especially considering the emerging global trends moving in the opposite direction. In response to vulnerabilities exposed by the COVID-19 pandemic and geopolitical disruptions in global value chains, several major players in the world economy are actively promoting greater regionalisation of their trade and production networks. Their aim is to attain greater strategic autonomy in sourcing key products and inputs. Given these global developments, revitalising regional integration in LAC is of utmost importance. Not only will it foster productive and export diversification, it will also enhance resilience in the face of future external shocks.

Several factors contribute to the low levels of intra-regional trade in LAC. First, limited economic complementarity arises from the similarity of the productive structures across

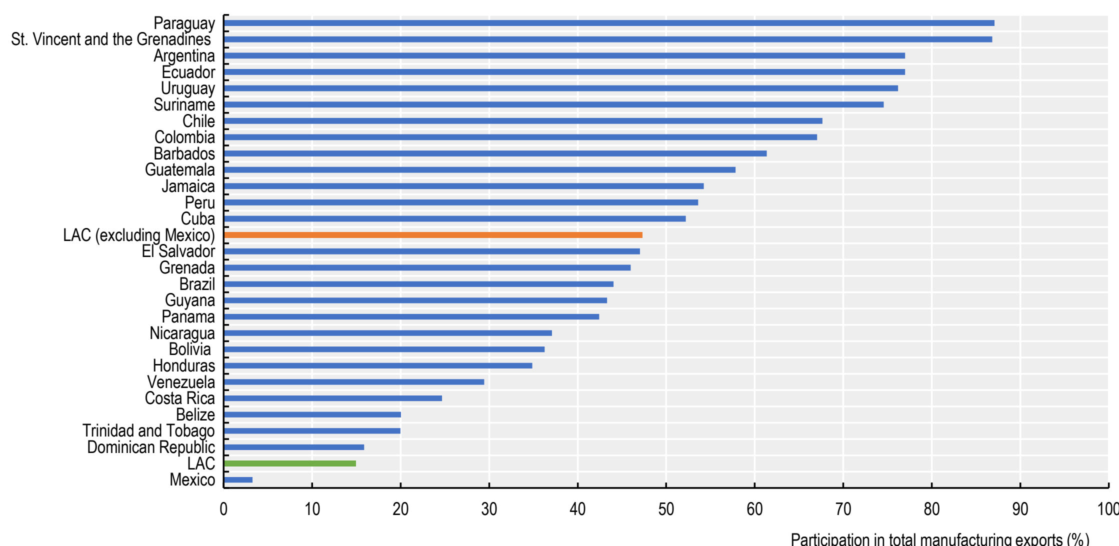
many of the countries. This is particularly notable among the South American nations, which share an abundance of natural resources. Additionally, Mexico's deep integration into North American value chains has resulted in reduced trade with LAC. In 2021, LAC received only 4.4% of Mexico's total exports and account for 3.5% of its imports.

Compounding these challenges is the significant deficit in transport and logistics infrastructure across the region (Chapter 2). This hampers the formation of productive networks and exacerbates the difficulties arising from LAC's vast territorial expanse and complex topography (Pérez and Sánchez, 2019[91]; CAF, 2021[88]). Furthermore, substantial disparities persist in the rules and regulations applicable within each subregional bloc, such as technical standards and labelling requirements. This heterogeneity adds to trade costs among different blocs, particularly impacting SMEs.

Other factors contribute significantly to the low levels of intra-regional trade. For example, although the average applied tariff on intra-regional trade is low, at around 2%, there is still limited tariff liberalisation (or a partial absence thereof) in commercial relations among some key economies in the LAC region. Notably, this is evident in the relationships between Mexico and countries such as Argentina and Brazil; Central America and various South American nations; and between Caricom and the rest of the region. Another noteworthy aspect is the negotiation of numerous free trade agreements with partners outside the region, which has intensified competition for Latin American manufacturers. This competition has been further intensified by the influx of Chinese manufactured goods over the past two decades, resulting in a significant shift in regional production across multiple sectors (Durán Lima and Pellandra, 2017[92]).

