



Latin American Economic Outlook 2025

PROMOTING AND FINANCING PRODUCTION
TRANSFORMATION

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Foreword

Since 2007, each edition of the annual *Latin American Economic Outlook* (LEO) analyses one of the challenges faced by the Latin American and Caribbean (LAC) region in its transition towards sustainable and inclusive development, comparing LAC's performance with that of its peers, suggesting policy recommendations and providing examples for policy learning.

The LEO benefits from the expertise and inputs of several institutions. In 2011, the United Nations Economic Commission for Latin America and the Caribbean joined the OECD as co-author, as did the Development Bank of Latin America and the Caribbean in 2013 and the European Commission in 2018.

This 18th LEO, *Promoting and Financing Production Transformation*, analyses the need to reshape the region's production structure to become greener and more inclusive, while also examining the financing mechanisms necessary to support this shift. It provides policy recommendations for governments to realign production systems with global standards and demands while generating quality employment, developing local capabilities and promoting key strategic sectors. Finally, the report underscores the need for stronger international partnerships to accelerate the mobilisation of international resources into strategic sectors and foster capacity building, supporting the region's shift towards resilient, knowledge-intensive production systems that underpin inclusive and sustainable development.

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Editorial

Latin America and the Caribbean (LAC) has vast reserves of natural resources and human talent that can be drawn on for economic diversification, higher productivity, the growth of value-added industries and new employment opportunities.

This 18th edition of the *Latin American Economic Outlook* highlights that achieving such a transformation requires well-designed productive development strategies that are tailored to the unique circumstances of different communities and sectors. Ambitious reforms can help unlock new sources of financing to drive growth, enable the green and digital transformations and enhance social inclusion.

In implementing these measures, co-ordination across national and subnational institutions is needed, along with the involvement of the private sector, civil society and other relevant stakeholders. Targeted policies should aim to enhance skills development, unlock quality employment, encourage human-centred digital transformation and environmental sustainability, and harness strategic advantages in high-potential sectors such as renewable energy, sustainable agriculture and food systems, digital industries, health and the care economy – in line with the priorities set by LAC countries and their territories.

Financing these strategies remains a structural challenge, particularly in a context of limited fiscal space. Public, private and international actors, including national and multilateral institutions, must work together to mobilise new funding sources, design innovative instruments, channel quality investment, and support priority sectors. Beyond financing, development banks also play a key role in fostering co-ordination, building capacity and promoting knowledge sharing to enhance the effectiveness of these strategies.

International co-operation and partnerships have an essential role to play. The upcoming IV CELAC–EU Summit will be a key moment to deepen this co-operation under the EU–LAC Global Gateway Investment Agenda. Through Global Gateway, Europe and Latin America are investing together in clean energy, digital connectivity, health, and resilient value chains, linking infrastructure with education, innovation, local enterprise, and new opportunities for our societies.

This new edition of the *Latin American Economic Outlook* contributes to these shared efforts with analysis and recommendations, and by identifying ways to strengthen global partnerships and scale up productive development policies at the subnational, national and regional levels – decisively, inclusively and sustainably.

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Abbreviations and acronyms

ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AECID	Spanish Agency for International Development Cooperation (Agencia Española de Cooperación Internacional para el Desarrollo)
AEGEA	Brazilian Sanitation Company (Empresa Brasileira de Saneamento)
AFD	French Development Agency (Agence Française de Développement)
AI	Artificial Intelligence
AIDDATA	AidData Research Lab
AISBL	International Non-Profit Association (Association Internationale Sans But Lucratif)
ALADI	Latin American Integration Association (Asociación Latinoamericana de Integración)
ALIDE	Latin American Association of Development Financing Institutions (Asociación Latinoamericana de Instituciones Financieras para el Desarrollo)
ANDE	National Development Agency of Uruguay (Agencia Nacional de Desarrollo de Uruguay)
ANII	National Agency for Research and Innovation of Uruguay (Agencia Nacional de Investigación e Innovación de Uruguay)
APEX-BRAZIL	Brazilian Trade and Investment Promotion Agency (Agência Brasileira de Promoção de Comércio e Investimentos)
API	Application programming interface
AR(1)	Autoregressive model of order 1
AR5	Fifth Assessment Report (of the IPCC)
ASEAN	Association of Southeast Asian Nations
B2B	Business to business
B2C	Business to consumer
BANCOMEXT	National Bank of Foreign Trade of Mexico (Banco Nacional de Comercio Exterior de México)
BANDEX	National Export Bank of the Dominican Republic (Banco Nacional de las Exportaciones de la República Dominicana)
BIOTECSUR	MERCOSUR Biotechnology Platform (Plataforma Biotecnológica del MERCOSUR)
BITs	Bilateral investment treaties
BNCR	Costa Rica's National Bank (Banco Nacional de Costa Rica)
BNDES	Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social)
BRI	Belt and Road Initiative
BROU	Bank of the Eastern Republic of Uruguay (Banco de la República Oriental del Uruguay)
CABEI	Central American Bank for Economic Integration
CACM	Central American Common Market
CAF	Development Bank of Latin America and the Caribbean
CAN	Comunidad Andina
CARICOM	Caribbean Community
CBI	Climate Bonds Initiative
CCRs	Command and control regulations
CEI-RD	Export and Investment Center of the Dominican Republic (Centro de Exportación e Inversión de la República Dominicana)
CELAC	Community of Latin American and Caribbean States (Comunidad de Estados Latinoamericanos y Caribeños)
CEMBI	Corporate Emerging Market Bond Index

