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A common future for Europe, Latin America and the Caribbean

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KEY MESSAGES

The shared values, interests and priority working areas – such as the green, digital and social transitions – between the EU and LAC, coupled with the significant development financing needs the LAC region faces, call for strengthened financial relations between both regions. Some dimensions of such relations are already of great relevance, such as FDI, while others, like ODA, are less prominent.

There is ample room for closer financial cooperation in a beyond-aid fashion, not least under the framework of Global Gateway, in a way that maximises the potential of different cooperation tools – strengthened financial instruments but also political dialogue and technical assistance, among others – by engaging with them in a complementary and coherent manner. Linking development and commercial approaches, aligning agendas, sharing lessons learnt, leveraging existing efforts and finding common ground in key areas for both regions – such as the reform of MDBs, debt issues or tax reforms – in bilateral and multilateral settings can help untap the (financing) potential of these bi-regional relations.

Lead authors:
Iliana Olivié and María Santillán O'Shea

Sections contributors:
Damien Barchiche, San Bilal, Fabrizio Botti, Tiziano Breda, Alexia Faus Onbargi, Ricardo Fuentes Nieva, Karim Karaki, Niels Keijzer, Dora Meredith, María Alejandra Riaño

KEY MESSAGES (CONTINUED)

Despite their diverse interests and needs in relation to energy transitions and climate action, there is considerable potential for strengthening cooperation, investment and policy dialogue between the EU and Latin America and the Caribbean on the centrepiece of the global development agenda that is the energy transition and the fight against climate change.

To explore and realise this cooperation potential, EU-LAC cooperation could invest in producing a mapping of ongoing cooperation engagements, explore the (un)intended effects of energy transition within the LAC region, strengthen regional cooperation, mobilise development finance institutions, and intensify diplomatic interactions.

Many countries in LAC have been victims of a negative cycle of high inequalities, low trust in institutions and democracy, prevalent crime and low economic growth. The nature of this reinforcing cycle, where inequalities cut across societies, is systemic, with the end result of a fragile social contract. Breaking the cycle of exclusion and low trust requires a focus on inclusion and redistribution.

As the nature of the challenges related to inequality is systemic, the response needs to be systemic too. An inclusive social protection framework could play a transformative role in strengthening social inclusion and respect for the rule of law.

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INTRODUCTION

In July 2023, and seven years since their last gathering, the European Union (EU) and the Latin American and Caribbean (LAC) states reconvened in Brussels at the level of heads of state and government. Whereas the 2015 meeting had taken place in a period of relative global ambition and resolve, the 2023 summit faced a more troubled international context. In today's considerably polarised and divided world community, the overall question driving the EU and LAC leaders was to determine which interests and ambitions they shared – both within and between the two blocs of states.

Contemporary international relations are defined, on the one hand, by a series of interconnected crises in several domains such as, for instance, climate, health, debt, monetary stability, security (including food security) and war. On the other hand, there is a trend towards increasing geopolitical fragmentation (Georgieva, 2023). This, despite the continued growth of cross-border exchanges of all types (Elcano Royal Institute, n.d.) (trade, foreign direct investment but also scientific collaboration) that are, nevertheless, increasingly circumscribed to regions or political and economic blocs which are, in turn, extremely porous.

In this complex landscape, it has been nearly four years now since the EU opted for redefining its global role from a geopolitical perspective. Internally, the 'Geopolitical Commission' has launched a series of initiatives for securing its ecological transition or boosting its technological capacities (via, for instance, the Next Generation EU recovery plan (Berghmans, 2020)), all part of its ambition to reach an (open) strategic autonomy. This comes hand in hand with a reshuffling of its external relations with the so-called Global South that has materialised in the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI – Global Europe) (Jones et al., 2021) launched in the framework of the 2021–2027 Multiannual Financial Framework (MFF); the Team Europe Initiatives (TEIs) (Keijzer et al., 2021) that initially appeared as a response to the COVID-19 pandemic; or the more recent Global Gateway initiative (Armanini et al., 2023) focusing on connectivity and digitalisation. All of these instruments and initiatives aim at strategically strengthening, diversifying and updating the EU's partnerships with other regions in the world.

In addition to the above-mentioned global challenges, LAC faces a long list of interconnected and structural development gaps. The United Nations Development Programme (UNDP) redefines these development gaps as the high inequality/low growth trap, where high levels of inequality, slow growth, concentration of power, rising violence (in its different political, social and criminal forms) and poverty interact (UNDP, 2021). In turn, inequality results in a generalised social perception of unfairness, including that of regressive taxation systems and also in social unrest and high violence levels. The region, home to 9% of the world population, accounts for 34% of total violent deaths (UNDP, 2021).

Confronted with the same fragmented geopolitical landscape as the EU, all the other regions, including LAC, tend to opt for a pragmatic approach to international alliances, avoiding alignment with a specific bloc or global power, particularly in a context where intra-regional ties are scarce, when compared to those in other regions, and are decreasing (Olivié & Gracia, 2018). Countries in the region maintain economic, political, technological, scientific and military ties with the US, European countries, Russia or China, with an increasing weight of the latter. China is currently the second trading partner of the LAC region as a whole (the first trading partner of South America), after the US. The Asian country is also a major foreign direct investor (mainly in primary industries such as mining and agriculture) and creditor in the region (Roy, 2023). Although to a lower extent, the presence and influence of Russia also manifests through different channels, including the military or the provision of vaccines during the COVID-19 pandemic.

In this context, the EU represents a comparatively lower profile partner for the LAC region: for both sides, bi-regional trade is not at the same level as with Asia, and LAC is not a major destination of European official development assistance (ODA). Europe, though, is a major source of external financing and, particularly, of foreign direct investment (FDI). Although Europe's stated objectives regarding LAC have, until recently, focused on cultural, scientific and human ties (European Commission, 2016) – and shared common democratic values are often quoted as a pillar of the bi-regional link – for the most part the relationship can be narrowed down to financial or productive connections via FDI (Olivié & Gracia, 2020).

However, the war in Ukraine may have opened the door to a new phase in EU-LAC relations. To some extent, the geographic distribution of votes on the UN General Assembly Resolution of 2 March 2022 on Russia's invasion of Ukraine was interpreted, on the part of the EU institutions, as an updated map of EU allies. It included some surprises such as, on the one hand, fewer African votes in favour than was probably expected by EU institutions and European countries, and, on the other hand, an overall support on the part of LAC countries (although with some important exceptions). This critical juncture reshaped the EU narrative on the region, presenting it as a key ally in a hostile geopolitical context (see, for instance, Borrell, 2022).

The EU-CELAC summit held in July 2023 was followed by a declaration emphasising the values shared by both regions: respect for human rights, democratic principles, fair and inclusive multilateralism and international cooperation. Also stressed was the countries' "concern on the ongoing war against Ukraine" as well as the commitment to work together towards an accelerated implementation of the 2030 Agenda, as well as in the specific domains of climate change (including the implementation of a fund for loss and damage), trade, investment, digital transformation and the fight against organised crime (Council of the European Union, 2023b). A roadmap was also issued during the summit that focuses on activities to be undertaken, rather than results to be achieved (Council of the European Union, 2023c).

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This institutional milestone in bi-regional relations was preceded by another, the adoption of a joint communication to the European Parliament and the Council (European Commission, 2023g). The document makes the case for a renewed strategic partnership in the areas of a rules-based international system, sustainable growth and fair, green and digital transitions. It then focuses on the need to close the bi-regional and bilateral trade agreements, to implement the investment agenda under the umbrella of Global Gateway, and to strengthen bi-regional cooperation in the areas of justice and security, democracy and human rights, education, research and mobility. Last but not least, more recently, and under the Spanish presidency, the Council of the EU adopted conclusions on bi-regional relations which, to a large extent, echo and reinforce the contents of the previous documents (Council of the European Union, 2023a).

Obviously, and despite these optimistic and ambitious political statements, EU-LAC relations are not without tensions, some of which are structural. To name a few, negotiations for closing a trade agreement between the EU and Mercosur have been going on for decades; and the position of the EU regarding the political situation in Venezuela has led to explicit confrontations in the LAC region. Also, more recently, statements by several European leaders, including the president of the European Commission, have caused negative reactions on the part of some LAC leaders who have accused Europe of applying double standards when it comes to the respect of human rights, given the very differentiated response to the conflicts in Ukraine and in Palestine. All of the above also challenge the assumption that the two regions belong to a single homogenous community of shared values.

Since, until recently, EU-LAC inter-regional links have been framed in trade and investment agreements, these have been extensively assessed in all their forms: bilateral agreements (Cuba, Mexico, Colombia), bi-regional agreements (EU-Mercosur, EU-CELAC summits) and the potential for sub-regional integration processes (CELAC, Alianza del Pacífico, Alba, Unasur) (Santander, 2010; Gardini & Ayuso, 2015; Müller et al., 2017; Bonilla & Sanahuja, 2022). Other contributions have focused on why Latin America matters or should matter for EU institutions and European countries (Malamud, 2017; Malamud et al., 2023).

This report aims at contributing to the debate on EU-LAC relations in the particular domains of finance for development, climate change and energy transition, and inequalities. Our aim is a deeper understanding of the current state of the LAC region and of bi-regional relations on each of these three fronts, thereby enabling the proposal of a concrete set of recommendations for a reshaped bi-regional relation, in line with the political commitments adopted in recent months as well as the development challenges of the region, as mentioned above (Malamud, 2017; Malamud et al., 2023).

The **first chapter**, elaborated by Iliana Olivié and María Santillán O'Shea from Elcano Royal Institute, and Karim Karaki and San Bilal from ECDPM, provides a map of EU-LAC economic relations and details the needs or ambitions, with respect such relations, in both sides of the Atlantic. A series of recommendations are offered in line with strengthening instruments that promote investments in a green transition and prevent greater sovereign debt vulnerability; and also in line with countries taking a more consistent approach to their economic (trade, finance and aid) external action.

The **second chapter**, by Maria Alejandra Riaño and Damien Barchiche from IDDRI, and Alexia Faus Onbargi and Niels Keijzer from IDOS, looks into EU-LAC cooperation on climate change and energy transitions. In addition to the international cooperation possibilities that the EU offers to promote investment, there is also scope for a continuous EU-LAC dialogue concerning the formulation and implementation of relevant EU regulations as prepared under the European Green Deal.

Lastly, the **third chapter**, by Ricardo Fuentes Nieva and Dora Meredith from ODI, and Fabrizio Botti and Tiziano Breda from IAI, addresses inequalities in the region and their connection with low growth, social unrest and violence. Addressing this systemic challenge requires a systemic, whole-of-society response in order for fiscal reforms to be achieved and, hence, for a social protection floor to be secured for all.

The analyses presented in the three chapters were informed and enriched by engagement with a number of Latin American, Caribbean and European experts during three webinars held in November 2023, when first drafts of the chapters had already been prepared by the authors.[1]

1. The events were held on 6, 21 and 22 November 2023. The authors are grateful to the participants for their valuable contributions and to the Coordination Office of the United Nations in Brussels for support in the organisation of these webinars.

1 STRENGTHENING EU-LAC RELATIONS THROUGH FINANCING FOR DEVELOPMENT

Iliana Olivié (ETTG and Elcano)
María Santillán O'Shea (Elcano)
Karim Karaki (ECDPM)
San Bilal (ECDPM)

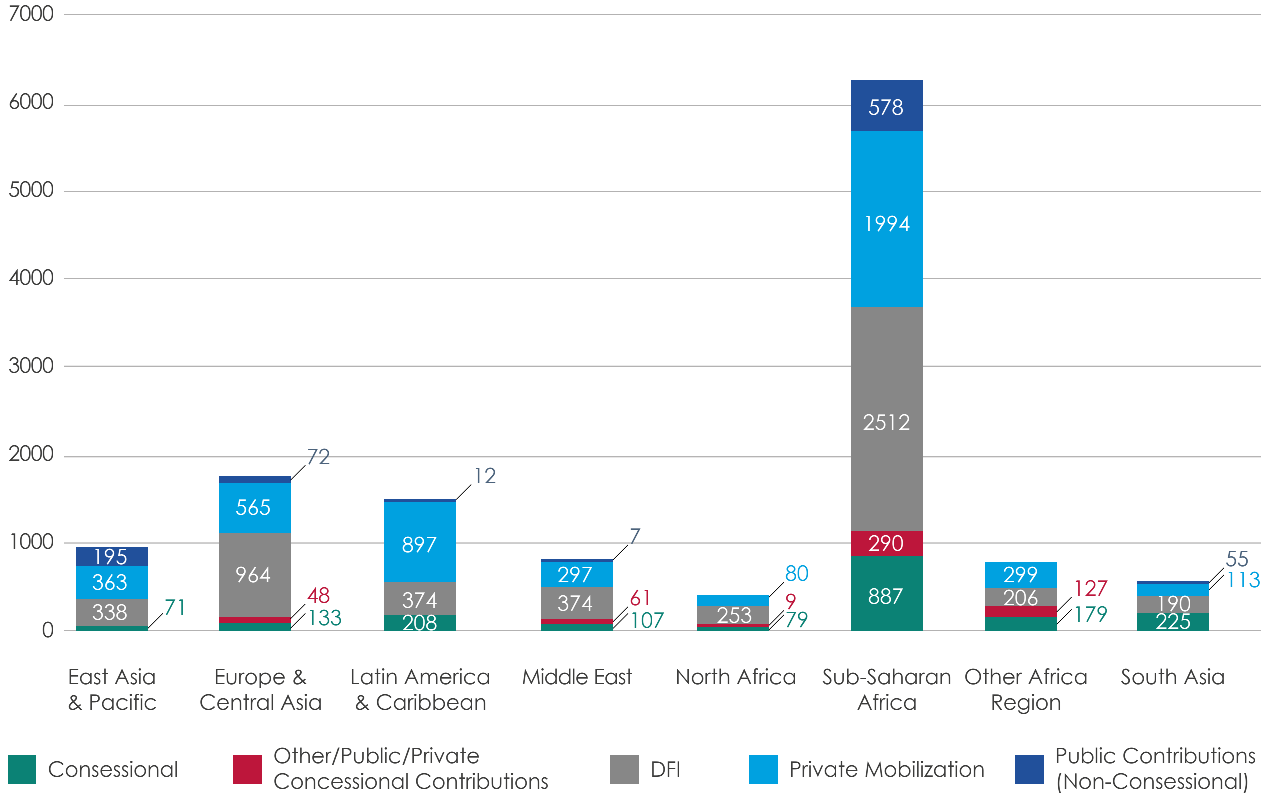
1.1 Macroeconomic context

If uncertainty and volatility define the global economic landscape today, they also characterise the economic growth trends in LAC. The successive crises that affect the world – be they health emergencies, war, inflation, global value chain disruptions, food insecurity or climate change and climate-induced shocks – have not only put into question the progress achieved on Sustainable Development Goals (SDGs) in the past decade, they have also taken a significant toll on economic growth. For instance, climate disasters such as hurricanes, floods, droughts and wildfires are increasing in frequency in the region (OECD et al., 2022). Through their impact on crop yield and agricultural productivity, among others, they contribute to the slowdown of GDP growth and fiscal revenue mobilisation in many countries across the region with insufficient capacity to prepare and respond to these natural disasters (Banerjee et al., 2021).