Despite these challenges, intra-regional trade shows a clear positive potential for production transformation as it accounts for a large proportion of the manufacturing exports of LAC. While the regional market accounted for 15% of exports of manufactured goods from LAC in 2021, it was higher in all countries for which data are available, except Mexico (Figure 5.11). Additionally, intra-regional trade encompasses the broadest range of exported products (Annex 5.A) and involves the highest participation of companies, particularly SMEs (ECLAC, 2021[86]). It thus plays a vital role in terms of promoting productive diversification, employment and industrialisation.

Figure 5.11. **LAC's participation in total manufacturing exports, 2021**



Note: Latin America and the Caribbean includes 27 countries. Figures for Cuba and Venezuela were calculated from mirror statistics.
Source: (UN Comtrade, 2023[93]).

StatLink *https://stat.link/v0qdxe*

Intra-regional trade is characterised by a lower proportion of raw materials than exports outside the region and generally involves shorter distances, which enhances its environmental sustainability and strategic role for industrialisation. In turn, the greater presence of MSMEs in intra-regional than in extra-regional exports helps to distribute the benefits more equitably. Summing up, the lack of dynamism shown by intra-regional trade in LAC over the last decade poses challenges for achieving a transformative recovery.

The LAC region as a whole could take advantage of strengthened subregional integration blocs, following the successful model demonstrated by Central America (Box 5.5), which has some of the highest levels of intra-regional trade (typically above 25%). This is followed by Mercosur, which actually shows a significant decrease in internal trade flows – from 20% in the mid-1990s to 12% in 2015-18 (CAF, 2021[88]).

Box 5.5. **Central America as an example of regional integration**

Central America serves as a remarkable example of regional integration due to its concerted efforts to foster regional co-operation and economic development. The establishment of institutions such as the Central American Integration System (SICA) and the Central American Parliament has facilitated dialogue, co-ordination and decision-making processes across the region. In addition, Central American countries have implemented initiatives such as the Central American Common Market (CACM) that promote the free movement of goods, services and people, thereby encouraging trade and investment.

On energy, Central America has taken a significant step forward by forming a regional electricity market and the completing physical interconnections among the six countries involved. The Central American Electrical Interconnection System, completed in 2014, is the greatest achievement in this area. The region has made progress as well in incorporating non-conventional renewable energies (NCREs) into electricity systems, increasing generating capacity. The countries involved have expanded this capacity over the last decade, with NCREs now accounting for slightly more than 20% of total electricity generation (CAF, 2021[88]).

The International Renewable Energy Agency (IRENA) is supporting development of the Clean Energy Corridor of Central America (CECCA), a regional initiative calling for accelerated development and cross-border trade of renewable power in Central America. Implementation of the CECCA initiative and its set of activities within the regional context aims to support the integration of larger amounts of renewables into the Regional Transmission Network. This potential is seen as attractive by partner countries looking to mobilise investments, such as the European Union (EUCA Trade, 2021[94]).

Towards a new agenda for production integration in LAC

To establish economically viable regional production chains, it is crucial to establish a stable market that combines efficient scale with minimising transaction costs associated with cross-border integration. Achieving this requires integration initiatives that surpass existing agreements and foster convergence among various subregional groupings. Several alternatives exist for making progress in this direction, differing in terms of their instruments, time frames, technical complexities and political considerations, among other factors.

Currently, negotiating a large-scale LAC trade agreement seems to be of low priority for most LAC governments. Other regional and subregional integration initiatives are instead gaining relevance, such as strategic use of national public procurement systems, regulatory harmonisation and regional trade facilitation agreements (ECLAC, 2022[95]). One aspect of the convergence agenda that could greatly enhance intra-regional production networks is the gradual harmonisation or mutual recognition of technical, sanitary and phytosanitary standards. Such progress would be particularly advantageous for SME exporters, which often face challenges in dealing with diverse regulatory requirements in different regional markets. Harmonising technical standards becomes pivotal in promoting productive integration, especially in areas critical to the energy transition, such as electromobility.