CFIA	Cooperation and Facilitation Investment Agreement
CH ₄	Methane
CIT	Corporate income tax
CMS	Content management system
CO ₂	Carbon dioxide
CONACYT	National Council of Science and Technology of Mexico (Consejo Nacional de Ciencia y Tecnología de México)
CORFO	Production Development Corporation of Chile (Corporación de Fomento de la Producción de Chile)
CRM	Customer relationship management
CRS	Creditor Reporting System
CSR	Corporate social responsibility
CTA	Call to action
DEI	Diversity, equity and inclusion
DFI	Development finance institution
DR-CAFTA	Dominican Republic-Central America Free Trade Agreement
EAP	East Asia and the Pacific
EATR	Effective average tax rate
EBIA	Brazilian AI Strategy (Estratégia Brasileira de Inteligência Artificial)
EDGAR	Emissions Database for Global Atmospheric Research
EDI	Electronic Data Interchange
EFSD+	European Fund for Sustainable Development Plus
EM-DAT	Emergency Events Database
EMBIG	Emerging Markets Bond Index Global
EMBRAPII	Brazilian Company for Industrial Research and Innovation (Empresa Brasileira de Pesquisa e Inovação Industrial)
EMTR	Effective marginal tax rate
EPA	Economic partnership agreement
ERP	Enterprise resource planning
ESG	Environmental, social and governance
ETR	Effective tax rate
EU	European Union
EUIPO	European Union Intellectual Property Office
EUR	Euro
F-GASES	Fluorinated gases
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
FE	Fixed effects
FINEP	Funding Agency for Studies and Projects of Brazil (Financiadora de Estudos e Projetos de Brasil)
FIPYME	Mexican Support Fund for Micro, Small and Medium Enterprises (Fondo de Apoyo para la Micro, Pequeña y Mediana Empresa de México)
FOGAPE	Guarantee Fund for Small Entrepreneurs of Chile (Fondo de Garantía para Pequeños Empresarios de Chile)
FTA	Free trade agreement
G20	Group of Twenty
GAFA	Google, Apple, Facebook, Amazon
GAM	Greater Metropolitan Area of Costa Rica (Gran Área Metropolitana de Costa Rica)
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GGBI	Global Green Bond Initiative
GGIA	Global Gateway Investment Agenda
GHG	Greenhouse gas
GIZ	German Agency for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit)
GMT	Global minimum effective corporate tax rate
GNI	Gross national income
GPDP	Green productive development policies

GSSS	Green, social, sustainability, sustainability-linked (bonds)
GSSSB	Green, social, sustainability, sustainability-linked and blue (bonds)
GVCs	Global value chains
GWP-100	Global warming potential over 100 years
H2-DRI	Hydrogen in direct reduced iron production
HHI	Herfindahl-Hirschman Index
HP	Hodrick Prescott
HR	Human resources
HS92	Harmonised System 1992
IADB/IDB	Inter-American Development Bank
IBIS	Information-based instruments
ICT	Information and communications technology
IEA	International Energy Agency
IFAC	International Federation of Accountants
IIAS	International Investment Agreements
IICA	Inter-American Institute for Cooperation on Agriculture
IIF	Institute of International Finance
ILO	International Labour Organization
IMF	International Monetary Fund
IMMEX	Manufacturing, Maquiladora and Export Services Industry of Mexico (Industria Manufacturera, Maquiladora y de Servicios de Exportación de México)
INA	National Learning Institute of Costa Rica (Instituto Nacional de Aprendizaje de Costa Rica)
INFOTEP	National Institute for Technical and Vocational Training of the Dominican Republic (Instituto Nacional de Formación Técnico Profesional de la República Dominicana)
IOT	Internet of Things
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial Public Offering
IR	International relations
IRA	Inflation Reduction Act
ISIC	International Standard Industrial Classification
ISIC REV3 / SIC REV3	International Standard Industrial Classification, Revision 3
ITID	Investment Tax Incentives Database
KIbIH	Key Indicators of Informality based on Individuals and their Households (database)
KPI	Key performance indicator
LAC	Latin America and the Caribbean
LAFTA	Latin American Free Trade Area
LEO	Latin America Economic Outlook
LMICs	Low- and middle-income countries
M&A	Mergers and acquisitions
MBIs	Market-based instruments
MDB	Multilateral development bank
MEF	Ministry of Economy and Finance of Paraguay (Ministerio de Economía y Finanzas de Paraguay)
MENA	Middle East and North Africa
MERCOSUR	Southern Common Market (Mercado Común del Sur)
MESCYT	Ministry of Higher Education, Science and Technology of the Dominican Republic (Ministerio de Educación Superior, Ciencia y Tecnología de la República Dominicana)
MICITT	Ministry of Science, Innovation, Technology and Telecommunications of Costa Rica (Ministerio de Ciencia, Innovación, Tecnología y Telecomunicaciones de Costa Rica)
MINCIENCIAS	Ministry of Science, Technology and Innovation of Colombia (Ministerio de Ciencia, Tecnología e Innovación de Colombia)
MINTIC	Ministry of Information and Communications Technologies of Colombia (Ministerio de Tecnologías de la Información y las Comunicaciones de Colombia)
MSMEs	Micro, small and medium-sized enterprises
MT	Megatonnes
MVA	Manufacturing value added
N2O	Nitrous oxide
NAFIN	National Development Bank of Mexico (Nacional Financiera de México)

NCRES	Non-conventional renewable energy sources
NDB	National development bank
NDC	Nationally Determined Contribution
NDP	National development plan
NERC	North American Electric Reliability Corporation
NGOs	Non-governmental organisations
NIM	Net interest margin
NPS	Net promoter score
NTBS	Non-tariff barriers
ODA	Official development assistance
OEC	Observatory of Economic Complexity
OECD	Organisation for Economic Co-operation and Development
OISS	Ibero-American Social Security Organisation (Organización Iberoamericana de Seguridad Social)
OLADE	Latin American Energy Organization
OOF	Other official flows
PAC	Growth Acceleration Programme of Brazil (Programa de Aceleração do Crescimento do Brasil)
PAHO	Pan American Health Organization
PAIs	Productive articulation initiatives
PDB	Public development bank
PDPs	Productive development policies
PIT	Personal income tax
PM10	Particulate matter less than 10 microns in diameter
PM2.5	Particulate matter less than 2.5 microns in diameter
pp	Percentage points
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Purchasing power parity
PPPs	Public-private partnerships
PROCHILE	Export Promotion Agency of Chile (Agencia de Promoción de Exportaciones de Chile)
PROCOLOMBIA	National Agency for Exports, Tourism and Investment of Colombia (Agencia nacional de promoción del turismo, la inversión extranjera, las exportaciones no minero energéticas y la imagen del país de Colombia)
PROCOMER	Foreign Trade Promoter of Costa Rica (Promotora del Comercio Exterior de Costa Rica)
PRODOMICANA	Export and Investment Promotion Center of the Dominican Republic (Centro de Promoción de Exportaciones e Inversiones de la República Dominicana)
PROMÉXICO	Agency for Trade and Investment Promotion of Mexico (Agencia de promoción del comercio y la inversión de México)
PROMIPYME	National Council for the Promotion and Support of Micro, Small and Medium Enterprises of the Dominican Republic (Consejo Nacional de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa de la República Dominicana)
R&D	Research and development
RCA	Revealed comparative advantage
RCEP	Regional Comprehensive Economic Partnership
ROA	Return on assets
ROI	Return on Investment
Ruta N	Innovation and Business Center of Colombia
RVCs	Regional value chains
SAS	South Asia
SBD	Development Banking System of Costa Rica (Sistema de Banca para el Desarrollo de Costa Rica)
SDGs	Sustainable Development Goals
SEBRAE	Micro and Small Business Support Service of Brazil (Serviço Brasileiro de Apoio às Micro e Pequenas Empresas)
SELA	Latin American and Caribbean Economic System (Sistema Económico Latinoamericano y del Caribe)
SENA	National Training Service of Colombia (Servicio Nacional de Aprendizaje de Colombia)
SENAI	National Industrial Training Service of Brazil (Serviço Nacional de Aprendizagem Industrial do Brasil)