According to World Bank data, the 6.7% growth that the LAC GDP had achieved in 2021, after the negative growth recorded in 2020 due to the economic impact of COVID-19, has slowed significantly again, with GDP growth in the region in 2022 barely reaching half of the previous year's (3.8%) (World Bank, 2022). Estimates for 2023 calculate that GDP growth in LAC will be lower than for any other region in the world (2%) (Beylis et al., 2023). What is more, the Economic Commission for Latin America and the Caribbean (ECLAC) forecasts a lower average growth in the decade to come than the one recorded during the so-called "lost decade" of the1980s (ECLAC, 2023b).

To this are added several structural and contextual factors that limit many countries in the region's ability to provide an adequate financial response to these challenges. Several LAC countries have reduced fiscal spaces, largely due to i) the high levels of informality in their labour structures; ii) the massive investments made to respond to, inter alia, the health crises and climate disasters and iii) the issue of illicit financial flows. Additionally, some of them face public debt sustainability issues that are exacerbated by their limited ability to access affordable financing, be it from multilateral financial institutions – many LAC countries do not qualify for concessional finance due to their income level – or from bilateral lenders who are, in some cases, adopting tighter monetary policies as a result of inflation rates (Figure 1.1). Said rates remain higher than before the pandemic in spite of their moderated drop and the more recent easing of supply chain pressures. Consequently, the operating environment and market conditions are challenging in this region, which is experiencing great needs in terms of financing for development. These challenges are further exacerbated by the region's exposure to the adverse effects of climate change, particularly in Caribbean small island developing states.

Figure 1.1. Total development finance institutions' blended concessional finance project cost by region (long term finance) in millions of US dollars, 2021



Note: "Other Africa Region" represents volumes in Africa that are not able to be separated into "North Africa" and "Sub-Saharan Africa"
Source: IDB Invest, 2023.

1.2. Some data on EU-LAC relations

Notwithstanding the above, LAC is not a priority region as far as EU development cooperation goes, given that many of the LAC countries are in the middle-income bracket. Indeed, most ODA is concentrated on Africa (Table 1.1).

More than half of EU member states (MS) dedicated on average, between 2019 and 2021, less than 1% of their ODA to the Americas[2] and all of them, including the EU institutions, dedicated 10% or less, with the sole exceptions of Spain (37%) and France (13%) (OECD, 2022). In absolute terms, however, Germany is also among the top EU donors to the Americas region (Latindadd, 2022). It disbursed an average of USD 1.3 billion in net ODA between 2019 and 2021, along with the USD 1.3 billion provided by France and the USD 0.3 billion provided by Spain (OECD, 2022).

Moreover, other potential sources of finance from the EU are also limited compared to other developing regions. This includes exports, as can be seen in Table 1.1, as well as international remittances. Indeed, the LAC region receives less than other regions, partly due to its proximity to the US, where many migrants – and circular migrants – go.

Yet, several EU MS do identify, in their official strategic papers, specific goals associated with their development cooperation with the region. These often refer to environmental protection, climate action and energy access (the EU institutions as well as Germany, Spain, Luxembourg, Italy and Austria would fall in this category), the defence of the rule of law, democratic governance and human rights (mentioned, for instance, by Germany, Spain, Luxembourg, Italy or Sweden), the fight against poverty and inequality (the EU institutions, Spain, Austria or Luxembourg), gender

2. Note that this figure accounts for all ODA directed at the Americas, including a very marginal proportion of flows to North America.

Table 1.1. Main sources of external financing for development from the EU. LAC vs. other developing regions

	FDI *	Remittances *	Exports **	ODA *	OOF * ***
LAC	51.256	12.377	104.828	3.173	857
Africa	9.590	31.442	148.863	13.426	880
Asia	4.981	37.863	919.608	10.406	866

* Refers to flows. Millions of current US dollars / ** Millions of current euros / *** Disbursements of long-term funding.
Source: Own elaboration using Eurostat, OECD and World Bank data.

equality, women's rights or feminism (Germany, Spain, Luxembourg or Sweden), institutional capacity building (Spain, Luxembourg and Belgium are some MS that specify this), or scientific cooperation, innovation and training and research (as mentioned, among others, by the EU institutions, Luxembourg and Belgium). Therefore, in spite of the reduced volumes of EU ODA targeted at LAC, cooperation with the region tends to be focused on a few sectors seen as relevant to the EU-LAC partnership.

This is further mirrored in a renewed EU discourse of the strategic relevance of strengthening alliances with LAC countries. As mentioned before, the globally fragmented geopolitical landscape is pushing the EU and its MS to rethink the solidity of their strategic relations with parts of the world that can be considered allies in the upholding of a norms-based multilateral system, as well as reliable sources of political dialogue and trade partners, in an effort to promote shared democratic and social values and to increase the EU's 'open strategic autonomy' (including in terms of access to critical raw materials and value chain diversification). In this context, the EU-LAC relationship goes beyond aid, as highlighted in the recently endorsed communications and declarations. The joint communication of the European Commission and the High Representative published in June already signalled an increased interest in strengthening bi-regional cooperation, among other things, through more trade and investment and in the reform of the global financial architecture (European Commission, 2023g). These goals were then restated in the final declaration of the EU-CELAC Summit (Council of the European Union, 2023b) and more recently re-emphasised in the Council conclusions adopted in November 2023, which mention the need to finalise trade agreements with the region (Council of the European Union, 2023a).

In relation to this, LAC does stand out as a particularly significant region with regard to EU FDI, when compared with Africa and Asia (see Table 1.1). As importantly, in spite of growing FDI coming from China, Europe still remains the main investor in the LAC region (Nolte, 2023). In terms of 2017–21 average outflows, the Netherlands – which diverted FDI from Asia to LAC – as well as Spain and France are the main FDI providers, at a moment when some other European countries have decreased their investment positions in the region (namely Ireland and Luxembourg). What is more, trade levels between the EU and LAC, which are significantly below those of the LAC region with, for instance, China, have been increasing, and other official flows coming from the EU are fairly evenly distributed across LAC, Africa and Asia.

This points towards a real – and growing – economic and financial interest in the region on the European side, although not in the form of ODA. This offers ample potential, both in terms of development impact – as FDI and trade flows can have a positive effect on countries' sustainable development through the integration of the corresponding concerns, including those related to environmental, social and corporate governance (ESG) – and in terms of strengthening channels of dialogue for more strategic bi-regional relations based on mutual interest. The explicit acknowledgement and leveraging of these financial relations can indeed help realise that potential.

1.3 Why strengthen these relations?

From the LAC perspective, as explained above, the region faces important financing needs for the construction of strong, cohesive, prosperous and sustainable societies. Their limited fiscal space and high levels of external debt exacerbate their need for alternative and reliable sources of financing. These sources need to be able not only to provide funding, but also to do so while upholding responsible social and environmental standards, in order to be truly transformative. It is therefore beneficial for LAC to renew their relations with the EU in the area of financing for development now, as a region whose investments aim to abide by said standards, at a time when the EU is fostering innovative financial mechanisms such as export credits, blended finance, refundable ODA in the form of capital participation, guarantees to back investments or even commercial debt-for-climate swaps. These modes of financing in fact are aimed at mobilising more resources by incentivising the involvement of commercial and nontraditional development actors, while avoiding generating additional debt distress.

This ambition is best framed under the EU Global Gateway strategy, whose target is to mobilise up to 45 billion euros for sustainable development in LAC by 2027 (European Commission, 2023a) and to mobilise development, trade and private finance in a more coordinated manner. Although investment volumes are higher elsewhere (the EU wants to mobilise up to 150 billion euros for Africa), the LAC region is considered particularly suitable for the Global Gateway's efforts, given the maturity of its financial markets and private sector, which is conducive to European private sector engagement (and responsible investments) in the region, as well as the alignment of normative values and standards. The objective is to achieve this with the backing of European Fund for Sustainable Development Plus (EFSD+) guarantees and blending, implemented by European development finance institutions (DFIs) and public development banks (PDBs), and through enhanced coordination with export credit agencies (ECAs), combining better development finance with export credits.

Importantly, the success of Global Gateway will rest upon i) the effective involvement and partnerships of the EU and LAC private sectors and financial institutions; ii) reconciliation between the concrete implementation of investment projects in key strategic sectors and the distribution of investments across the continent and not just in a few selected countries; and iii) the development of additional non-ODA tools geared towards accelerating European businesses' responsible investments in LAC. In turn, this could also help diversify the LAC region's sources of financing beyond regional banks and Chinese funds, which often contribute to increasing debt pressure (Buchholz, 2023).

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Beyond needs, renewed EU-LAC development finance relations can also serve LAC priorities and interests, not least because of the numerous shared values (between large sectors of societies on both sides of the Atlantic) and normative considerations between the two regions. If effectively aligned with SDGs, the already high levels of FDI coming from Europe can significantly contribute to job creation, the green transition, fostering gender equality and reducing other forms of inequality, strengthening local and sustainable value chains, and the joint preservation of global public goods. These flows offer great potential for the development of quality green infrastructure that fosters the economic transformation and industrialisation of LAC countries by connecting and integrating – physically and digitally – the LAC population and ensuring that basic services, including energy provision, reach everyone.

The EU is focused on engaging with partners in 'beyond aid' relations. That is, on building comprehensive alliances through political dialogue – as well as through economic and commercial relations – and through the identification of common goals, which materialise through a combination of ODA and non-ODA financial flows, among others. This also opens up opportunities for LAC partners, who can benefit not only from a strengthened and diversified economic engagement, but also from scientific, technological and technical cooperation, from the joint defence of global and regional public goods, and from other forms of knowledge sharing and non-financial cooperation with the EU, such as policy dialogue and triangular cooperation elements.

From the perspective of EU needs, interests and priorities, closer financial cooperation with LAC countries not only contributes to the overall political value of strengthened bi-regional relations; it can also contribute specifically to many of the EU's stated strategic priority sectors. These include the green transition through climate finance, decarbonisation, renewable energy production, access to critical raw materials and energy security, with a special focus on green hydrogen, all of which are key elements behind the EU's strategic autonomy objectives. In fact, five of the six regional TEIs that the EU has launched in LAC, as well as several of the national TEIs – including the Chilean Low Carbon TEI – echo this special interest and contribute to the EU's ambition to decarbonise in a cost-effective way and to reduce its dependence on imported fossil fuels (Iglesias Roa & Jiménez Gandarias, 2022; European Commission, 2023c). Other sectors of interest include digitalisation and critical raw minerals – such as iron and steel, aluminium, copper, lead, zinc and lithium –which are key for the EU's strategic autonomy goals (Maihold et al., 2023).

However, given the progressive phasing out of ODA in LAC, which responds to several of its countries' higher income levels, it becomes necessary for the EU to invest even more actively in other cooperation modalities in order to maintain or amplify collaboration channels with the region. This includes, on the one hand, development cooperation tools that go 'beyond aid', such as triangular cooperation, technical assistance and knowledge transfers. In this sense, focusing the conversation on Total Official Support for Sustainable Development (TOSSD, n.d.), instead of merely ODA, can help provide a clearer framework for development efforts in the region and thus clarify and incentivise the involvement of more (nontraditional) development and especially commercial actors.

On the other hand, this also concerns developing tools that are not necessarily portrayed as development cooperation efforts but have an important contribution to make to sustainable development in LAC. Trade agreements are key in this regard to facilitate EU investments in LAC, and to do so while abiding with responsible social and environmental standards, given the sustainability criteria included in EU trade agreements. Trade in goods between the two regions in 2021 largely covered machinery and appliances, chemicals and pharmaceutical products, and transport equipment going from the EU to LAC; and mineral and food products going in the reverse direction (European Commission, 2023i), for which the interest is likely to increase, given the EU's strategic autonomy concerns and its REPowerEU initiative and Critical Raw Materials Act. In this context, reshaped trade relations between these two regions will necessarily need to strike a balance between the EU's need for key primary goods and LAC's ambition to upscale and upgrade its output and exports in terms of added value.