Trade facilitation, which involves streamlining and simplifying cross-border procedures, plays a crucial role in promoting participation in both regional and global value chains, and in facilitating the internationalisation of SMEs. The positive impacts of trade facilitation measures are amplified when they extend beyond national boundaries and become regional initiatives. Similar to other emerging regions, LAC has made progress since 2019 in simplifying and harmonising documents, automating and streamlining procedures, and improving domestic border agency co-operation (Sorescu and Bollig, 2022[96]). An exemplary case is the Authorised Economic Operator (AEO) regional recognition agreement, signed in May 2022 by the customs services of 11 LAC countries. When fully implemented, this agreement will enable exporting companies certified as an AEO in one member country to enjoy similar benefits in other member countries, simplifying customs procedures and enhancing the security of the logistics chain. Other trade facilitation initiatives in which significant progress is being made at the regional or subregional level include the interoperability of national single windows for foreign trade and the digital certification of origin.

The WTO's Trade Facilitation Agreement (TFA) sets a baseline of disciplines that LAC countries can build upon to pursue more ambitious commitments, particularly regarding the digitisation of procedures. Within this framework, negotiating a regional agreement on trade facilitation would send a robust political signal of commitment to integration and contribute to enhancing the efficiency of intra-regional trade and productive networks. Such an agreement would demonstrate a collective commitment to streamlining processes and reducing barriers, ultimately fostering smoother regional trade flows. In addition to the convergence initiatives discussed earlier, addressing the regional infrastructure deficit is crucial.

The institutional fragility of integration agreements constitutes a crucial barrier in LAC. National stances on integration are frequently subject to shifts due to changing political cycles in different countries. The regional integration project should be seen – independently of the political parties in government – as a regional development strategy to shift LAC's peripheral role in the global market towards a more value-added and central place in regional and global value chains. In turn, this would provide greater sovereignty and room to manoeuvre for the region within the global arena.

LAC can draw valuable lessons on regional integration from Europe, particularly from the experience of the European Coal and Steel Community (ECSC). Established in 1951, the ECSC laid the foundation for the European Union and played a pivotal role in fostering economic integration and political co-operation among European countries. It created a common market for coal and steel by eliminating trade barriers, encouraging competition and ensuring a stable supply of these products. This integration boosted industrial production and facilitated technological advancements. LAC can learn from this success story in prioritising a common market and focusing on strategic sectors that

would boost a transformation of production and labour markets. By establishing similar mechanisms tailored to their own context, LAC countries can enhance intra-regional trade, harmonise regulations, and develop common policies on crucial issues such as energy, transportation and environmental protection. The region could also benefit from including regional trade integration as part of the productive development policies of LAC countries and their territories. For example, integration opportunities could be explored through the implementation of cluster initiatives in countries that share common or complementary value chains.

Regional integration blocs in LAC can serve not only to increase FDI for production transformation through better and more regional trade, but also as the basis for a regional platform for co-ordinated investment projects. Recent reports show a promising trend, with an increase of more than 80% in FDI outflows from LAC countries in 2023 (ECLAC, 2023[22]). The amount invested abroad by Latin American transnational companies (known as trans-Latins) reached the historic level of USD 74.677 billion in 2022 (ECLAC, 2023[22]). This trend could be boosted by strengthening regional investment platforms such as Mercosur's Structural Convergence Fund (FOCEM in Spanish), which was established with the aim of reducing asymmetries within the regional bloc. FOCEM comprises larger contributions from its bigger partners (Argentina and Brazil) while its allocations progressively benefit its smaller partners (Paraguay and Uruguay) with a focus on infrastructure projects, business competitiveness and social development. Another example is the Priority Integration Projects Agenda of the Union of South American Nations (UNASUR). This agenda consists of 31 structured projects with an estimated investment amount of USD 20.1 billion (UNASUR, 2023[97]).

The region's vast experience in South-South co-operation provides it with another tool to support coalitions for production transformation. When regional integration blocs become too rigid to provide concrete solutions, countries can resort to more flexible bilateral and subregional alliances that push forward production transformation agendas. For instance, consider the South-South co-operation project between Uruguay and Mexico, which focuses on fostering ecosystem dynamics in research, development, and innovation, while also emphasising value addition in local productive chains, with a particular focus on environmental issues, circular economy, and sustainable development. The project focuses on the exchange of experiences between public and private sectors from both countries, including start-ups from strategic sectors. Experiences such as this one can be replicated or scaled by gradually adding new partners.