SEPYME	Secretariat for Small and Medium Enterprises of Argentina (Secretaría de la Pequeña y Mediana Empresa de Argentina)
SERCOTEC	Technical Cooperation Service of Chile (Servicio de Cooperación Técnica de Chile)
SEZ	Special Economic Zone
SICA	Central American Integration System (Sistema de la Integración Centroamericana)
SIEPAC	Electric Interconnection System of the Central American Countries (Sistema de Interconexión Eléctrica de los Países de América Central)
SIESUR	Southern Cone Energy Integration System (Sistema de Integración Energética del Cono Sur)
SIFA	Sustainable Investment Facilitation Agreement
SINEA	Andean Electrical Interconnection System (Sistema de Interconexión Eléctrica Andina)
SLBs	Sustainability-linked bonds
SMEs	Small and medium-sized enterprises
SPOs	Secondary public offerings
SSA	Sub-Saharan Africa
STEM	Science, technology, engineering and mathematics
STI	Science, technology and innovation
TFIs	Trade Facilitation Indicators
TFP	Total factor productivity
TIPs	Treaties with investment provisions
TOPP	Technical, operational, political and prospective (capabilities)
TOSSD	Total Official Support for Sustainable Development
TVET	Technical and vocational education and training
UI	User interface
UN	United Nations
UN COMTRADE	United Nations Commodity Trade Statistics Database
UN ECLAC	United Nations Economic Commission for Latin America and the Caribbean
UNASUR	Union of South American Nations (Unión de Naciones Suramericanas)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
US CHIPS Act	United States Creating Helpful Incentives to Produce Semiconductors Act
USA	United States
USD	United States dollar
USMCA	United States-Mexico-Canada Agreement
UX	User experience
UXD	User experience design
VAT	Value-added tax
VC	Venture capital
WBG	World Bank Group
WEF	World Economic Forum
WITS	World Integrated Trade Solution (database/platform)
WMO	World Meteorological Organization
WTO	World Trade Organization

Executive summary

The countries of Latin America and the Caribbean (LAC) face longstanding productivity challenges that constrain their ability to achieve stronger, more inclusive and sustainable development. Production transformation leveraging the region's abundant natural resources, demographic strengths and emerging innovation ecosystems can provide a solid foundation for designing and financing a model that enhances productivity while promoting inclusiveness and sustainability.

LAC must transform its production structure to meet the current challenges

The region's macroeconomic context is characterised by decelerating GDP growth in LAC, in line with global developments, with per capita GDP growth stabilising around its potential. Between 1991 and 2024, labour productivity in the region grew by only 0.9% per year on average, well below the 1.2% annual rate observed in OECD countries. In this context, many countries struggle to mobilise sufficient domestic resources. These conditions limit LAC countries' capacity to promote and finance the transformation of strategic sectors and the diversification of their economies – transformations that are essential for achieving higher productivity growth. Social conditions remain relatively weak, marked by high informality, persistent vulnerabilities and insufficient social protection, which also contribute to low levels of productivity. In 2023, 55.1% of LAC's workers were informal, and only 2.1% had jobs with high and medium-high technological intensity, below the OECD average of 7.7%. Moreover, the current production model is placing growing pressure on the environment, with greenhouse gas emissions in LAC increasing across all sectors between 1990 and 2022, and climate-related natural disasters doubling over the past 25 years.

In this context, LAC countries need to transform their production structures to raise productivity and inclusion while meeting environmental goals. A systemic approach that recognises the interdependence of these challenges can foster coherent policies towards those objectives. Production transformation, the green transition and greater social inclusion are mutually reinforcing: advancing one dimension drives progress in the others.

Productive development policies in LAC need stronger implementation

Well-designed productive development policies (PDPs) can boost productivity and diversification. In most LAC countries, however, implementation has been a challenge. Across the 33 countries in the region, 197 ministerial entities are involved in PDPs, with two-thirds of countries engaging five or six different ministries. Yet the presence of multisectoral ministries rarely translates into effective co-ordination or a unified strategic vision. LAC countries also face financing challenges: between 2021 and 2022, they allocated less than 0.5% of GDP to PDPs on average, far below the OECD average of 3%.

Looking ahead, PDPs should engage more effectively with the private sector and civil society, while reinforcing co-ordination across government agencies. This means aligning horizontal policies that shape the entire economy – such as research and development (R&D), public procurement, tax incentives and

entrepreneurship support – with vertical policies targeting strategic sectors like renewable energy, sustainable agriculture, digital industries and the care economy. Stronger co-operation with local governments is also essential. Among the 74 co-ordination bodies identified in 15 countries, most remain consultative rather than executive or deliberative, and only 28% operate across multiple levels of government, limiting territorial and subnational engagement.

Financing production transformation requires mobilising public and private resources

Mobilising public and private resources is essential. LAC faces a sustainable development financing gap estimated at an average of USD 99 billion per year through 2030. Yet public spending is heavily concentrated on current expenditure rather than capital investment, constraining long-term growth. Tax revenues, at 21.3% of GDP in 2023, remain well below the OECD average (34%) and depend largely on value-added tax (VAT) (28.5% of total revenue) and corporate taxes (18.7%). Tax expenditures absorb significant resources – averaging 4.0% of GDP across 18 countries, with corporate income tax incentives alone at 0.9%. Reforming the design of these incentives can enhance their efficiency and effectiveness, and increase their impact on development and production transformation. It will also be necessary to strengthen tax progressivity, redesign VAT to reduce regressivity, and bolster tax morale to foster compliance. National development finance institutions (DFIs), working in close co-ordination with multilateral development banks (MDBs) and bilateral DFIs, can play an important role in promoting investment aligned with PDPs. MDBs and bilateral DFIs can help by lowering borrowing costs, facilitating co-ordination with productive development policy strategies, providing technical expertise, and supporting sector-specific project pipelines to scale up investment.