Another tool that is not commonly considered within development cooperation conversations but that can indeed contribute to the EU's stated priorities is FDI, which has so far tended to focus on sectors like renewable energy, semiconductors, communications and software and information technology services. EU member states' ECAs can also provide public support to EU companies investing abroad and to internationalisation processes (Bilal, 2022), thus further facilitating transversal investments with regions like LAC. That is, financial cooperation with LAC can open up opportunities for European actors to work – financially and politically – with a region that shares EU values to a great extent, in a moment where the EU needs diversified and solid alliances within the multilateral system.

"From the perspective of EU needs, interests and priorities, closer financial cooperation with LAC countries not only contributes to the overall political value of strengthened bi-regional relations; it can also contribute specifically to many of the EU's stated priority sectors that are key for its strategic autonomy."

There is therefore a clear added value in strengthening EU-LAC relations for both regions in the current global geopolitical and economic context. Identifying the EU's distinctive contribution to LAC priorities and needs and vice versa can help unleash this added value, especially vis-à-vis other partners like China, which is already well positioned in LAC in many of the sectors that are important for the EU. The EU's development efforts in LAC ought to capitalise on their comparative advantages – such as the social and environmental standards by which they abide – and be complementary to other actors' (including China's) development efforts in the region. The recently renewed interest on the part of several EU MS for the LAC region provides a unique window of opportunity to leverage these relations by working together and building stronger partnerships based on a win-win logic.

1.4 How to strengthen these relations?

The EU Global Gateway strategy, which is generating interest among LAC and European actors alike, is a relevant entry point that can help support a renewed partnership between the two regions. More specifically, Global Gateway is not only about development cooperation, but also about promoting economic and geopolitical interests, which are of prime importance for the EU-LAC relationship. However, to do so will require additional modalities beyond the EFSD+, which is ODA-based and hence targets only a few eligible countries in the LAC region. The EU's endeavour to work better with export credit agencies (see the COM feasibility study on an EU export credit facility (European Commission, 2023f), and the creation of a DFI-ECA working group) is already a positive signal that could translate into strengthened EU FDI outflows to the LAC region, technology spillovers and further geopolitical influence.

Importantly, the objective should not be to mix development and commercial instruments or to use aid to foster EU economic interests, but rather to better coordinate these different types of support in a way that contributes to sustainable development, as clearly indicated in the EU Council Conclusions on the triple transition (Council of the European Union, 2023d). In fact, EFSD+ investments – through the use of blended finance, guarantees and debt swaps – could focus on the more challenging countries and sectors, whilst FDIs are most likely to target markets and sectors that are more mature and where the local private sector is already more developed. Overall, both channels should comply with EU environmental, climate and social standards and reflect local needs and priorities, so as to achieve more impacts on the ground and contribute to the investment agenda for LAC (European Commission, 2023e).

In turn, achieving these synergies between development and commercial approaches and instruments would contribute to a clear and coherent communication surrounding the purpose and functioning of each of them as part of a toolkit aimed at a comprehensive and sustainable economic transformation. Of particular relevance within this toolkit, aside from the much-needed mobilisation of additional finance, is technical assistance. This type of knowledge sharing can often cover knowledge-related needs that financial institutions, including DFIs, cannot fully address. Indeed, technical assistance can help multiply the impact and return of the funds allocated to development efforts.

The impact of EU-LAC finance for development relations can also be maximised by incentivising the alignment of EU (and MS) investment portfolios in the LAC region with the respective countries' development agendas (World Bank Group, 2022), and by coordinating priorities and identifying new and promising investment areas, such as tourism, services or critical raw materials (ECLAC, 2023c). Here, the EU, through its leadership in green and sustainable finance, can share its experience and lessons learnt to facilitate the development of sustainable finance taxonomies, that can incentivise further local and international responsible investments. In addition, given the LAC region's interest in green, social and sustainability–linked (GSSS) bonds (see for instance the Chile and Uruguay issuance of sustainability-linked bonds), the EU can further support this agenda based on the Global Green Bond Initiative (GGBI) (EIB, 2023b), which is geared towards supporting the issuance of GSSS bonds and the development of green capital markets. The issuance of such bonds as part of debt-for-nature swaps, which is becoming increasingly popular in the region, could also be yet another entry point that the EU could facilitate.

Linked to this issue is the importance of leveraging and complementing existing initiatives by different development actors. For instance, the United Nations is a relevant partner in this regard for the EU, with whom it shares a commitment towards effective multilateralism and multi-stakeholder partnerships for unlocking the resources needed to achieve the SDGs. In fact, the EU and the UN engage, among many other modalities, in joint support to governments for their Integrated National Financing Frameworks (INFF, n.d.). Furthermore, the World Bank is dedicating significant efforts to attracting and retaining FDI, to advancing the twin (green and digital) transitions, or to promoting sustainable taxonomies and gathering data to that effect. Additionally, the Interamerican Development Bank (IDB) is promoting private investment through its IDB Invest branch, which aims at maximising the reach of development bank financing. It is encouraging to see some of the multilateral development banks (MDBs), as part of their commitment to work better together in the broader context of MDB reforms, partnering and building on each other's expertise and core business: the World Bank and IDB partner to support countries in managing disasters and climate shocks and develop financial protection mechanisms for when catastrophes happen. The European Investment Bank (EIB) and IDB work together as part of the GGBI. In other words, less fragmentation could translate into more impactful investments.

More efforts in this direction are needed, including on incentivising closer regional collaboration (Maloney et al., 2023) with and among MDBs and regional, national and subnational development bank networks in a coordinated manner, especially when it comes to facilitating access to finance for small and medium-sized enterprises – which is a crucial issue in LAC, and one that can have positive social and environmental impacts.

In addition to working better together, and given the limited fiscal space and the sovereign debt of some LAC countries, the EU and LAC financial institutions, with the support of their shareholders, should also dedicate more efforts towards providing concessional finance and local currency lending, the latter being a crucial issue that contributes to debt vulnerability.

Beyond instruments and ways of working, there are certain areas for cooperation between the EU and LAC that are key for addressing the LAC severe financing needs. Tax reforms are one such area. The mobilisation of higher levels of domestic revenue requires a transformation of tax structures altogether, in a way that promotes tax compliance, job creation and entrepreneurship, while upholding green standards.

Last, the EU and LAC can join forces to influence discussions in global fora. Of particular relevance for this can be a potential joint advocacy based on the commitments made at the recent SDG Summit to accelerate the implementation of the Addis Abeba Action Agenda (United Nations General Assembly, 2023), or the conversations within the International Monetary Fund, which are contemplating the possibility of establishing a resilience and sustainability fund to revise fundable activities and increase the funds that are available for middle-income countries, as well as the possible extension of the common framework for debt treatment to middle-income countries as well.

> “Importantly, the objective should not be to mix development and commercial instruments or to use aid to foster EU economic interests, but rather to better coordinate these different types of support in a way that contributes to sustainable development.”

1.5 Conclusions and recommendations

The EU-LAC partnership benefits from renewed interest, explained partly by the different challenges the two regions are facing: the EU, in a geopolitically fragmented context, aims to strengthen relations with LAC to promote its geopolitical and economic influence in LAC and globally; while LAC countries which are facing macroeconomic challenges (public debt and/or limited fiscal space) perceive the EU as a potential partner to strengthen their green, sustainable and digital transition.

Beyond a partnership of needs, the EU-LAC partnership also echoes common values, principles and priorities which could stimulate more strategic and ambitious approaches. Critical raw materials, renewable energy and green transition, digitalisation, and human rights and democracy are common priorities which could help guide the partnership and make it more tangible and concrete than a myriad of objectives. In particular, the following sectors show promising avenues for a strengthened partnership:

- Green and sustainable finance – taxonomies, GSSS bonds issuance, climate finance
- Critical raw materials
- Green energy including hydrogen
- Access to finance for micro, small and medium enterprises (MSMEs)
- Tax reforms

However, realising these opportunities will likely require changes in the form of new and/or more specific approaches and instruments that will help achieve strategic objectives. Three main elements should be considered:

1. The EU should consider more relevant, impactful and innovative financing instruments. Particular attention should be paid to providing instruments that do not contribute (or only to a limited extent) to debt vulnerability: debt swaps, and concessional and local currency lending, more blending and guarantees. More partnerships between MDBs and between MDBs and local and regional development banks should be encouraged as a means to address additional market failures (such as the lack of access for MSMEs) and strengthen engagement in more challenging sectors (such as climate adaptation). The EU can play a key role, leveraging its experience on greening capital markets, providing blended finance and guarantees, providing investments more conducive to job creation, etc.

2. The EU should better link development and commercial approaches, especially in countries with a sufficiently mature market. This is of prime importance given the nature of the EU-LAC relations that go far beyond aid. This also means working better together between different types of institutions such as DFIs and ECAs, in a way that is more coordinated.

3. The EU should better incentivise commercial approaches to have a sustainable impact, by inter alia:

- attracting impact finance and ESG investors in such a way that both development and commercial approaches contribute to SDGs,
- fostering more cooperation with LAC countries in developing green taxonomies and standards, and
- supporting the development of carbon markets.

2 EU-LAC COOPERATION ON CLIMATE CHANGE AND ENERGY TRANSITIONS[3]

Maria Alejandra Riaño (IDDRI)

Damien Barchiche (IDDRI)

Alexia Faus Onbargi (IDOS)

Niels Keijzer (IDOS)

The bi-regional relations between the EU and LAC have gained prominence on the EU's political agenda, as can be observed through 2023's EU-CELAC Summit (Olivié, 2023). Strong alliances in critical areas, such as ensuring affordable and secure energy access, show promising signs of becoming more relevant over the coming years. The cooperation agenda between both regions is given shape at a time when strategic partnerships are needed to address the multifaceted crises the world is facing. The attainment of energy transition and climate change objectives represent key priorities in the current context. It is now evident that affordable and secure energy access is fragile if nations maintain trajectories that lean heavily on the utilisation of fossil fuels tied to inadequately diversified energy matrices. In addition, growing conflict around the world (i.e., Ukraine, the Israel-Palestine conflict) is leading to destabilisation of energy markets through rising oil prices, with consequences for global inflation.

Acting swiftly towards a just energy transition while pursuing ambitious climate objectives is a central point in the current bi-regional dialogue (Council of the European Union, 2023b). Representatives from both regions have been working on aligning expectations and boosting cooperation and investment – public and private – to hopefully "fast-track the energy transition and supercharge climate finance", as the UAE Presidency called for ahead of COP28 (COP28 UAE, 2023). In this regard, as highlighted in the EU-CELAC Brussels Declaration adopted at the summit in July 2023, "investment and cooperation with the aim of achieving closer integration in clean energy supply chains, including critical raw materials and technology transfer, would make a significant contribution to the SDGs" (Council of the European Union, 2023b). In addition, the Spanish EU Council Presidency in the second half of 2023 made clear its priorities, which included ensuring an 'Open Strategic Autonomy' that would, among other objectives, promote renewable energy production and technologies through trade relations with third countries (Spanish Presidency of the Council of the European Union, 2023). New commitments on Loss and Damage funding notwithstanding, the continuity in the EU-LAC cooperation agenda on these and related matters between the 2015 and 2023 summits (see Box 2.1) nonetheless indicates that it is proving challenging to make adequate progress.

As we enter into the second half of the journey towards achieving the 2030 Agenda, building on the summit commitments and taking further steps to realising a common programme regarding renewable energy capacity and efficiency is crucial. As noted by Damilola Ogunbiyi, Special Representative of the UN Secretary-General for Sustainable Energy for All, during July's High-Level Political Forum (IISD, 2023), SDG7 – on affordable and clean energy – is lagging behind and achieving its fulfilment could benefit the realisation of two-thirds of the other 169 targets, due to the synergies amid energy issues and other SDGs.

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3. The authors would like to thank Christian von Haldenwang, Svea Koch, Nicolas Berhmans, Henri Waisman and Marta Torres for their comments and suggestions on earlier versions of this chapter.

Box 2.1	Comparing EU-LAC commitments from 2015 and 2023

	2015 Brussels Declaration	Declaration of the EU-LAC Summit 2023
Principles	• Support and commitment towards the UNFCCC and work within the principle of differentiated responsibilities and respective capabilities (CBDR-RC)	• Strong joint support for the UNFCCC, cooperation to mitigate the adverse effects of climate change, follow the principle of CBDR-RC
COPs / Goals	• Call for adoption of the "Lima Call for Climate Action" during COP20/CMP10, as a major step forward in the negotiation of the elements of the 2015 Agreement • Reduction of greenhouse gas emissions so as to hold the increase in global average temperature below 2°C, or below 1.5°C	• Promotion of acceleration on renewable energies and the increase of energy efficiency at COP28 • Commitment to a transformational shift towards a sustainable economy and to reforming and progressively eliminating environmentally harmful subsidies • Welcoming of reaffirmation to keep the 1.5°C goal in reach
USD 100 billion per year	• Importance of the commitment to mobilise USD 100 billion per year by 2020 for mitigation	• Prompt mobilisation of USD 100 billion per year and double adaptation finance by 2025
Mitigation + adaptation / Loss + damage	• Importance of mitigation and adaptation needs of Latin America and the Caribbean	• Prompt mobilisation of USD 100 billion per year and double adaptation finance by 2025
Biodiversity	• Commitment to strengthen bi-regional cooperation to better understand the causes and consequences of disasters and slow onset events caused by climate change	• Establishment of funding arrangements for Loss and Damage, including a fund
Nuclear energy	• Use of nuclear energy for peaceful purposes	
Climate cooperation	• Euroclima programme and the joint Caribbean-EU partnership strategy and national development strategies	• EU-LAC International Foundation

Source: Own elaboration.