A new EU-LAC agenda for production transformation

The European Union is not only one of the top investors in LAC, it is also the region's third-largest trading partner and the leading contributor of development co-operation. More recently, it has also become a significant investment partner in LAC, particularly in countries that receive a considerable share of the region's FDI inflows from the EU, including Brazil (31%) and Mexico (26%), followed by Chile (10%), Argentina (8%) and Colombia (5%) (fDi Markets, 2023[98]) (Chapter 1). This investment has played a crucial role in job creation, particularly in sectors such as services and manufacturing, which are key for LAC's production transformation (Chapter 2). European companies have established production facilities and acquired manufacturing entities, generating employment opportunities in LAC across diverse value chains.

Trade and investment ties between the European Union and LAC have been strengthened through bilateral and regional trade agreements that have facilitated market access and economic integration, leading to a significant increase in two-way trade

(European Commission, 2023[13]). The European Union has signed association agreements with individual countries and regional blocs within LAC, promoting co-operation, political partnership and closer economic relations. Such agreements exist with the Caribbean Forum (Cariforum); Central America; the Andean countries (Colombia, Ecuador and Peru); Chile; and Mexico. Negotiations are ongoing with Mercosur.

The EU's recent shift towards a new development co-operation paradigm based on international partnerships is also changing its approaches towards the LAC region. This shift recognises partner countries in LAC as active participants in shaping their own development agendas, moving away from a recipient-centric approach (ECLAC/OECD, 2018[99]; OECD et al., 2019[21]). It involves engaging in policy dialogue, co-designing policies, and jointly implementing projects that address common challenges (such as the green and digital transitions) while prioritising social inclusion. It promotes joint work across the two regions to harness their collective strengths and defend common interests. This approach also integrates tools such as trade, investments and co-operation in a multidimensional and "whole of government" approach (European Commission, 2023[13]).

The EU's Global Gateway strategy, which aims to mobilise investment, trade and development co-operation, is a turning point towards this new strategic alliance with the LAC region. This new approach places transparency and high standards at the core of EU-LAC relations, offering LAC countries projects that promote wealth creation through partnerships between the public and private sectors. It seeks to generate business investments that contribute to the prosperity of societies in both regions (European Commission, 2023[100]). The new EU-LAC GGIA is a collaborative effort to identify investment opportunities in LAC that will benefit the region's production transformation in sectors such as climate and energy, critical raw materials, infrastructure, SME development, electromobility, and sustainable tourism, among others (Figure 5.12). For example, the EU has worked closely with the IDB Group to identify investment opportunities in LAC. Over the past three years, the IDB has partnered on 58 initiatives alongside 14 European partners in 17 LAC countries, aligned with all key sectors of the GGIA. For each dollar financed by European partners, the IDB Group contributes twice as much, reaching more than USD 10 billion in co-financing and almost USD 200 million in grants.

Within the framework of the Global Gateway strategy, an association between the European Union and LAC for local manufacture of vaccines, medicines and other health technologies was launched in June 2022 (European Commission, 2022[101]). This initiative, which also aims to strengthen the resilience of health care systems, is fully aligned with the plan for self-sufficiency in health matters of the Economic Commission for Latin America and the Caribbean (ECLAC), which was unanimously approved by the heads of state and government in September 2021 (ECLAC, 2021[102]). The ECLAC plan stands out as a framework for co-operation and action across three areas. First, it defines a multilateral approach to enhancing investment in the health sector and promoting regional productive capacities. Second, it sets a vision for integrating health and productive development. Third, it identifies and prioritises high-impact projects that are feasible to implement in the short term.