Strengthening capital markets and attracting quality foreign direct investment (FDI) is equally critical. LAC's equity markets remain shallow, with an average market capitalisation of 37.4% of GDP in 2024, compared to 64.4% in the OECD. However, new financing avenues are expanding. The share of green, social, sustainability, sustainability-linked and blue bonds in international issuance rose to 27.2% in 2024, up from 9.3% in 2020, with cumulative issuance reaching USD 164.4 billion. FDI inflows are also high, equivalent to 2.8% of GDP in 2024. Attracting FDI to renewable energy, digital infrastructure and medium- to high-tech industries can boost production capacity, diversify exports, promote technology transfer, create quality jobs and accelerate the greening of energy systems across the region.

Reorienting international flows can boost production transformation

With global public resources under strain, it is essential to align international financing and co-operation around three key enablers of production transformation in the region: skills development, technology adoption and infrastructure upgrading. Skills-related assistance forms a small portion of overall official development assistance (ODA), yet it has been oriented towards strategic sectors, with nearly USD 1.9 billion directed to LAC between 2014 and 2023 across sectors like information and communications technology, energy and environmental services. Technology and innovation require stronger international collaboration to foster knowledge-intensive production and build robust R&D networks. Upgrading regional infrastructure – especially in energy, transport and digital connectivity – is equally crucial for reducing transaction costs and boosting competitiveness. A shift from fragmented national strategies to integrated regional systems, such as a unified electricity market, would help LAC to leverage its strengths and accelerate its transition to a low-carbon, interconnected future.

Overview

The Latin America and Caribbean (LAC) region faces structural bottlenecks and low levels of innovation, leaving economies vulnerable and reliant on a narrow range of exports. Yet, with abundant resources and emerging innovation ecosystems, it has the ingredients for production transformation. Achieving this requires inclusive, low-carbon, high-skilled growth, backed by domestic and international investment and partnerships. Such a shift is vital to building resilience, reducing inequality and driving sustainable development.

Advancing inclusive and sustainable production transformation in LAC

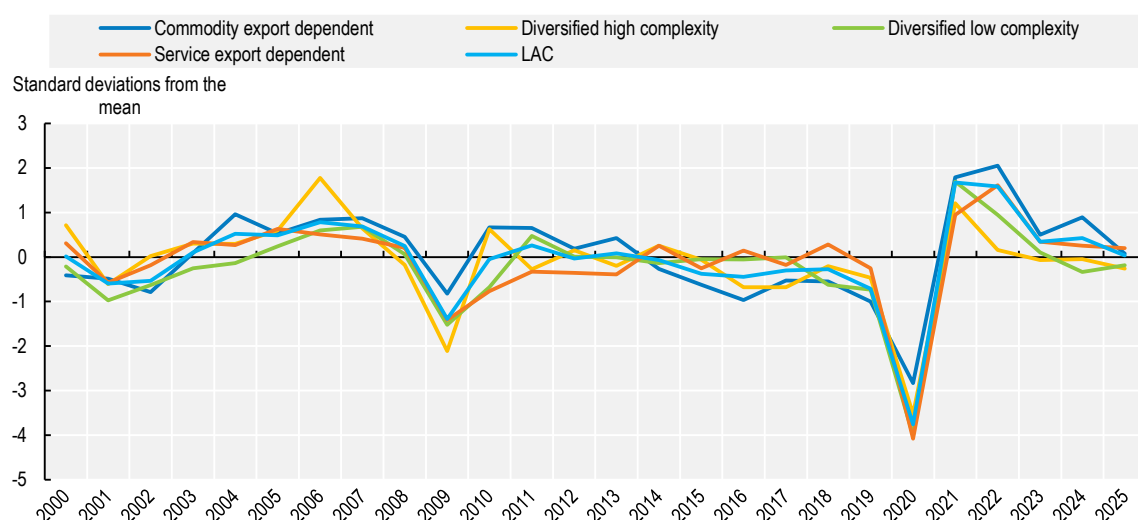
Tackling economic, social and environmental challenges in isolation has shaped LAC's current production model, marked by low productivity, a high prevalence of informal employment and dependence on non-renewable resources. To move towards a more productive, more inclusive and greener model, these priorities – economic, social and environmental – must be rethought together. This requires a systemic approach that addresses the root causes of these challenges, acknowledges their interdependence and promotes policy coherence in the design and implementation of the new production model.

Economic growth is decelerating in LAC, in line with developments in the global economy. Gross domestic product (GDP) per capita growth has stabilised near its potential growth (Figure 1). In addition, persistent inflation, fiscal vulnerabilities, geopolitical tensions and climate-related disruptions continue to pose risks, which differ significantly across the region due to varied economic structures, export compositions, climate vulnerabilities and institutional capacities.

External financial flows to the region exhibit high volatility. Portfolio investments sharply declined over the last decade, while foreign direct investment (FDI) stagnated amid uncertainty about global trade dynamics, although levels remain relatively high in comparison with other regions. Reduced trade and investment threaten both short-term and long-term output.

The region's economic challenges centre around persistently low productivity, underpinning insufficient growth and weak convergence with advanced economies. Labour productivity, driven by limited total factor productivity, grew only 0.9% annually from 1991 to 2024, compared to 1.2% in OECD countries. Productivity gains have been particularly poor in the services sector, exacerbated by informal employment and unsustainable practices.

Figure 1. Standard deviations from potential per capita GDP growth in LAC, 2000-2025



Note: Gross domestic product per capita, constant prices, purchasing power parity; 2021 international dollar. Simple averages of different economic groups. Commodity export-dependent economies have more than 60% of their merchandise exports as commodities (Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Guyana, Jamaica, Paraguay, Peru, Suriname, Uruguay, Venezuela). Service-export-dependent economies have more than 45% in service trade (Antigua and Barbuda, the Bahamas, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines). Economies in the top 60 on the Economic Complexity Index (Costa Rica, the Dominican Republic, Mexico, Trinidad and Tobago) are categorised as diversified with high economic complexity; the remaining economies (Barbados, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama) are categorised as diversified with low complexity.