Ongoing consultations and exchanges between both regions offer a unique opportunity to find entry points for effective collaboration and complementarity to achieve climate change objectives and accelerate a just and sustainable energy transition. This chapter analyses and compares the progress made in cooperation in the fields of climate action and energy transition since the last EU-CELAC summit held in 2015, and identifies the opportunities and challenges to make further progress in this area during the remaining seven years of the 2030 Agenda for Sustainable Development.

Table 2.1. EU total energy supply, 2020[4]

	A. Production	B. Imports	C. Exports	D. Others	Total energy supply (A+B+C+D)	% of total supply
Coal	3.649.950	2.635.128	-527.092	279.556	6.037.542	11%
Crude oil	900.581	19.701.702	-557.259	-77.217	19.967.807	36%
Oil products	-	11.872.057	-11.732.977	-2.606.767	-2.467.687	-4%
Natural gas	1.722.095	13.782.256	-2.349.871	513.516	13.667.995	25%
Nuclear	7.460.292	-	-	-	7.460.292	14%
Hydro	1.246.494	-	-	-	1.246.494	2%
Wind, solar, etc.	2.434.394	-	-	-	2.434.394	4%
Biofuels and waste	6.178.418	871.859	-600.791	-22.427	6.427.059	12%
Electricity	-	1.371.175	-1.321.371	-	49.803	0%
Heat	53.594	223	-69	-	53.749	0%
Total	23.645.818	50.234.399	-17.089.430	-1.913.338	54.877.449	100%

Source: IEA, 2022a.

2.1 EU and LAC's energy mixes and policy priorities

According to the latest data from Eurostat (2023), in 2021, the EU produced around 44% of its own energy, while 56% was imported.

In terms of its energy matrix, petroleum products still have the largest share of the EU's energy mix (as seen in Figure 2.1). Therefore, looking to turn this trend around and reshape the energy strategies of EU member states, the European Parliament and the Council reached a provisional agreement in March 2023 to raise the binding renewable energy target to at least 42.5% by 2030.

Notwithstanding important progress made in expanding sources of renewable energy, the EU's reliance on externally imported critical raw materials and surges in electricity prices represent a challenge to its competitiveness and energy independence (European Commission, 2022). This is also the context for the EU's Critical Raw Materials Act that was proposed in March 2023 (European Commission, 2023b). More public and private investments in research and innovation, scaling up and deployment activities are needed.

The LAC region, for its part, is responsible for about 6% of the total global energy supply, demand and related emissions, and was accountable for around 5% of total global energy-related greenhouse gas (GHG) emissions from 1970 to 2022 (IEA, 2023c). In terms of overall emissions, Argentina, Brazil, Mexico and Venezuela are responsible for 70% of the region's total emissions (Climate Watch, 2022). LAC countries differ in emissions composition from the rest of the world. Their energy sector[5] contributes 43% of CO2-equivalent emissions, below the global average of 74%. By contrast, the Agriculture, Forestry, and Other Land Use sector[6] accounts for 40% of total emissions, nearly double the global average (UNDP, 2023).

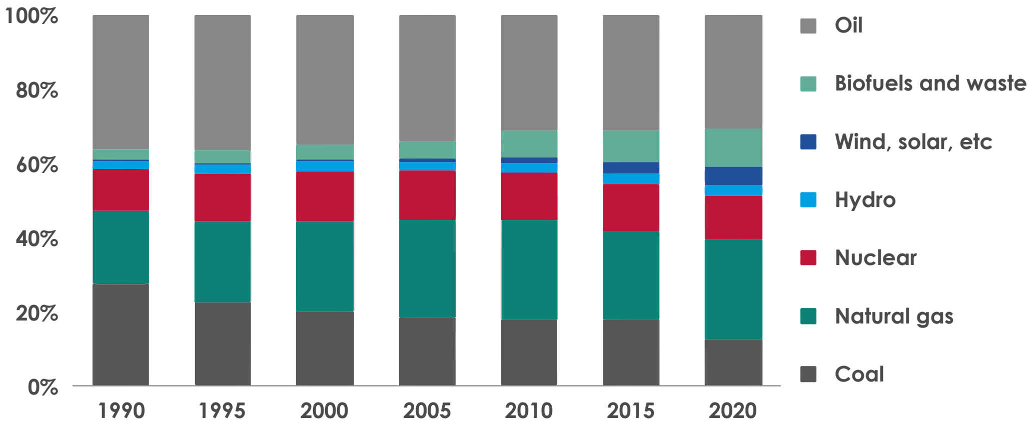
LAC's energy supply matrix is still largely based on fossil fuels (as seen in Figure 2.2). The average share of fossil fuels in the energy mix was around 65% in 2022, although the region has the potential to be a global leader in renewable energy production (IEA, 2023c). Renewables today account for 33%[7] of the region's total energy supply (OECD et al., 2022) – which is much higher than the global average of 13% – and are projected to increase in the coming years. The International Energy Agency's (IEA) Renewables 2022 report forecasts an increase of 45% (+130 gigawatts) in

4. Energy information is given in terajoules.
5. The energy sector includes electricity generation, transportation and the use of fuel in industrial processes.
6. The Agriculture, Forestry, and Other Land Use sector is the largest emitter of GHGs in LAC countries. However, the abatement costs are relatively low in this sector, making it the largest contributor in the transition to a low-carbon economy.
7. Without Mexico, LAC's renewables represent 66% in the energy matrix.

the installed capacity of non-conventional renewable energy generation in Latin America by 2027 (IEA, 2022b). In addition, a recent Global Energy Monitor report states that by 2030, it is possible for the region to increase its solar and wind energy capacity by over 460% (Bauer et al., 2023). This would help the region achieve, and possibly surpass, the IEA's renewable energy targets for 2030. The publication also points to Brazil, Chile and Colombia as the countries with the biggest renewable plans for the future, in line with BloombergNEF's ClimateScope (2023), which ranked four countries (the three mentioned in the Global Energy Monitor report plus Peru) in the region as among the 15 most attractive emerging markets for energy transition projects.

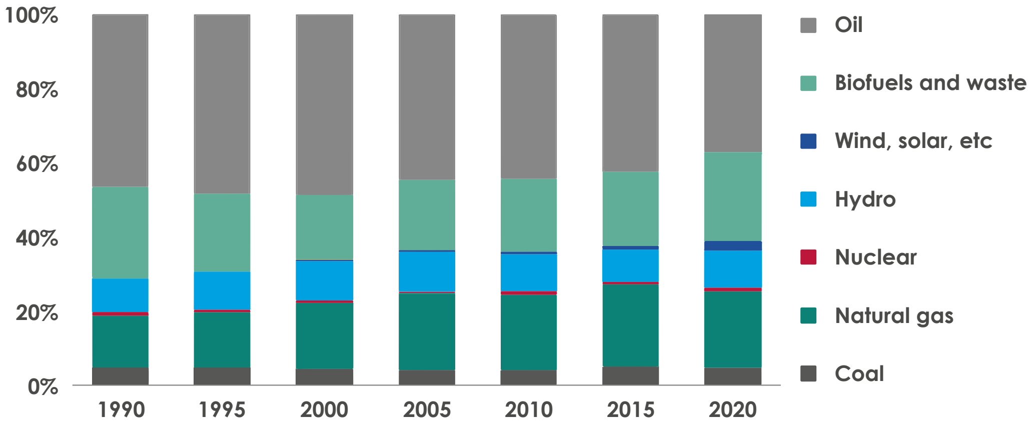
In terms of transition finance needs, in the coming years, LAC countries are expected to invest heavily in physical assets related to the transition to sustainable energy sources in order to achieve the expected renewable energy potential and reach net zero by 2050. The total spending on these assets is anticipated to reach 9.4% of the region's GDP, accounting for approximately USD 20 trillion (McKinsey & Company, 2023). Furthermore, annual spending on physical assets is set to increase by around USD 700 billion over the current baseline. A considerable challenge in this regard concerns the countries' domestic resource mobilisation and associated taxation policies. According to OECD figures (2023a; 2023b), while the EU's tax collection is at an average of 29.4% for the 2019–2021 period, that of LAC stands at merely 21.7%.

Figure 2.1. EU total energy supply from 1990 to 2020 (Participation %)



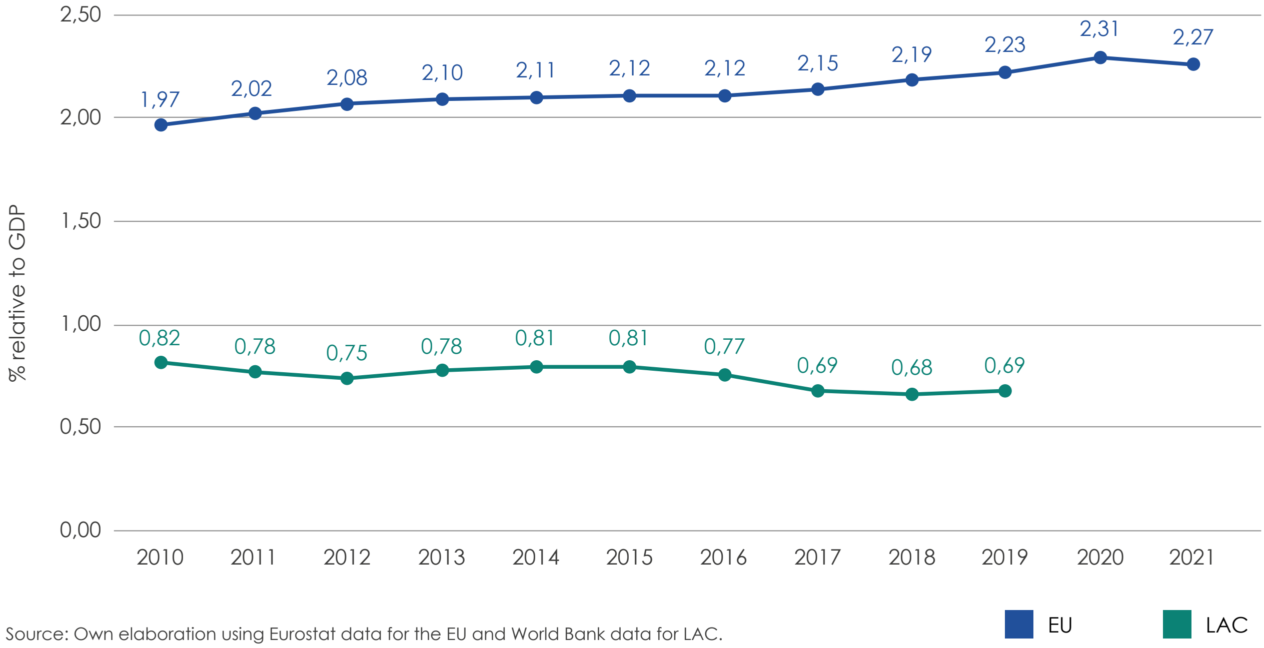
Source: IEA, 2023a.

Figure 2.2. LAC total energy supply from 1990 to 2020 (Participation %)



Source: IEA, 2023a.

Figure 2.3. R&D expenditure in the EU and LAC (% of GDP)



Source: Own elaboration using Eurostat data for the EU and World Bank data for LAC.

LAC countries have rich natural endowments and resources that could make an important contribution to ensuring a long-term reliable supply of the raw materials required for global energy transitions. For instance, LAC is a vital region for copper, lithium, nickel, cobalt and zinc, all of which are key minerals for the energy transition worldwide.[8] The latest IEA Critical Minerals Market Review (2023b) highlights the surging demand for essential minerals to achieve a transition scenario, aligned with the objectives of the Paris Agreement on climate change. Although policies on natural resource extraction and use are set by nation states, there is value for further intra-regional dialogue on the extraction and commercialisation of these minerals, which in turn will influence the economic and development model that will be followed.

The LAC energy sector is leading the way in the adoption of renewable energies in its matrix, and countries in the region are emerging as key players in the global fight against climate change. However, countries throughout the region still face significant challenges in terms of diversifying their electricity generation matrix, fostering collaboration between countries in order to take advantage of energy integration opportunities, improving supply security and self-sufficiency, strengthening political and interconnection agreements, harmonising policy and regulatory frameworks, increasing infrastructure investment and ensuring adequate energy planning, while warranting at the same time that these transitions are managed in a just and inclusive manner (Quintanilla SangÜeza, 2023; Guerrero, 2023; ECLAC, 2023a; De Ambrosio, 2023; EU-LAC Foundation, 2023; Leturia & Guevara Zavaleta, 2023). These challenging reforms require ample fiscal space and the associated public and private investment, including into research and development (R&D) to improve and adapt renewable energy solutions to the specific country and geographic contexts where they are applied. Figure 2.3 shows current levels of R&D investment in both regions to underline the need for strengthening funding to this end.