Figure 5.12. **Global Gateway Investment Agenda: Number of projects by country and sector**

	Climate and energy	Digital	Education and research	Health	Transport
Country					
Argentina					
Barbados					
Belize					
Bolivia					
Brazil					
Chile					
Colombia					
Costa Rica					
Cuba					
Dominican Republic					
Ecuador					
El Salvador					
Guatemala					
Guyana					
Haiti					
Honduras					
Jamaica					
Mexico					
Panama					
Paraguay					
Peru					
Suriname					
Bahamas					
Trinidad and Tobago					
Uruguay					
Venezuela					
Regional and sub-regional					
Amazon Basin					
Caribbean					
Central America and Mexico					
Eastern Caribbean					
LAC					

Note: The figure shows the total number of projects by country published by the European Commission. Darker blue shows a higher number of projects (lightest blue = 1 project; darkest blue =7 projects). In addition to the number of projects shown at country level, the number of projects at the regional and subregional level is also included in the Amazon Basin, Caribbean, Central America and Mexico, Eastern Caribbean and LAC regions.

Source: (European Commission, 2023[103]).

The transformation of the EU's economic and social model – based on just green and digital transitions – presents an opportunity for exchange with LAC countries in support of their own transformation. The Global Gateway is an important tool in this sense. It needs to be accompanied with political (and policy) dialogue, as well as the necessary adaptation to the region's specific structural conditions and mitigation of potential costs. The July 2023 EU-CELAC Summit marked a turning point in this alliance, showing renewed commitment at the highest political level to pursue joint endeavours across the regions. During the meeting, the IDB, CAF and the European Commission co-hosted an

EU-LAC Business Roundtable, a key step in involving the private sector in the bi-regional partnership towards a production transformation.

Greater policy exchange and dialogue would foster stronger ties, paving the way for the production transformation that LAC countries aspire to achieve. An agenda in which trade, investment and co-operation generate mutual benefits should be based on stronger dialogue, broader and innovative sources of finance, and evidence-based policy recommendations, as well as co-ordination between national and regional levels. Renewed mechanisms of co-ordination and alignment with national development strategies are crucial for ensuring that investments flows follow shared criteria on quality, sustainability and inclusiveness. These mechanisms will need to bring together the investment, trade, and development communities, and ensure that the process accompanying LAC's reindustrialisation aligns with national priorities.

Technical exchanges on smart specialisation strategies – e.g. economic transformation agendas or productive development polices – can be of strategic importance for LAC's production transformation. Such exchanges can contribute to sustainable development by promoting competitiveness and innovation in different regions and reducing territorial inequalities (Di Cataldo, Monastiriotis and Rodríguez-Pose, 2022[104]; Halleux, 2016[105]). The European Union has implemented this innovative policy approach, which could be usefully applied in LAC countries with high subregional economic disparities (UTEC, 2021[106]). Within LAC, Chile's Production Development Corporation (CORFO) has developed such policies. The European Union is currently advising its member countries on how to adapt their strategies to the needs of industrial policies to align with the green and digital transitions. The EU bloc recently joined forces with the LAC region in a new digital alliance (Box 5.6).

Box 5.6. **EU-LAC Digital Alliance: A joint effort to close the digital divide in LAC**

The European Union-Latin America and the Caribbean (EU-LAC) Digital Alliance (launched in March 2023) seeks to boost digital co-operation between the two regions through concrete actions that promote the development of digital infrastructure and the convergence of policies and regulations that guarantee the protection of human rights online. The initiative is part of Europe's Global Gateway strategy for trusted links with partner countries to contribute to the development of LAC economies and societies. It will rely for co-ordination on Europe's Digital Development Hub (D4D) and ECLAC.

Projects to be developed in the framework of the EU-LAC Digital Alliance are: i) extend the BELLA fibre optic cable connecting Europe and Latin America to create secure digital backbone connectivity and bring researchers from both regions closer together; ii) enhance the Copernicus regional strategy, with regional Copernicus data centres in Panama and Chile; iii) create an EU-LAC Digital Accelerator to boost competitiveness and innovation in the digital field; and iv) strengthen and consolidate a permanent dialogue space between the two regions on issues of meaningful connectivity, regulatory frameworks, governance, cybersecurity and digital transformation.