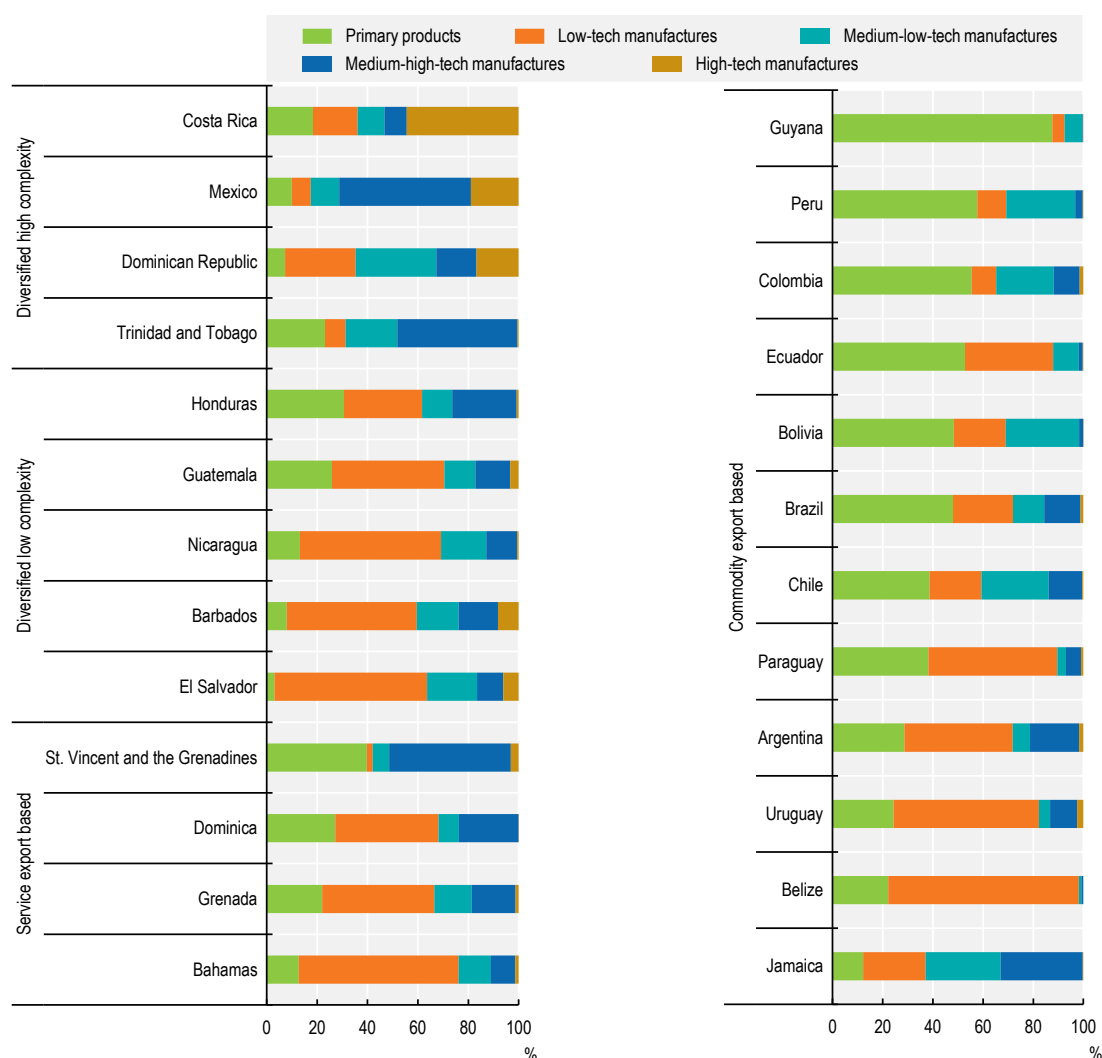
Source: Authors' elaboration based on (IMF, 2025^[1]).

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LAC's economic structure remains heavily dependent on primary and low-tech exports, limiting opportunities for upgrading and productivity enhancement. Only a few economies, notably Costa Rica, the Dominican Republic and Mexico, have diversified into medium- and high-tech sectors (Figure 2). Strengthening intraregional trade, which is currently limited compared to global benchmarks, could enhance diversification and enable deeper regional integration into value chains, bolstering competitiveness.

Socio-economic conditions are also complex in the region, with persistent and widespread labour informality. In 2023, one worker out of two was informally employed in LAC (55.1%). However, the share has been declining since 2009 (62.5%), for countries for which data are available over time (ILO, 2025^[2]). Women, youth and older workers are particularly impacted by labour informality. Between 2013 and 2022, the only group in which informality intensified was youth aged 15-24, while higher employment rates for women came together with higher incidences of informal work (ECLAC, 2024^[3]).

Figure 2. LAC merchandise export composition by economic profile and tech intensity, 2023



Note: Tech-intensity manufacturing groups are based on the OECD Technology Classification in ISIC Rev.3. Commodity export-based economies have more 60% of their merchandise exports as raw commodities and resource-based products (Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Guyana, Jamaica, Paraguay, Peru, Suriname, Uruguay, Venezuela) (UNCTAD, 2023^[4]). Service export-based economies exceed 45% in service trade (Antigua and Barbuda, the Bahamas, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines). Economies in the top 60 on the Economic Complexity Index (Costa Rica, the Dominican Republic, Mexico, Trinidad and Tobago) are categorised as diversified with high economic complexity (Harvard Growth Lab, 2023^[5]); the remaining ones (Barbados, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama) are categorised as diversified with low complexity.

Source: Authors' calculation based on (WITS, 2025^[6]).