2.2 The state of play in EU-LAC cooperation

The EU has significantly strengthened its legislation over the past four years to put its economy on track to achieve a 55% emissions reduction in 2030 and climate neutrality in 2050 under the EU Green Deal (European Commission, n.d.d). This policy shift has proven resilient to the COVID-19

8. South America occupies 12.1% of the world's land area and has significant reserves of virtually every metal and mineral produced in the world. Chile is the world's largest copper producer; Peru is the third largest. Bolivia, Argentina and Chile form the so-called 'Lithium Triangle' and together account for around 65% of the world's lithium reserves. Brazil, in addition to being the world's second largest producer of graphite, has about 22 million in reserves of rare earth elements, the REEs. Consulted in KPMG (2023).

crisis and the Russian invasion of Ukraine. In both cases, the EU has responded by taking additional measures to accelerate the transition to a more sustainable and secure energy system, as evidenced by the recently adopted ambitious 2030 renewable energy target of 42.5% of final consumption, up from the first 22.5% target adopted in 2022 (European Commission, n.d.b; European Commission, n.d.c; Berghmans, 2020; Berghmans et al., 2022). This has all also led the EU to pay closer attention to its current dependencies and to develop a policy agenda to secure supply chains and anticipate new vulnerabilities (European Commission, 2023b).

To achieve its ambitious climate and energy objectives, the EU will need to transform its international partnerships and economic exchanges away from fossil fuels and towards clean energy. This opens up vast opportunities for cooperation between the EU and LAC countries, which share a common interest in climate action. These partnerships should be as broad as possible and encompass all enablers of the energy transition, from technology and finance to social innovation and governance, to support a just transition in both the EU and LAC.

On the EU side, the Global Gateway initiative and its Investment Agenda – which will address investment gaps in line with the common priorities of the EU and LAC – could serve this purpose (European Commission, n.d.a). 2023 flagship projects of this initiative in the energy sector include financing green hydrogen production in Colombia, Costa Rica, Chile, Uruguay and Argentina or improving sustainable access to electricity by expanding transmission networks and grids, and developing systems powered by renewable sources of energy. Specifically, the issue of critical materials, which has been central to European policy lately and on which bilateral dialogues have been underway for several years (MDNP, 2023), should not lead to the view that LAC countries are simply repositories of resources for the energy transition, such as lithium and copper. While it is important to strive for high environmental and social standards in mining activities in the EU and LAC, it is also essential to work together to develop a clean energy economy in both regions, taking the needs of both regions as a starting point in all sectors of the economy: energy, industry, mobility and agriculture. This should include reflecting on how to cooperate between the two regions, according to their respective needs, to strengthen clean global energy value chains (renewable energy, batteries, hydrogen) and enable LAC countries to be part of these value chains as well.

Finally, the EU should also take steps to help LAC actors and companies adapt to the implementation of new EU regulations adopted under the EU Green Deal, such as the imported deforestation regulation (European Commission, 2023d) and the carbon border adjustment mechanism (European Commission, 2023h). The fact that these initiatives could be perceived as unilateral or even 'green protectionism' could jeopardise relations between the two regions. The EU should, therefore, accompany these measures with initiatives to reduce administrative burden and promote cooperation, including financial support, to help LAC producers to adapt and maintain access to the European market.

Two specific policy challenges are particularly prominent in current EU-LAC discussions: promoting just (energy) transitions and investing in green hydrogen.

2.3 Policy challenge 1: Promoting just (energy) transitions

Key dimensions of just transitions and country examples

The principle of a 'just transition' (JT) is anchored in four decades of the labour and environmental movement, but it was not until 2015 that the concept found itself at the heart of international climate mitigation and adaptation policy and as a tool for global social justice in the transition to a low-carbon society (Stevis, 2023). A JT, in its more popular use, integrates decarbonisation efforts with measures to mitigate the direct, indirect and induced adverse impacts of the transition on the workers and communities who depend on the fossil fuel value chain. However, policy debates on promoting JTs should acknowledge that there is no commonly accepted understanding of what a JT means and entails, as more recently evidenced by the Work Programme on Just Transition negotiated at COP28 in Dubai.

JT has been conceptualised in three dominant ways in both academia and policy. These are:

1. An arguably more narrow focus on JT for fossil fuel workers (ILO, 2015; World Bank, n.d.; Malerba, 2022) – hence the conflation between JT and just energy transition;
2. JT as a means towards equitable access to sustainable development (McIlroy et al., 2022; Council of the European Union, 2018); and
3. JT as an enabler of transformative change.

The third understanding of JT challenges the hegemony of the global political economy and neoliberal world order, promotes greater equality between countries and designs a new eco-social contract to protect ecological processes and life support systems (Morena et al., 2018; Hujo & Carter, 2022).

At the core of these different JT conceptualisations lie fundamental questions on what kind of JTs should be pursued, by whom and for whom. These are intimately tied to decisions on which dimensions of justice will be prioritised as LAC countries dedicate their resources to pursue JTs, where possible and appropriate in partnership with the EU and other international partners.

JT discussions in LAC countries typically show features of all conceptualisations of JT as presented above. For example, Chile's Just Transition Strategy is mainly focused on the coal phase-out, the phase-in of renewables and on justice for affected workers (Ministerio de Energía de Chile, 2021). Increasingly, regional Nationally Determined Contributions (NDCs) link decarbonisation with JT (Alfonso et al., 2023). For example, countries like Colombia and Costa Rica feature good health and well-being (SDG3) in their NDCs, reflecting a "commitment to a just transition" (Alfonso et al., 2023). Those justice dimensions cited most frequently in JT research and policy include procedural justice – i.e., on how decisions are made, and ensuring fairness of process; distributional justice –, i.e. ensuring fair distribution of burdens and benefits; and recognition justice – i.e., recognising that those who are the most affected are also often the most ignored, such as marginalised communities (Sovacool et al., 2017; Carley & Konisky, 2020).

> To achieve its ambitious climate and energy objectives, the EU will need to transform its international partnerships and economic exchanges away from fossil fuels and towards clean energy. This opens up vast opportunities for cooperation between the EU and LAC countries, which share a common interest in climate action. These partnerships should be as broad as possible and encompass all enablers of the energy transition, from technology and finance to social innovation and governance, to support a just transition in both the EU and LAC.

Other, less commonly referenced dimensions include restorative justice – i.e., to amend climate injustices and ensure accountability for climate change; and cosmopolitan and/or planetary justice – i.e., a concept of justice that is universal and that can also apply to the non-human world (Lonergan et al., 2023; Stevis & Felli, 2020). In fact, notions of a Planetary Just Transition might be especially important in countries like Bolivia and Ecuador, whose 'Buen Vivir' development paradigms of indigenous origin acknowledge the rights of nature and promote the harmonious and peaceful co-existence between humans and the non-human world.

Such debates are far from merely academic. For example, Spain has both a Just Transition Strategy and a Just Transition Institute (ITJ) under the Ministry for Ecological Transition and the Demographic Challenge, ascribing especially to the first conceptualisation of JT. At the international level, the International Labour Organization similarly promotes a concept of JT that is focused predominantly on labour. Understanding partner countries' JT visions and priorities is important if partnerships between LAC partners and the EU are to be equitable and are to avoid one-sided energy agendas that have the potential of becoming pawns for green colonialism (Aboushady & Faus Onbargi, 2023). For example, JTs pursued in the so-called Global North may come at the expense of those pursued in the so-called Global South, through the extraction of minerals and other resources along the energy-extractives nexus (Konstant et al., 2021; Bainton et al., 2021).

Often, fossil fuel dependence on the part of some countries in Europe inevitably and indirectly jeopardises the respect for human rights in third countries. Germany, for example, which phased out the domestic production of hard coal in 2018 to meet its own climate targets, relies heavily on hard coal imported from 'El Cerrejón' mine in Colombia to continue to operate domestic hard coal–fired power plants (which are, in turn, products of carbon lock-ins). Some have called on EU countries to promote a just closure of mines in Colombia given the EU's "responsibilities and debts to the country for regularly purchasing coal that is a product of human rights violations and environmental sacrifice" (Rodríguez Maldonado et al., 2023, pp. 34–35). A similar effort was made by the Netherlands under the so-called 'Coal Covenant' discussions from 2014 to 2020 (Wilde-Ramsing et al., 2021).

In addition, how JTs – in their many dimensions – should be pursued in contexts of conflict and fragility remains an important academic and policy gap (McCandless & Faus Onbargi, 2023) that will require attention in LAC countries like Venezuela. Questions of finance also feature here, with LAC countries displaying a direct correlation between receiving higher levels of international finance for a just energy transition and then having higher levels of procedural justice (McCauley et al., 2023). To this end, energy partnerships would benefit from additional climate finance to be oriented towards enabling the mitigation and adaptation agendas of LAC partner countries.

Specific just (energy) transition challenges in the LAC region

Just energy transitions depend on the compatibility of short-term investment patterns with the long-term systemic transformations required to achieve strong reductions of GHG emissions and to achieve critical sustainable development goals as defined in each country's context. In LAC countries, these investments need to come from an adequate redirection of domestic financial resources but also from targeted international cooperation to make sure that international actors like the EU can help the transition where it may not happen with domestic resources only. To guide this process, countries need detailed analyses of their long-term transition pathways that i) reflect the specificities of national circumstances in terms of socio-economic and technical opportunities and challenges, ii) capture the interplay between short-term actions and long-term trends, taking into account inertias and path dependencies, iii) analyse the link between socio-economic parameters and climate action in each country context, and iv) provide a granular vision at the sectoral level of the required actions.

Such work was notably conducted for six Latin American countries by the Deep Decarbonization Pathways project (DDP, n.d.), which also sought to establish and strengthen capacities for in-country teams to sustainably conduct such studies. This project notably helped to identify transport and land-use/agriculture as key sectors of the transitions that are often overlooked in low-carbon investment decisions, although they play a critical role to achieve ambitious climate goals while attaining key countries' development objectives. The project also confirmed in each country that ambitious action in the short term is a requirement to achieve carbon neutrality in the long run; indeed, delayed action would create lock-ins in carbon-intensive infrastructure that would incur important costs in the medium term, given that it forces conducting more emission reductions while being less prepared to do so. Such messages emerging from contextualised analyses can help foreign actors identify where their support can be mostly needed and best contribute to the domestic transition.

“Just energy transitions depend on the compatibility of short-term investment patterns with the long-term systemic transformations required to achieve strong reductions of GHG emissions and to achieve critical sustainable development goals as defined in each country's context. In LAC countries, these investments need to come from an adequate redirection of domestic financial resources but also from targeted international cooperation to make sure that international actors like the EU can help the transition where it may not happen with domestic resources only.”

LAC countries continue to be burdened by multidimensional poverty and high levels of inequality, despite an important growth of the region's middle class and the reduction of poverty between 2003 and 2014. For example, countries with the highest multidimensional poverty to date – measured by headcount ratio and the intensity of poverty across three dimensions (health, education and living standards) – include Haiti, Honduras and Nicaragua, though these have also been the countries that have succeeded the most in absolute reductions in multidimensional poverty (OPHI & UNDP, 2023). The region does not perform poorly in the Democracy Index, with countries like Uruguay, Costa Rica and Chile having high levels of democracy – measured by variables like whether a country has free and fair elections – on par with most Western European countries (Our World in Data, 2022). Venezuela, Nicaragua, Haiti and Cuba display the lowest levels of democracy in the LAC region, a reality that might deter the EU from pursuing partnerships with these countries given the bloc's special sensitivities around democratic backsliding in some EU MS in the wake of Russia's invasion of Ukraine.

Further discussions on potentially concluding and operationalising Just Energy Transition Partnerships (JETPs) with LAC countries may also benefit from lessons learned from existing partnerships. These are summarised in Box 2.2.

Box 2.2 **Just Energy Transition Partnerships (JETPS): Appealing collaborative mechanisms between EU and LAC countries**

JETPs offer a novel approach to contribute to the financial needs of the critical challenge of decarbonising energy systems in developing economies, while also providing reliable, resilient and affordable energy to underserved populations. This partnership approach – where international partners provide the concessional funding necessary to de-risk investment in the transition and crowd in private capital – allows for large financial packages to be offered to countries with the purpose of funding climate-ambitious country-led strategies.

Four such deals have been signed since COP26 (South Africa, Indonesia, Vietnam and Senegal). The JETP from South Africa – the first such deal, signed by the EU, the US, Germany, France, the UK and South Africa at the 2021 COP26 in Glasgow – was followed by deals in Indonesia, Vietnam and Senegal. The JETPs for South Africa and Indonesia – the world's 15th and 10th largest carbon emitters in 2021 – are expected to leverage USD 8.5 billion and USD 20.0 billion, respectively (Seiler et al., 2023). Existing JETPs are at different stages, but it is still early days for all (Torres Gunfaus et al., 2023), and it would thus be premature to assess the success or failure of ongoing activities. However, early lessons from negotiating processes and initial implementation of investment plans suggest that there are at least three key ingredients to consider if these mechanisms are to support long-term just energy transitions in a systemic manner:

1. Integration: The JETP has to be built on a narrative that links energy transition plans to national development priorities. Furthermore, it must prioritise workers and communities in vulnerable industries and ensure no one is left behind.

2. Governance: JETP processes need to be able to reinforce long-term resilience and net zero planning governance.

3. In-country capacities: A JETP relies on in-country capacity to define specific needs in line with structural changes required to meet climate and development commitments. The definition of the JETP, its investment plan and its implementation have to be conceived as a process of enhancing in-country capacities and mutual understanding of needs within the partnership.

Lessons learned from existing JETPs can lay the ground for successful discussions between the EU and LAC countries. These platforms provide a window of opportunity to leverage resources and develop solutions that promote the rapid roll-out of LAC's high potential of renewable-based electricity, while addressing falls in export revenue, fiscal revenue and jobs in fossil fuel exporting countries.

Opportunities for EU-LAC cooperation

Notwithstanding the relative continuity (and thus lack of progress with) overarching political commitments in this area as observed in the introduction, the 2023 summit was accompanied by the adoption of a host of cooperation initiatives and external investments in the field of climate action and renewable energy (Box 2.3).