The EU-LAC Digital Alliance aims to strengthen the institutional capacities of LAC countries and support the production transformation based on digitisation and innovation in the region. It is expected to help LAC countries to close digital gaps and divides, promote social cohesion, boost gender and racial equality, improve youth empowerment, and establish an inclusive digital society and economy that leaves no one behind.

Source: (ECLAC, 2023[107]); (European Commission, 2023[108]).

Policy exchanges on the green transition and international green standards can also benefit both regions. With the EU Green Deal entering into force, the European Union will have regulations on imports of agricultural and agro-industrial goods. The EU's regulatory framework on pesticides and fertilisers, as well as the deforestation-free standards entering into force, will have important effects on the EU-LAC trade balance. Partner countries will need to invest important resources to comply with these regulations and will need to update current processes to new international standards. LAC countries are already advancing in updating their regulations and establishing traceability processes. For instance, a bill is moving forward in Colombia's national congress that seeks to combat deforestation by making beef traceability mandatory, i.e. to monitor livestock to ensure that it is not sourced from illegally deforested areas (Tarazona, 2022[109]). The potential adoption of such a law would put Colombia at the forefront of green regulations and would allow agri-food products to comply with EU requirements in future. Within the framework of a strengthened partnership, it will be crucial for the European Union to provide technical and financial assistance to LAC countries so they can meet the new, more stringent requirements to access the EU market.

The sharing of strategic priorities by LAC and EU countries is an opportunity to build a mutually beneficial alliance around priority areas such as the three transitions: green, digital and social. While distinct, the goals of each transition are complementary, and their paths to realisation intersect.

Key policy messages

International co-operation and partnerships have become crucial in LAC for fostering more and better investments for the production transformation. At a time when a series of mutually reinforcing crises – including climate change, the COVID-19 pandemic, the disruption of global value chains and the war in Ukraine – have fragmented the multilateral system, a co-ordinated response is imperative. The triple transition – green, digital and social – brings an opportunity for LAC to strengthen international partnerships and to build new models of sustainable growth and development to ensure that the region does not fall behind in this new industrialisation agenda. Key policy messages (Box 5.7) highlight how international partnerships can help to:

- overcome the development financial gap by mobilising private-sector capital;
- ensure that investments yield greater social impacts; and
- promote and support regional integration.

These policy messages provide overarching considerations to help LAC countries implement their own policy mix for attracting FDI – and other investment – that drives the production transformation in a sustainable and just way.

Box 5.7. **Key policy messages**

Promote further co-ordination and alignment to mobilise greater and better resources for investment

- Enhance co-ordination among governments, the private sector, international co-operation agencies, MDBs and DFIs through platforms for dialogue and information exchange. This can help to mobilise further private investments that align with national and subnational priorities under the development of strategy agendas, and contribute to improving the region's enabling environment for investment.

Box 5.7. **Key policy messages** *(cont.)*

- Make greater use of mobilisation instruments such as blended finance, which can be used to reduce perceived risk for institutional investors for investment projects in LAC.
- Align national policy frameworks to international standards including taxonomies, international policy instruments or multilateral agreements to create a common understanding and due diligence for private capital mobilisation.
- Assess the potential benefits of introducing new or alternative approaches to investment treaties to ensure that they respect environmental standards, labour rights and social welfare.
- Promote support for capacity building and technology transfer linked to investments in key strategic sectors. This includes further support for national and local IPAs and local financial institutions to align sustainable finance with national priorities.
- Promote the creation of spaces for discussion among national and local IPAs, in support of strategic sectors for investments, involving civil society and local actors, to align investment with national priorities.
- Incorporate local content requirements in international investment agreements to create linkages with domestic SMEs and foster the needed value chains in context-specific investments. This can enhance the social and economic impact of investments, strengthening the development of local supply chains and labour productivity.