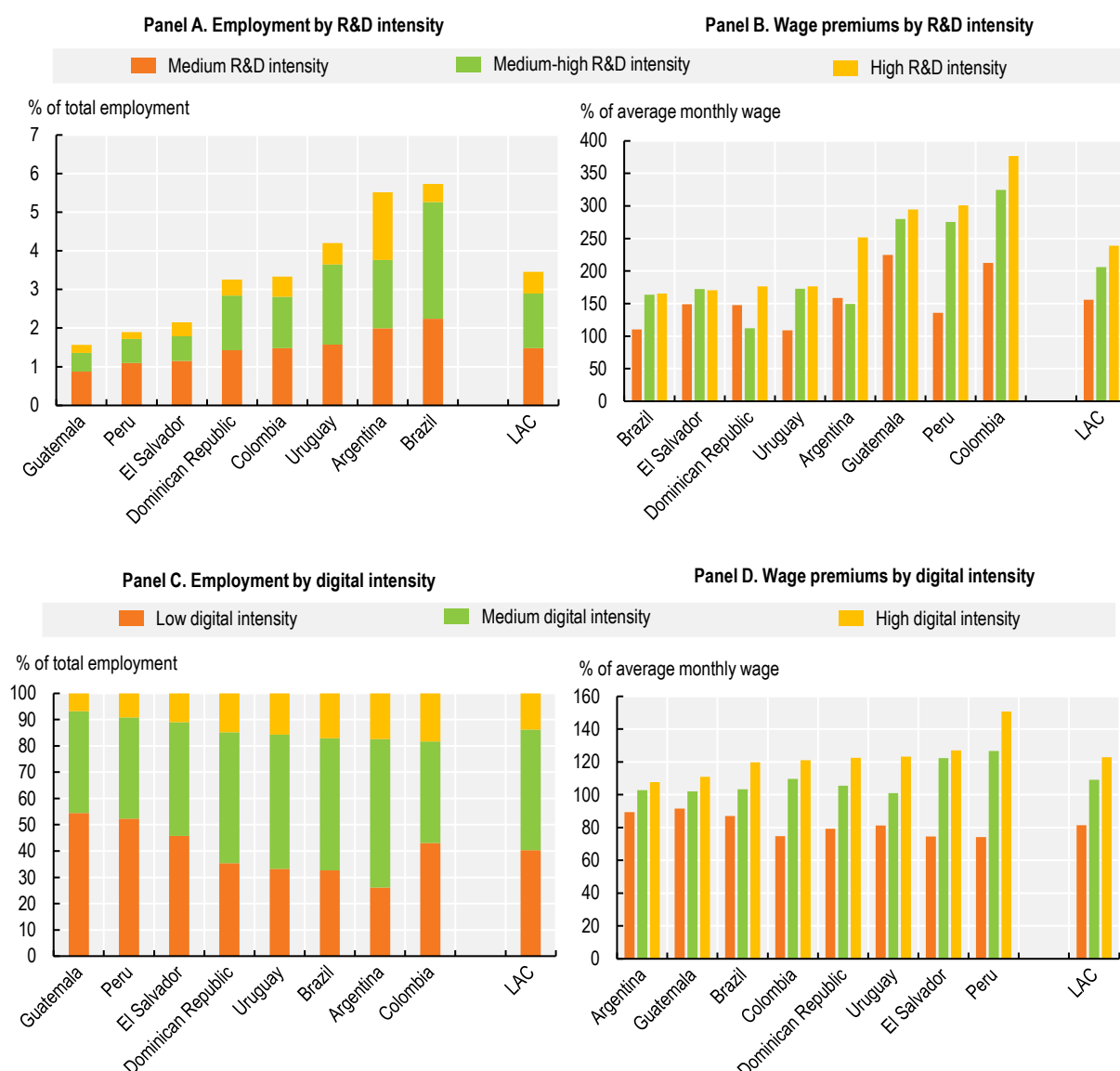
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The current rates of informal employment in LAC highlight the urgency of production transformation. Limited sectoral dynamism and the concentration of informal firms in low-productivity activities constrain the creation of quality jobs. Consequently, positions requiring advanced technological and digital skills remain rare, limiting the region's capacity to compete in knowledge-intensive markets (Figure 3, Panels A and C). In the latest available year for which data are available, jobs with high and medium-high technological intensity represented only 2.1% of total employment, compared to 7.7% in OECD countries, while those with high digital intensity stood at 15%, compared to 21% in the OECD. Inclusive production transformation requires strategic investment in sectors with strong potential to create quality jobs, as wage premiums are substantial. In LAC countries, jobs with high technological and digital intensity command

wages well above the national average, offering a clear pathway to raising incomes and improving job quality (Figure 3, Panels B and D).

Figure 3. Employment share and wages by technological and digital intensity in LAC

Selected LAC countries, 2023 or latest available year



Note: Data for Argentina, Brazil, Colombia, El Salvador and Peru refer to 2023; for Chile and Guatemala to 2022; for the Dominican Republic and Uruguay to 2018. Technological intensity is defined using the OECD Taxonomy of Economic Activities Based on R&D (Research and Development) Intensity. Industries are classified according to five quintiles of the value or R&D investment relative to the value added. Panel A shows data on the distribution of employment in industries with an intensity ranging from medium to high. Digital intensity is defined using the OECD Taxonomy of Digital-Intensive Sectors. Industries are classified in four quartiles of the digital inputs used in their production. Panel C shows data on the distribution of employment in industries with high, medium (which corresponds to medium-high and medium low in the taxonomy) and low digital intensity.

Source: (OECD, 2024^[7]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database, based on (Galindo-Rueda and Verger, 2016^[8]) and (Calvino et al., 2018^[9]).

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The current production model in LAC must evolve to become both more inclusive and environmentally sustainable. While the region's contribution to greenhouse gas emissions remains still similar to its contribution to total population, in the past decades production strategies in the region have contributed significantly to environmental degradation. Between 1990 and 2023, greenhouse gas emissions in LAC rose by 69% across all sectors under the prevailing model. Comparative trends highlight the urgency of change. From 1990 to 2022, East Asia and the Pacific recorded the highest increase in emissions (+165%), while Europe and Central Asia achieved a 28% reduction. LAC's trajectory mirrors that of sub-Saharan Africa, where emissions from agriculture and energy-related activities grew by 81% and 80%, respectively. In contrast, Europe and Central Asia reduced agricultural emissions by 33% and energy-related emissions by 26%, demonstrating viable pathways for low-carbon transitions (Figure 4).

Figure 4. Greenhouse gas emissions by region and sector, 1990-2022



Note: LAC includes data available from 33 countries. The energy sector includes emissions from electricity and heat production, transportation, buildings, manufacturing and construction, other fuel combustion and fugitive emissions. MtCO₂e denotes million tonnes of carbon dioxide equivalent.

Source: Authors' elaboration based on (Climate Watch, 2025^[64]).

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Moving forward, production transformation must deliberately integrate both social equity and environmental sustainability, hand in hand with economic growth. Without these considerations, the burden of transformation risks eroding the provisions of critical ecosystem services to the economy, falling unevenly on specific communities, deepening existing inequalities and potentially weakening public support for much-needed reforms.

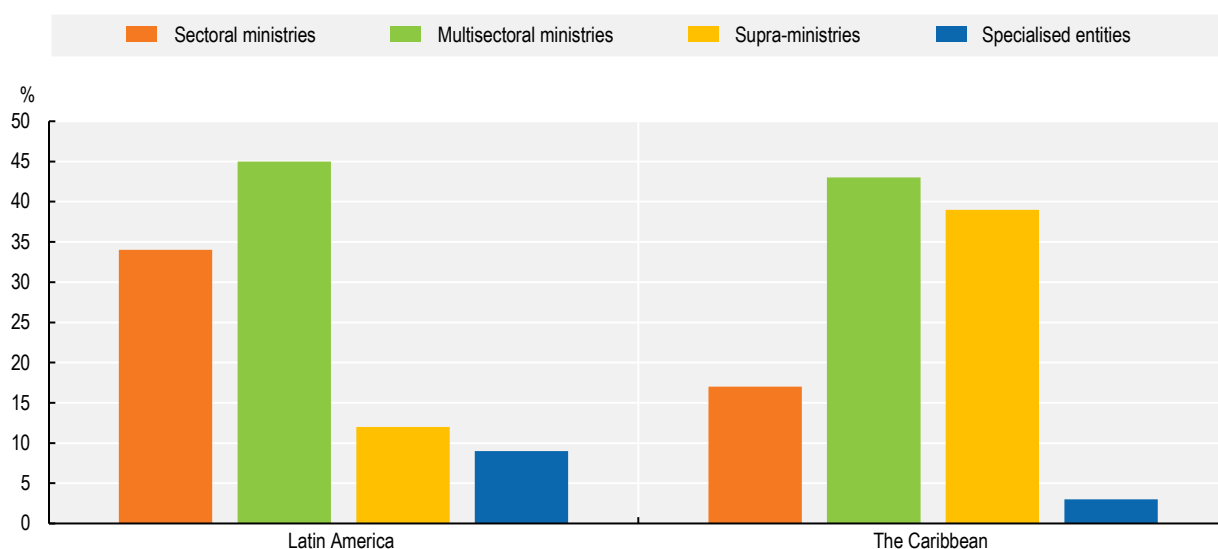
Productive development policies need to focus on implementation