Given this challenging context, EU efforts to support JTs in LAC may take on a more technical approach and emphasise energy transitions that may forget justice considerations. To this end, the declaration adopted at the EU-LAC summit in July 2023 identified energy security and energy production among other cooperation priorities. JT efforts towards just (energy) transitions will nonetheless be fraught by dilemmas relating to energy production for export and for domestic use, with solar photovoltaic and wind set to be the main sources of energy for South America's own energy transition (Galván et al., 2022).

Climate change and increasing extreme weather events will also burden the stability of energy supplies in a region highly dependent on functional hydropower plants. Evaporation loss due to rising heat and projected water shortage due to melting glaciers have been cited by the IEA as some of the main impacts of climate change on the region's hydropower (IEA, n.d.). These impacts could also lead to competition over scarce water resources for both domestic use and consumption, with consequences for the region's green hydrogen capabilities, and subsequent

Box 2.3 **New cooperation and investment initiatives announced during the 2023 EU-LAC summit**

- Various green transition investments feature in the EU's Global Gateway Investment Agenda for the LAC region, with a total of €45 billion in pledged investments, as discussed in the previous chapter of this volume.
- Memoranda of Understanding adopted with Argentina and Uruguay that specifically focus on cooperation on clean and sustainable energy, and MoUs on bilateral cooperation with Honduras, El Salvador and Ecuador that include a climate change dimension.
- A pledge for an EIB loan of €300 million to Banco Santander Brasil for small-scale solar energy investment.
- A pledge for EIB financing for climate action projects in Chile worth over €300 million, including a first-ever green mortgage loan outside Europe.

Source: Jütten, 2023.

exports to the EU. Indeed, any energy partnerships between LAC countries and the EU should ensure that any benefits accrued in Europe do not come at the expense of energy and water security in the LAC partner country. In addition, it is important to manage expectations around the speed and scale of these energy exports. While energy infrastructure can be deployed quite quickly – such as has recently been the case in Germany with the accelerated construction of liquified natural gas (LNG) terminals in the wake of Russia's invasion of Ukraine – there must be internal (i.e., national) broad political consensus on a partner country's energy priorities and how they should best materialise.

2.4 Policy challenge 2: Investing in green hydrogen

The EU has been one of the first regions to develop a hydrogen strategy, focusing on supporting green hydrogen and considering imports of hydrogen and its derivatives.[9] LAC is among the leading regions in terms of renewable energy production potential and ongoing investments. An increasing number of LAC countries have also developed hydrogen strategies, considering exports but also, and more importantly, how hydrogen could play a role in their own energy transitions. The development of a hydrogen economy can, therefore, pave the way for increased cooperation between the EU and LAC on technology, investments and governance. However, certain conditions must be met.

First, there must be a clear recognition that hydrogen transportation between the two regions is costly and technically difficult. Exchanges in the form of hydrogen are unlikely in the near future, while exchanges of derivatives (such as ammonia) may find an economic path, but this is still uncertain (Bouacida, 2022). Second, there must be a clear prioritisation in the EU and LAC countries for certain uses for hydrogen, focusing especially on the industrial sector (Bouacida & Berghmans, 2022). While hydrogen can technically be used for a wide range of applications, green hydrogen mobilises high amounts of renewable electricity. Prioritising its use is essential to ensure that the development of green hydrogen contributes to climate change mitigation and does not prevent addressing climate change by mobilising scarce resources that could be used more efficiently, such as direct electrification. Third, it is also essential to formulate ambitious economic, environmental and social criteria in line with national development strategies for the development of hydrogen production. This should lead to a shared regulatory framework that integrates guidelines on resolving potential conflicts over scarce resources (renewable electricity, water) and the division of value between economic actors on both sides of the Atlantic.

Additionally, investments into hydrogen as a key element of an energy transition strategy should duly acknowledge the existing legal requirements that the EU and LAC countries are bound by in terms of how such far-reaching investments are agreed and with whom. In this regard,

9. With an ambitious objective of 10 million tonnes of hydrogen imported by 2030 (European Commission, 2023c).

the Escazú Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters needs to guide such efforts (see Box 2.4). Unfortunately, this agreement was not acknowledged in the Communique adopted at the July 2023 EU-LAC summit.

The region's willingness to unlock its green hydrogen potential is apparent, with several countries having developed green hydrogen strategies (i.e., Chile, Colombia or Costa Rica) or roadmaps (i.e., Paraguay and Argentina), or presently developing such strategies (i.e., Ecuador, Peru, Brazil and Bolivia) (Yépez et al., 2023). In addition, countries are finding support in regional international organisations. In June 2023 the IDB published a comprehensive roadmap for LAC countries to leverage green and low-carbon hydrogen to, among others, reduce emissions in the transport and industry sectors, create new green jobs, enhance energy access and security and promote the inclusion of marginalised people, particularly women (Yépez et al., 2023). In the same year, the ECLAC implemented a project to bring together European and LAC institutions and companies to foster cooperation and partnerships on green energy – including green hydrogen – between "seekers and providers of technologies'' (ECLAC, 2023d). This reflects growing support from the EU and its MS, also. For example, in 2020, the H2LAC platform was created to foment green hydrogen technology development in the region, an initiative propelled by the German development and cooperation institution GIZ, the World Bank, ECLAC and the EU's Euroclima+ Programme (see H2LAC, n.d.). And in June 2023, the EIB signed a statement of intent under the Team Europe Renewable Hydrogen Funding Platform for Chile to deliver around 216 million euros for the country's green hydrogen industry (EIB, 2023a).

However, the EU's green hydrogen interests are not limited to the LAC region. The EU is well underway in pursuing green hydrogen partnerships with others – notably countries in Northern Africa and the Southern Mediterranean – that have the potential of conflicting with partnerships with LAC, if nothing else, because of geography. Northern Africa and the Southern Mediterranean can provide faster supply of green hydrogen and can do so by repurposing existing gas pipelines, with fewer transportation costs and, of course, emissions. In addition, some individual EU MS are pursuing their own bilateral green hydrogen partnerships (such as Germany with Morocco), while others are set to be major green hydrogen gateways to the EU due to their existing natural resource endowments, like Spain and Portugal. Such heterogeneities can lead to both competition within the EU and between EU countries and their partners outside the bloc (Aboushady & Faus Onbargi, 2023). Under these realities, LAC countries will have to make competitive proposals – economic but also environmental – to forge new green hydrogen partnerships with the EU and with its individual MS.

Box 2.4 **The Escazú Agreement and the Energy Transition**

Fifteen countries have ratified the Escazú Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters (ECLAC, 2023e). It is the only binding agreement derived from Rio+20 and the first environmental agreement adopted by the LAC region (Riaño and Barchiche, 2020; Riaño & Barchiche, 2022).

Its implementation across countries will provide stronger guarantees to local communities, indigenous people and relevant stakeholders in the development of energy transition projects, promoting access to inclusive participation processes and to clear, accurate and timely information. This is significant for a region that accounts for 45% of reported mining conflicts globally (EJAtlas, 2023) and witnessed 87% of environmental defender killings in 2022 (Global Witness, 2023).[10] Ensuring a fair energy transition in the countries of the region will require strict adherence to the guidelines of this landmark agreement.

If the EU intends to implement its Global Gateway investment agenda and encourage investment in infrastructure, it must collaborate with governments to ensure that communities living in the areas where future projects will be implemented are comprehensively included, consulted and taken into account.

10. At least 177 land and environmental defenders around the world were killed last year and almost nine out of ten recorded killings in 2022 were in

2.5 Conclusions and recommendations

Halfway through the scheduled timeline for realising the 2030 Agenda and its 17 SDGs, the challenges in promoting the goals associated with clean and sustainable energy are hampering the pursuit of many other goals. Despite the considerable geographic distance between the regions, there is high potential for deepening EU-LAC cooperation in this area in view of the EU's ambitions and regulatory influence and the LAC countries' considerable natural resources and associated strategies.

A key difference between the regions is that the EU still imports the majority of its energy, whereas the LAC region has considerable potential for strengthening energy production both for domestic use and for export. Both regions moreover face considerable challenges in terms of investing in renewable energy, with the LAC region facing an investment gap as well as potential for strengthening R&D investment to apply resources efficiently.

The diverse interests and needs as pursued by the two regions make for an ambitious and potentially mutually beneficial cooperation agenda. In addition to the international cooperation possibilities that the EU offers to promote investment, there is also scope for a continuous EU-LAC dialogue concerning the formulation and implementation of relevant EU regulations as prepared under the European Green Deal.

The following **recommendations** should be considered to make further progress in realising the shared agenda agreed to in July 2023:

1. In view of the dominant bilateral cooperation relationships, the considerable fragmentation in activities and the lack of transparency, there should be a **detailed mapping on cooperation efforts in support of energy transitions in LAC countries: Who is doing what and with whom?**

2. **There is a need for more extensive and thorough research on the economic and fiscal impacts of the energy transition in the region.** What will happen to local regions that receive high royalties from fossil fuel exploitation?

3. **Strengthening regional cooperation is a necessity for strengthening energy transitions and moving towards carbon neutrality.** This should be informed by a clear understanding of the comparative advantages and contributions that different countries can make in order to establish and/or strengthen sustainable value chains.

4. **PDBs and MDBs can be key allies and play a strategic role in supporting countries to address the barriers to energy transition**: low fiscal space, consumers' ability to afford transition, or limited capacity to access private funding.

5. **Regional energy integration, based on a common vision and framework, is essential for LAC** to position itself as a strong ally for a just energy transition and an attractive market for other regions like the EU.

6. Last but not least, **EU and LAC countries should have a regular dialogue on these topics and deepen their joint understanding and policy resolve.** The current seven-year interval between summits hinders the political momentum behind such dialogue, which should instead be intensified.

3 LATIN AMERICA AND THE CARIBBEAN IN A DEVELOPMENT TRAP: RETHINKING REDISTRIBUTION TO ADDRESS INEQUALITIES

Ricardo Fuentes Nieva (ODI)

Dora Meredith (ODI)

Fabrizio Botti (IAI)

Tiziano Breda (IAI)

The region is the second most unequal at the global level and many LAC countries show higher economic inequality compared to those in other regions at similar levels of economic development. Other forms of inequality contribute to undermining productivity and growth in the region: discrimination based on gender and sexual orientation affect the participation of women and the LGBT community in the labour market; and ethnic minorities and indigenous people also suffer restricted access to health services and education. The COVID-19 pandemic exacerbated existing structural inequalities, disproportionately affecting the most vulnerable groups, such as women, the elderly, young and informal workers, migrants, the poorer populations, refugees and other displaced persons, people of African descent and indigenous populations.

A certain dissatisfaction with democracy and the political system in general is growing, often translating into mass protests (Busso & Messina, 2020) and manifesting in the rise of undemocratic leaders. Although there is no academic unanimity on this issue, and these phenomena cannot solely be traced back to inequality, solid evidence shows links between the unequal distribution of economic gains and loss of trust in democracy. Reforms to social security systems or increases in commodity prices, in fact, have often triggered broader protest movements that have displayed a profound, underlying discontent with the political class and, by extension, with the democratic order that brought them to power. This is leading to the spread of anti-incumbent votes, demolishing the traditional party politics in certain countries, often favouring the rise of populism (The Economist, 2022; Mia, 2023). Likewise, marginalisation and inequality provide fertile ground for criminal activities to thrive, as they feed a recruitment pool composed of millions of disenfranchised youths attracted by the sense of identity and the lucrative opportunities offered by illicit businesses. This has translated into constantly high levels of criminal violence in LAC (Sánchez, 2006; Schargrodsky & Freira, 2021).

This chapter aims firstly at exploring the implications of inequalities for democracy and crime in LAC. The role of contextual factors and both the limitations and successes of existing social and fiscal policy measures in addressing inequalities are also examined with the purpose of identifying innovative and systemic responses. Thirdly, renewed international cooperation is discussed for a sustainable and welfare-enhancing financial support for the most fragile populations in the region.

3.1 Inequality, democracy and crime in Latin America and the Caribbean

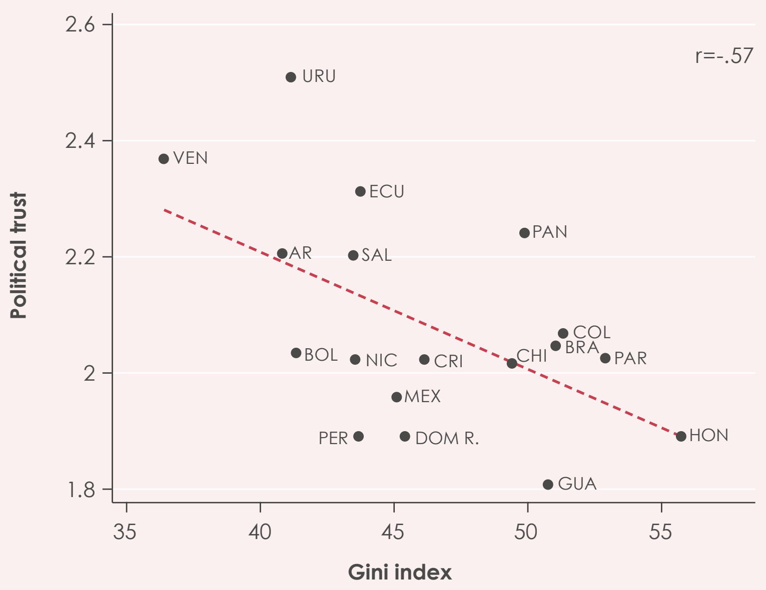
Research shows that the greater the inequality and the wider the perceptions of unfair income distribution, the less citizens trust institutions and are satisfied with democracy (Saxton, 2021; Zmerli & Castillo, 2015) (see Figure 3.1).