Towards revitalised regional integration

- Strengthen intra-regional integration, in particular production integration, to create a large and stable market that enables economies of scale, with reduced transaction costs along with regional infrastructure. This can be accomplished via strategic public procurement, regulatory harmonisation, trade facilitation measures and production development policies that directly target regional integration.
- Give due attention to the regionalisation of trade and production networks, and orient international partnerships towards supporting this effort. This is vital in the quest for greater strategic autonomy in the sourcing of key products and inputs.
- Increase co-operation and policy dialogue with the European Union and other strategic partners, to foster regional integration in LAC that is adapted to the current context of increasing demand for critical raw materials and the need to upgrade value chains in the region.

Towards a new strategic alliance with the European Union

- Strengthen policy exchange and dialogue between LAC and the European Union through the EU Global Gateway Investment Agenda to promote trade and quality investments across the two regions. Such co-operation includes the EU-LAC association for the local manufacture of vaccines, medicines and other health technologies; technical exchanges on smart specialisation strategies; the EU-LAC Digital Alliance; and the green transition.

Notes

1. Two databases, Convergence and OECD, provide insights into the state of blended finance globally. Convergence (Convergence, 2023[111]) data is collected from i) credible public sources like press releases, ii) data sharing agreements, and iii) validation exercises with Convergence members. To be included in Convergence's database, a deal must meet three main criteria:

1. The transaction attracts financial participation from one or more commercial investors that would otherwise not have invested in the opportunity.
2. The transaction uses catalytic capital in one of the following ways: a) Public/philanthropic investors are concessional within the capital structure; b) Public/philanthropic investor provided guarantees or risk insurance priced below market rate; c) Transaction design or preparation is grant funded; d) Transaction is associated with a Technical Assistance facility.
3. The transaction intends to create development impact related to the SDGs in developing countries, or directly impacts beneficiaries in developing countries.

See note 2 for information on the OECD database.

2. The OECD has developed an international standard for measuring and collecting data on the amounts mobilised from the private sector by official development interventions (OECD.Stat, 2023[35]). Referred to as the "Mobilisation database", it describes the causal link between private finance made available for a specific project and an official intervention. Data are collected following instrument-specific methodologies, covering all leveraging mechanisms used by DFIs and MDBs: guarantees, syndicated loans, project finance schemes, shares in collective investment vehicles, direct investment in companies, credit lines and simple co-financing.

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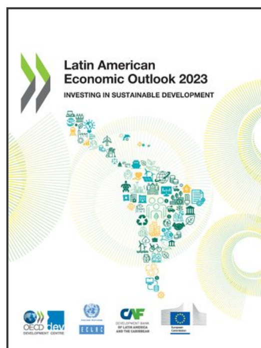
Annex 5.A.

Table 5.A.1. **Number of types of products exported to selected destinations, 2021**

	LAC	United States	EU-27	China
Argentina	3 352	1 388	1 479	409
Barbados	671	433	98	13
Belize	85	76	25	1
Bolivia	569	240	225	64
Brazil	4 358	3 311	3 730	1 968
Chile	3 260	1 311	1 391	364
Colombia	3 292	2 022	1 380	234
Costa Rica	2 869	2 015	950	182
Cuba	268	3	373	46
Ecuador	2 267	1 344	789	161
El Salvador	2 412	1 076	567	69
Guatemala	3 536	1 449	741	130
Guyana	769	525	175	40
Honduras	1 823	1 083	364	39
Jamaica	382	348	82	20
Mexico	1 448	2 858	503	361
Nicaragua	1 852	974	255	52
Panama	271	144	64	30
Paraguay	1 388	431	397	106
Peru	3 294	1 867	1 555	266
Dominican Rep.	2 362	2 278	1 288	135
Trinidad and Tobago	1 769	295	508	27
Uruguay	1 490	567	519	140
Venezuela	958	266	613	63
LAC total	**44 745**	**26 304**	**18 071**	**4 920**

Note: Products are defined at the 6-digit level of the Harmonised Commodity Description and Coding System. Data for Cuba, Trinidad and Tobago and Venezuela (Bol. Rep. of) were calculated from mirror statistics. Data for Argentina correspond to 2017. Boxes shaded in light blue correspond to the destination to which the largest quantity of products was exported.

Source: UN Comtrade, International Trade Statistics Database, https://comtrade.un.org/.



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