Effective productive development policies can enhance productivity and diversification while also fostering a more sustainable, inclusive and resilient economy. For policies to promote higher value-added activities and exportable products, greater diversification, increased technological sophistication, more inclusive employment generation and environmentally responsible production methods, policy makers must pay particular attention to the implementation stage of new productive development policies, working closely with the private sector to tackle bottlenecks in productivity, infrastructure, skills, regulation and the business environment.

A comprehensive approach to effective productive development policies should incorporate several innovative elements to achieve production transformation effectively. Robust governance mechanisms are essential to ensure sustained stakeholder participation beyond political cycles. Institutional capability frameworks – grounded in technical, operational, political and prospective capacities – are crucial for translating plans into tangible outcomes. Place-based strategies can harness territorial assets and competitive advantages while maintaining national coherence. Finally, the prioritisation of strategic sectors is key to mobilising resources at the scale needed to drive transformative change.

Inclusive and sustainable productive development policies require a combination of horizontal policies – such as well-designed research and development (R&D) incentives, tax credits and entrepreneurship support – and vertical policies that move beyond static comparative advantages to prioritise sectors capable of driving structural transformation towards higher value-added, knowledge-intensive activities. In 2022, LAC countries allocated less than 0.5% of GDP to explicit productive development policies (excluding infrastructure and general education), far below the OECD average of 3%. Most funding targeted horizontal policies, and financing remains volatile today, often shifting with political cycles and economic conditions. This undermines the long-term vision needed for successful production transformation. Experiences from Brazil, Chile and Mexico show that successful transformation hinges on both horizontal and vertical policies and requires strong institutional co-ordination, robust multistakeholder governance and effective sector prioritisation.

Figure 5. Types of government bodies overseeing productive development policies in LAC (%)



Note: The graph illustrates the fragmentation of government agencies responsible for overseeing PDPs in LAC. Institutions intervening in PDPs are divided into four categories, depending on their level of specialisation: i) Sectoral ministries: Ministries dedicated exclusively to a specific sector or function related to productive development (e.g. tourism or employment). ii) Multisectoral ministries: Ministries that operate across multiple areas connected to productive development (e.g. a ministry responsible for both tourism and agriculture). iii) Supra-ministries: Ministries that, in addition to managing at least one area of productive development, also perform broader functions that extend beyond this sphere, such as addressing social, macroeconomic, or other cross-cutting issues. iv) Specialised bodies: Technical institutions (such as agencies, services, or institutes) focused on specific aspects of PDPs.

Source: (ECLAC, 2024^[10]).

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Institutional co-ordination remains a challenge in LAC, where 197 ministerial bodies across 33 countries are involved in productive development policies spanning agriculture, tourism, trade, innovation, information and communications technology (ICT), employment, and micro, small and medium-sized enterprises (MSMEs). In around two-thirds of LAC countries, five or six ministries are involved in productive

development policies, increasing the risk of misaligned priorities, fragmented spending, weak governance and unclear institutional roles (Figure 5). Establishing a lead agency for productive development – with a strong political mandate, clear co-ordination authority and operational capacity – could help to address co-ordination challenges and multistakeholder governance.

While capacities for effective sector prioritisation vary by country, renewable energy, sustainable agriculture, digital industries and the care economy have been consistently identified as key sectors by the *Latin American Economic Outlook* throughout the years. Digital transformation, skills development and productive articulation initiatives, such as clusters, are critical levers for fostering the production transformation of strategic sectors.

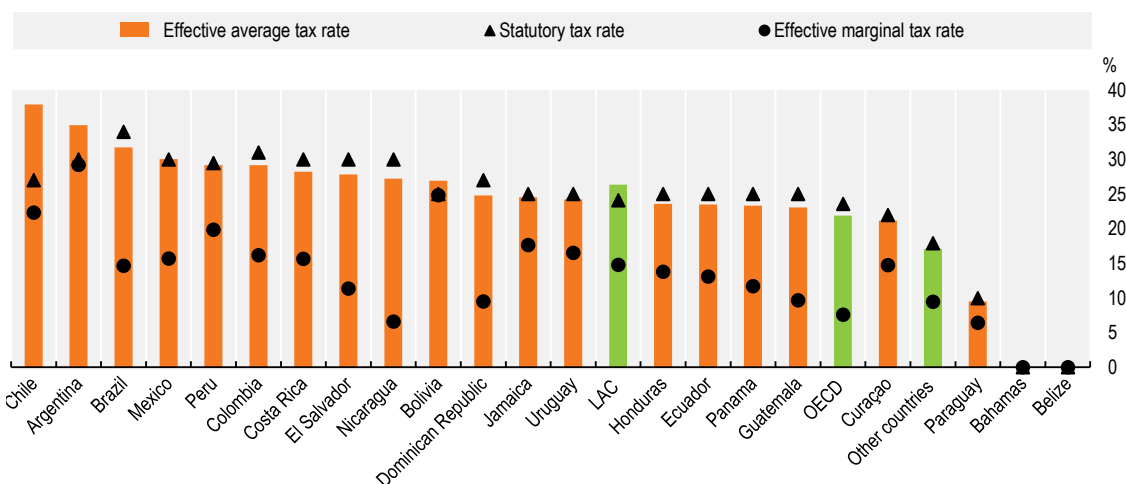
In the region's mosaic of productive development strategies, four patterns stand out. Brazil and Colombia are following a state-led, sector-focused model, with governments actively promoting strategic industries. Costa Rica, the Dominican Republic and Mexico are pursuing an approach oriented around trade and FDI, prioritising integration into global markets. Chile and Uruguay are adopting a market-driven model with selective intervention, targeting specific sectors such as green hydrogen and lithium (Chile) or agri-tech, ICT services and sustainable agriculture (Uruguay). Since 2023, Argentina has embraced a liberalisation model, sharply reducing state involvement, eliminating subsidies, lowering trade barriers and privatising state firms in order to prioritise macroeconomic stability.