In fact, the economic downturn of the first years of the 2000s, which led to price increases and instability that affected the poor and middle class more severely than the wealthy, decreased satisfaction with democracy in Latin American countries among the unemployed and self-employed (Graham & Sukhtankar, 2004). After the crisis subsided and the commodities boom boosted the economic development of most Latin American countries, support for democracy grew, as shown in Figure 3.2, only to then decrease again as soon as the region started to experience the economic downturn caused by the 2008–2009 global financial crisis, and went down steadily in the second half of the 2010s.

Clavijo et al. (2021, p. 2) assessed that, "despite socio-economic progress in the region's best-performing countries (e.g., Chile and Colombia), the period before the pandemic was characterized by social unrest that echoed the frustration of persistent inequality of opportunities". They also estimated that, as a result of the COVID-19 pandemic, inequality in the region increased by 0.2 Gini, from 48 to 48.2. The unequal access to education and to economic safety nets for large swaths of populations, in fact, made the impact of the pandemic-related lockdowns much more felt by the poor (Arreaza Coll, 2023; ECLAC, 2022). In parallel, the Latinobarómetro survey found that support for democracy is at an all-time low in Latin America, with only 48% of interviewees preferring it to any other government type (Latinobarómetro, 2023). This has paved the way for the rise of populist leaders such as Jair Bolsonaro in Brazil, Nayib Bukele in El Salvador and Javier Milei in Argentina, who promise to personally bring solutions to the problems that affect citizens, even at the cost of dismantling the democratic checks and balances that the region has struggled to build since the end of the military dictatorships of the 80s (Casas-Zamora, 2023).

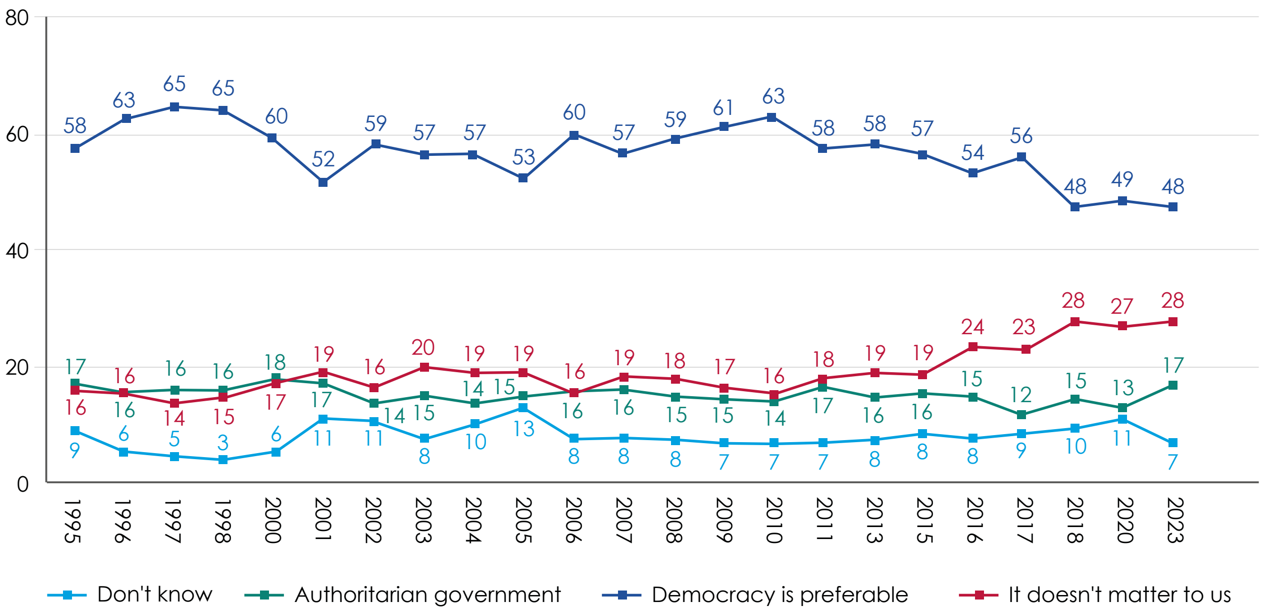
Other academics, however, contend that inequality itself does not threaten democracy. Mainwaring and Pérez-Liñán (2014) highlight how a variety of issues, such as perceptions of corruption, criminality and political deadlock, may lead to discontent with democracy.

Figure 3.1. Income inequality (Gini index) and political trust in Latin America



Source: Zmerli & Castillo, 2015.

Figure 3.2. Support to democracy in Latin America, 1995–2023



Source: Latinobarómetro, 2023.

Despite the fact that economic inequality is a factor, they argue that other problems may have a more direct impact on the region's democratic unhappiness. Additionally, Segovia et al. (2021) claim that discontent has several causes, many of which are best understood from an individual perspective as opposed to a contextual one, where institutional flaws and opportunity inequality play a key role.

Numerous studies have also argued that racial and wealth disparity are strong predictors of crime, including homicide and violence (Hsieh & Pugh, 1993; Sampson & Wilson, 1995). Becker (1968) maintained that illegal behaviour is a cost-benefit analysis, whereas crime is a result of an individual's assessments comparing the utility of engaging in criminal activity to the benefit of devoting the same amount of time and financial resources to lawful pursuits. Under this argument, impoverished people living in an unequal society are more likely to engage in illicit activities, since their outside choices (i.e., legal activities) lack greater advantages in the near term (Freeman, 1999). However, the deterrents and sanctions set in place to stop crime influence these calculations.

According to Dropplemann Roepke and Trajtenberg (2020), income inequality and low socioeconomic status are positively associated with both committing and becoming a victim of crime in LAC. Furthermore, they argue it is important to consider not just income inequality but also how criminal justice systems stigmatise, label and perpetuate socioeconomic disparities and social exclusion. The region remains among the most unequal in the world, as well as the most violent: it hosts 8% of the world's population, but accounts for roughly 28% of the world's homicide cases, according to the Igarapé Institute (n.d.). Even though levels of homicides decreased almost everywhere between 2010 and 2020, several LAC countries are being afflicted by a wave of violence, related to both petty and organised crime (The Economist, 2023), which may also be linked with the setbacks in the reduction of poverty and inequality prompted by the economic impact of COVID-19 (ECLAC, 2022) and the resilience of criminal networks to cope with it, vis-à-vis governments' overall insufficient response (Bull & Rivera, 2021; Nivette et al., 2021).

Notwithstanding, as in the case of inequality and democracy, although most studies have established a direct link between inequality and crime, others (Paré, 2006; Messner & Rosenfeld, 1997) have been unable to find a strong correlation between the two. Indeed, despite the fact that wealth disparity has decreased over the past few decades (ECLAC, 2019), crime rates in LAC have remained consistently high.

3.2 How to break the cycle of exclusion and low trust through inclusion and redistribution

In the first decade of the new millennium, LAC experienced a notable reduction in income inequality and poverty. The effect of conditional cash transfers and the labour market – especially the compression of the skill premium – have been thoroughly documented (Lustig et al., 2013). But the social policies associated with this reduction in income inequality and poverty had limitations. Some of these were exposed by the COVID-19 pandemic. As the regional vulnerabilities came to the fore, such as strained resources, erosion of economic gains, and economic and political uncertainty, the progress against income inequality and poverty stalled, and the challenges of existing policies were exposed.

Among these causes was the restricted capacity of the state and the rule of law in many LAC countries. Limited administrative capacities led to fund leakage and corruption, poor coverage and inadequate funding, leaving a significant portion of the population without access to the benefits. The unequal distribution of economic gains through cycles of political capture and concentration at the very top contributed to dissatisfaction with democracy and the political system. Political instability and changes in government can disrupt the continuity of social policies, as new administrations may have different priorities or dismantle existing programmes, leading to uncertainty for beneficiaries.

> Social policy in LAC over the last couple of decades has had an important element of human capital accumulation but this has not been paired with opportunities for the effective use of said human capital. The obstacles to entering the productive segment of society require effective access to a portfolio of different types of capital - human, social, political, financial. When considering the implementation of a comprehensive policy framework in LAC to ensure basic welfare for all, it is crucial to identify both the funding mechanisms and the ways in which these policies can ensure the integration of vulnerable members of society.

Other problems arise from the design of policies. Conditional cash transfers are successful in some circumstances; for example, the Bolsa Familia has been demonstrated to increase local formal employment (Gerard et al., 2021). It is often the case that such approaches need to be paired with job-creation interventions for young adults graduating from the programme (Lebdioui, 2021). Moreover, many of these policies focus on monetary indicators, whereas the gaps in LAC societies cut across many dimensions. Cultural norms and societal attitudes can also pose challenges, for instance, on issues of gender discrimination or racism. In some cases, there may be resistance to accepting government aid, and stigma can deter eligible individuals from participating in social programmes.

Social policy in LAC over the last couple of decades has had an important element of human capital accumulation but, as mentioned above, this has not been paired with opportunities for the effective use of said human capital. In highly segmented societies like those in LAC countries, access to the labour market, in the form of decent employment, often takes more than education. It requires networks (political and social capital), as well as initial investments for transportation and employer´s credit constraints (financial capital). In short, the obstacles to entering the productive segment of society require effective access to a portfolio of different types of capital (human, social, political, financial).

When considering the implementation of a comprehensive policy framework in LAC to ensure basic welfare for all, it is crucial to identify both the funding mechanisms and the ways in which these policies can ensure the integration of vulnerable members of society. Due to the context of severe social and political distrust, building these solutions is not easy. Strong political leadership, civil society participation and institutional reform are needed.

Building on the learnings from successful programmes like conditional cash transfers is a first step. Key improvements would be to ensure that the financing of these programmes is sustainable, that they strengthen the relationship between citizens and the state and thus promote tax morale, and that they attract funding from international cooperation where needed. As the nature of the challenges is systemic, the response needs to be systemic also. Rethinking the welfare state in a context of low trust requires engaging with the issue of taxation. There is ample work on tax issues that should be maintained and deepened in order to explore the impact of fiscal policies regarding inequalities.

The future of systemic policies to reduce inequalities and violent crime in LAC will require focusing on several fronts. Elements of redistribution and inclusion will be paramount. The endogenous nature of the different problems in LAC suggest that policies can be rolled out simultaneously. Beyond cash transfers and improved taxation, as discussed above, a variety of initiatives are needed to invest in good quality public services, integrate young people into the labour market, promote decent wages and build a basic security floor for children and the elderly.

Inclusion is central. As Levy and Cruces (2021) have argued, adopting a universal approach to social protection in LAC could significantly transform the region's social and economic landscape. This principle of universality, applied across coverage, service quality and financing, has the potential to enhance social outcomes across various programmes, including health, retirement and poverty alleviation. By ensuring equal access and quality of services for all, including the poor, this approach could remove barriers to more productive employment, fostering increased productivity and economic growth. Such an inclusive social protection framework could play a transformative role in strengthening social inclusion and respect for the rule of law. By improving access to better jobs, effective insurance and quality services, especially for low- and middle-income households, a universalist approach could initiate a virtuous cycle of wider social inclusion, leading to stronger social cohesion and a greater regard for the rule of law. This, in turn, could potentially contribute to more socially cohesive societies with lower crime levels.

Beyond traditional social policies and inclusion, broad redistribution and asset accumulation will be central. Such a strategy should focus on redistributing and developing a diversified portfolio of both tangible and intangible assets, ensuring that everyone, particularly the vulnerable and marginalised, has the opportunity to accumulate and utilise various forms of capital (financial, human, social and political, among others). This approach can enable a sustainable transformation of the current economic model by directly targeting inequalities. It is thus crucial for the long-term expansion of opportunities and enhancement of well-being, as the interplay between different types of capital is a significant factor in achieving these goals. Programmes like the Ultra Poor Graduation Programme by the Bangladeshi NGO BRAC, implemented in Peru, exemplify this approach. The programme enhances human capital through health education and skills training, empowering individuals with the knowledge and abilities needed for better health and livelihood opportunities. Social capital is fostered through regular household visits and community engagement, which strengthen social networks and support systems that are vital for collective resilience and growth. Financial capital is built by transferring productive assets, providing consumption support and facilitating savings accounts, equipping individuals with the resources and financial literacy necessary for economic stability and growth. This holistic approach ensures a comprehensive uplift of individuals, addressing multiple dimensions of poverty simultaneously. This programme combined productive asset transfers, technical skill training, consumption support, health education, savings accounts and regular household visits over two years. The notable outcomes in improved consumption, savings and asset holding demonstrate the effectiveness of such comprehensive interventions in achieving equitable and sustainable development (Banerjee et al., 2015).

3.3 The role of international cooperation

International cooperation on these topics is of great relevance because LAC comprises many countries with high- and middle-income status, yet it is a region where resources are always needed, especially at the local level. Tax collection at the national level does not necessarily correspond to tax collection at the local level, and the rules of distribution between regions are sometimes very archaic and do not reflect the local needs. As noted above, international cooperation should focus on ensuring that the financing of programmes is sustainable in nature and strengthens the national tax system. A strong policy emphasis on inclusion and redistribution is conducive to breaking the cycle of crime. This includes adopting a universalist approach to social protection and a committed effort towards redistribution of resources.

At the global level, a consistent push from the Global South is needed to apply pressure which goes beyond asking for the reallocation of special drawing rights (SDRs) or for more capital, but instead aims at changing the terms of the lending itself, thus ensuring a more just and equitable distribution of resources, as advocated by the UN Secretary-General (United Nations, 2023).

3.4 Conclusions and recommendations

In LAC, a complex cycle of high inequalities, diminished trust in institutions and democracy, rampant crime and sluggish economic growth has created a fragile social fabric. The region, characterised by systemic inequalities, ranks as the second most unequal globally, with disparities spanning the economic, gender, sexual orientation, ethnic and educational dimensions. The COVID-19 pandemic further exacerbated these issues, disproportionately affecting the most vulnerable sectors of society. This environment of inequality and marginalisation has fuelled dissatisfaction with democratic systems, leading to mass protests, the rise of undemocratic leaders and a surge in criminal activities.

Breaking the cycle of crime, distrust and low economic growth in LAC requires a concerted focus on inclusion and redistribution. This includes adopting a universalist approach to social protection and a committed effort towards redistribution of resources. A universalist strategy ensures that all individuals, regardless of their economic or social status, have access to essential services like healthcare, education and social security. This approach not only promotes social cohesion but also reinforces trust in institutions by demonstrating a commitment to equitable treatment. Moreover, programmes that focus on multiple asset redistribution, such as the BRAC programme, play a crucial role in this context. By equipping the most vulnerable with the means to improve their livelihoods – through financial resources, education and health support – these programmes help to alleviate poverty and reduce the disparities that often lead to criminal activities. Such comprehensive strategies, which combine universal access to services with targeted initiatives for asset building and skills development, can create a more inclusive society. This, in turn, fosters an environment where economic growth is more robust and sustainable, trust in democratic institutions is strengthened and the allure of criminal activities as a means of livelihood is significantly diminished.

The following **recommendations** should be pursued for a systemic approach to the alleviation of inequality and its negative implications on democracy and crime:

- **1. The systemic nature of the inequality issue in LAC needs to be confronted** with equally systemic policy responses: progress in the welfare state has to be connected to the corresponding innovation on the taxation side.
- **2. Interventions should go beyond social policy** and into the effective accumulation and use of different types of capital for the whole population, especially the vulnerable and marginalised.
- **3.** When considering the implementation of a comprehensive policy framework in LAC to ensure basic welfare for all, **it is crucial to identify both the funding mechanisms and the ways in which these policies can ensure the integration of vulnerable members of society.**
- **4. Employing a universalist approach to policy** to ensure that all have access to essential services like healthcare, education and social security.
- **5. Improving the targeting of policies to disadvantaged groups** in order to foster social mobility through i) active labour market policies, ii) investment in basic urban infrastructure and facilities for the provision of education and health services, and iii) social transfers. This can all contribute towards strengthening universal social protection and tackling unemployment.
- **6. Exploring the negotiation of fiscal reforms** that can be both accepted and implemented consistently.

4 CONCLUSIONS AND RECOMMENDATIONS

Relations between the EU and LAC are navigating a changing geopolitical context. Strong and diversified alliances based on mutual goals and common, as well as national, interests become necessary, both to jointly and effectively work on the preservation of global public goods, and to remain relevant in the multilateral system.

These two regions are facing important setbacks and pending challenges in their pursuit of the 2030 Agenda goals. The LAC region is still characterised by deeply uneven distributions of wealth and access to basic services, to which the recent COVID-19-induced crisis and economic slowdown are added. The war in Ukraine is affecting the EU's perception of security, and has evidenced the Union's urgent need to secure its own strategic autonomy by, amongst other means, diversifying its energy sources and partnerships. The evolving climate change remains an existential threat on both sides of the Atlantic, and everywhere else for that matter.

Beyond development and geopolitical challenges, the EU and LAC also share interests. They both identify the green, digital and social transitions as priority areas for their own wellbeing, with the corresponding scientific, infrastructure and regulatory developments, capacity building and social transformations. In the multilateral system, they often defend similar values – rule of law and democracy, equality – and are therefore potentially strong allies in the processes taking place in the multilateral arena, such as the reform of the international financial system or of the multilateral institutions themselves.

The realisation of these common challenges and ambitions – partly materialised through the voting patterns during the UN resolutions pertaining to the Russian invasion of Ukraine – has generated a new political momentum for these bi-regional relations. In spite of certain bottlenecks, such as the trade agreement negotiations and differences in some political positions, there is ample room for strengthened cooperation between the EU and LAC.

Three key areas for strengthened cooperation are explored in this paper: financing for development, climate change and energy transition, and addressing inequalities.

In terms of financing for development, ODA relations are rather weak, due to the middle-income nature of most LAC countries. However, strategic priority sectors are indeed identified for the development cooperation between the two regions, such as energy and climate, including the access to green hydrogen and critical raw materials, or the fight against organised crime. In fact, other financial flows between both regions are stronger, namely FDI, led by commercial interests. Other forms of cooperation, like triangular cooperation and technical assistance, are gaining salience, and there is a strong interest in leveraging the potential that finalising trade agreements could bring.

These efforts to mobilise additional resources for development, with a special focus on investment, are materialising through the recent launch and deployment of the Global Gateway strategy. The potential of bi-regional cooperation to liberate finance that can directly or indirectly foster development can be strengthened if all of these tools are combined and complemented in a clear and effective manner. This ought to be done in a way that preserves development goals while incentivising a stronger involvement of commercial actors, and in line with the agendas of both regions – and of their countries.

The fight against climate change and the energy transition are lagging across the globe. There are still important deficits in reaching environmental and emissions targets, in spite of existing efforts and growing commitments, which can affect up to two thirds of the 169 SDG targets, be it directly or indirectly. The interconnected nature of environmental challenges and needs means that one region cannot complete its green transition without the other.

The EU's energy matrix is still too reliant on fossil fuels, and more than half of its energy supply is imported. The war in Ukraine is forcing the EU to secure a trustworthy energy supply through diversified energy alliances. LAC is also heavily reliant on fossil fuels, but its natural endowments – including critical raw materials and green hydrogen potential – make it a potentially important global supplier of renewable energy.

However, for the green transition to materialise in a way that is both feasible and just (within and across countries), there are significant technical, regulatory and social nuances to consider. A granular view of social realities in different territories, the sharing of knowledge and the differentiation between the short-, medium- and long-term views, are necessary. Scientific cooperation, infrastructure development, regulatory framework development, planning and supply security are all among the challenges to face in order to realise this renewable energy production and supply potential. This all requires a continuous political dialogue on an equal footing based on mutual interests and, of course, financing.

Inequality in the LAC region, for its part, is of a multidimensional and systemic nature, and thus ought to be approached as such. Dire inequality levels in the region affect social cohesion and generate social unrest, while they hamper growth, productivity and trust in democratic institutions – which, in turn, can negatively affect tax compliance, among other issues. This combination of needs and discontent can even provide a breeding ground for violence and crime.

Social safety nets are still inadequate and/or insufficient. (Conditional) cash transfers and labour market measures have registered some important successes in recent years, yet these policies have proved to have gaps and vulnerabilities that make them insufficiently resilient to external shocks, such as a pandemic or a natural disaster. Poor fiscal space, lack of administrative capacities, corruption, political discontinuity and other factors like attitudes or stigma are some of the elements that contribute to this.

Addressing this systemic challenge requires a systemic, whole-of-society response. Human, social, political and financial capital are all needed for this. There are severe challenges, such as the political acceptability issues of a potential fiscal reform to mobilise the necessary financing to secure a social protection floor for all. The context of distrust and the often-inadequate political leadership and institutional structures become problematic as well.

> "Relations between the EU and LAC are navigating a changing geopolitical context. Strong and diversified alliances based on mutual goals and common, as well as national, interests become necessary, both to jointly and effectively work on the preservation of global public goods, and to remain relevant in the multilateral system."

Recommendations

Aside from the specific cooperation actions that could benefit the mobilisation of financing for development, boost the green transition and/or help address inequalities in LAC, of even greater impact would be to **approach these dimensions jointly and comprehensively**, by acknowledging the complex and interconnected nature of the development, economic, social, political and environmental challenges that the EU and LAC are facing. This includes jointly accounting for the needs, realities and agendas that are common to European and LAC actors, as well as for those that differ.

This becomes evident in the fact that all efforts aimed at building sustainable and inclusive societies – through a green and just transition – require **financing**. The construction of physical assets and infrastructure, be it to produce and transport energy or to deploy social services, the investments in scientific development, the transfers needed to improve health and education services, and many others, all call for a significant upscale in the mobilisation of resources.

- It thus becomes important to further incentivise the involvement of the private sector (European, Latin American and Caribbean) through strong **trade** agreements and **investment** facilitation. The **Global Gateway** strategy is a good starting point to communicate and channel said investments in a way that both incentivises commercial interests and preserves development goals.
- The barriers of LAC countries' access to more **concessional** finance ought to be tackled in order to avoid pushing them into further debt pressure.
- This comes hand in hand with the **reform** of the global financial system, and particularly the reform of **MDBs** and the revision of **SDRs**.
- Mobilising domestic resources and generating fiscal space is of great relevance and the utmost urgency in LAC countries, and as such, **tax reform conversations** should be prioritised in the bi-regional cooperation.

All joint financing, green and social efforts would be more impactful with active involvement and ownership on the part of EU MS and LAC countries alike. This would also benefit from the fostering of **regional cooperation** within LAC in order to fill gaps and maximise efforts.

There are multiple examples of successful national, bilateral, bi-regional or multilateral cooperation actions from which **lessons learnt** can be extracted and leveraged, such as existing efforts by multilateral financial institutions and regional development banks to promote and retain investment, or the early stages of some Just Energy Transition Partnership negotiations between the EU and other countries, or the registered achievements of several conditional cash transfer programmes in LAC. These past experiences are useful starting points to build on the added value of each actor's expertise and potential contributions – not just countries and governments, but also others like development financial institutions, banks, private entities, multilateral institutions (like the UN), regional networks and CSOs.

- To operationalise this, it would be useful to engage in **mapping** exercises and information **exchanges** to identify the many national, regional and bilateral/bi-regional efforts that are already underway, in order to avoid duplicating spaces and to maximise the efficiency and complementarities among them instead.

The idea of working better together, in a coordinated and complementary manner, while incentivising the involvement of different actors, and focusing on areas like the energy transition, infrastructure development and social inclusion, is precisely the conceptual basis for the EU's Global Gateway initiative and Team Europe approach. These initiatives aim at strengthening **political dialogue** channels between the two regions, among others, and as such should be capitalised on, while ensuring **ownership** on the part of all actors and avoiding the adoption of unilateral measures on the European side.

Closer cooperation between the EU and LAC in **multilateral** spaces would help them both coordinate on common positions and interests if applicable, for instance, vis-à-vis the reform of the international financial system and that of MDBs. Different multilateral fora, such as the UN, can serve as spaces for continuous political and technical engagement.

Beyond the above, as outlined in previous chapters, other concrete actions can serve specific goals associated with financing for development, climate and energy or inequality reduction.

Financing for development	Climate change and energy transition	Addressing inequalities
Strengthen cooperation in green sustainable finance (taxonomies, GSSS bonds issuance, climate finance), critical raw materials, green energy including hydrogen, access to finance for MSMEs, tax reforms.	Detailed mapping on cooperation efforts in support of energy transitions in LAC countries.	Address the systemic nature of inequality in LAC with equally systemic policy responses: welfare state progress as well as taxation innovation.
Better financing instruments and focus on those that do not exacerbate debt vulnerability: debt swaps, concessional and local currency lending, blending and guarantees, foreign direct investment.	More extensive and thorough research on the economic and fiscal impacts of the energy transition in the region (local regions receiving high royalties from fossil fuel exploitation).	Go beyond social policy and into the effective accumulation and use of different types of capital for the whole population, especially the vulnerable and marginalised.
More partnerships and consistent approaches among MDBs and between MDBs and local and regional development banks to address market failures (like the lack of access for MSMEs) and strengthen engagement in challenging sectors (like climate adaptation).	Strengthening regional cooperation for energy transitions towards carbon neutrality, with a clear understanding of the comparative advantages and contributions that different countries can make to establish and/or strengthen sustainable value chains.	Identify both the funding mechanisms for a comprehensive welfare policy framework and the ways in which these policies can ensure the integration of vulnerable members of society.
Leverage the EU's experience on greening capital markets, providing blended finance and guarantees and investments that are more conducive to job creation.	Foster the strategic role of PDBs and MDBs in supporting countries to address the barriers to energy transition (low fiscal space, consumer affordability, limited capacity to access private funding).	A universalist approach to policy to ensure all have access to all essential services (healthcare, education, social security).
Better link development and commercial approaches (beyond aid). Working better together between different institutions like DFIs and ECAs.	Regional energy integration based on a common vision and framework, for LAC to position itself as a strong ally for a just energy transition and an attractive market for other regions like the EU.	Improve the targeting of policies to disadvantaged groups to foster social mobility through i) active labour market policies, ii) investment in basic urban infrastructure and facilities for the provision of education and health services, and iii) social transfers. This can strengthen universal social protection while tackling unemployment.
Better incentivising commercial approaches to have a sustainable impact: attracting impact finance and ESG investors, cooperating in developing green taxonomies and standards, supporting the development of carbon markets.	Regular dialogue between the EU and LAC countries on these topics to deepen their joint understanding and policy resolve. The current seven-year intervals between summits hinders the political momentum and fails to intensify the dialogue.	Explore the negotiation of fiscal reforms that can be both accepted and implemented consistently.

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