In LAC, the greening of production must be central to strategic prioritisation. The region's natural resource wealth offers a path towards leadership of global green value chains – if productive development policies foster innovation, safeguard the environment and ensure fair benefit sharing. As shown by co-operation between Argentina and Brazil in automotive value chains, which has created complementarities and economies of scale, regional co-ordination is key to avoiding zero-sum competition and building synergies.

Financing transformation requires public and private resources

Improved domestic resource mobilisation will be essential to support the financing of production transformation. While public expenditure in the region remains skewed towards current spending, tax revenues are still low in several LAC countries, and overly reliant on consumption and corporate income taxes. This limits both equity and the capacity to fund long-term production transformation. Relatively high corporate tax rates in LAC may dampen competitiveness and deter investment in key sectors. Although the region's average statutory corporate income tax (CIT) rate in 2023 (21.1%) was close to the OECD average (23.7%), effective tax rates in LAC countries in 2021 were considerably higher: LAC's effective average tax rate reached 23.9% compared to 21.9% in the OECD and 17.1% in other emerging regions, while effective marginal tax rates averaged 13.8% in LAC – almost double the OECD average of 7.6% (Figure 6).

Figure 6. Effective average tax rates, statutory tax rates and effective marginal tax rates in LAC countries, 2021

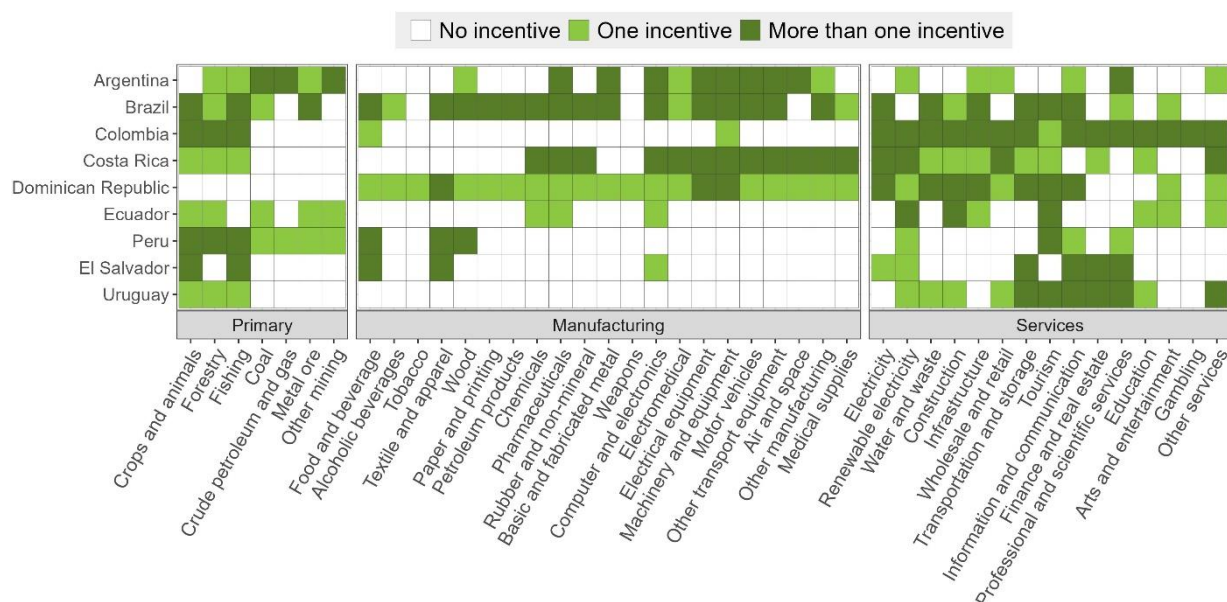


Note: The LAC average only includes countries with a positive corporate income tax statutory tax rate. Therefore, The Bahamas and Belize are not included. The “Other countries” includes data from Emerging Europe, the Middle East and Central Asia, Emerging Asia, and sub-Saharan Africa.
Source: (Hanappi et al., 2023^[11]).

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CIT incentives need better design to help mobilise domestic and foreign investment. CIT incentives have been widely used in LAC to attract investment, support job creation and promote innovation. However, they carry high fiscal, economic and equity costs, including foregone revenue, distortions, windfall gains and disproportionate benefits for large firms. CIT incentives absorb significant resources – averaging 0.9% of GDP across 18 LAC countries (CIAT, 2025^[12]). Income-based incentives, such as tax exemptions, remain the most common form of CIT incentive in the region and are found in all ten LAC countries covered by a recent analysis (Gascon et al., forthcoming^[13]). Sectoral conditions are the main eligibility criteria, with around 80% including a sector requirement. Sector targeting varies widely across countries, with renewable energy, tourism, and ICT among the most frequently promoted sectors across the region (Figure 7). Overlapping sector targeting suggests that countries could benefit from streamlining their incentive policies. Improving the design of CIT incentives requires clear policy objectives and ex-ante assessments of their benefits, costs, and risks. Strong inter-agency co-ordination and a central role for the Ministry of Finance can help ensure transparency and alignment with development goals. Favouring expenditure-based instruments – such as investment tax credits or allowances – can help reduce inefficiencies, avoid distortions, and better align incentives with development objectives (OECD, forthcoming^[14]).

Figure 7. Sectors targeted by corporate income tax incentives in LAC, 2024



Note: The figure only includes incentives that have a sector condition. The figure uses the ISIC classification from the United Nations.

Source: (Gascon et al., forthcoming^[13]).

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Low public trust in institutions poses a major challenge to financing production transformation, as it undermines the fiscal contract and reduces tax compliance. Tax morale – people’s intrinsic willingness to pay taxes – is shaped by perceptions of fairness, quality of services and public spending, as well as by socio-demographic factors like age, gender and education. While most citizens in LAC condemn tax evasion, the share has declined since 2011, and only 25% believe that they receive fair value in return for taxes. Although 60% recognise the role of taxes in sustainable development, just 33% feel that tax revenues are well spent (IFAC/ACCA, 2024^[15]). This gap between theoretical support and dissatisfaction with service delivery reflects a fractured fiscal contract. Strengthening tax morale requires improving public services, enhancing transparency, investing in taxpayer education and involving citizens in tax policy design. Green productive development policies offer a way to rebuild trust by visibly linking tax contributions to sustainability goals – an approach supported by nearly 80% of citizens in LAC.

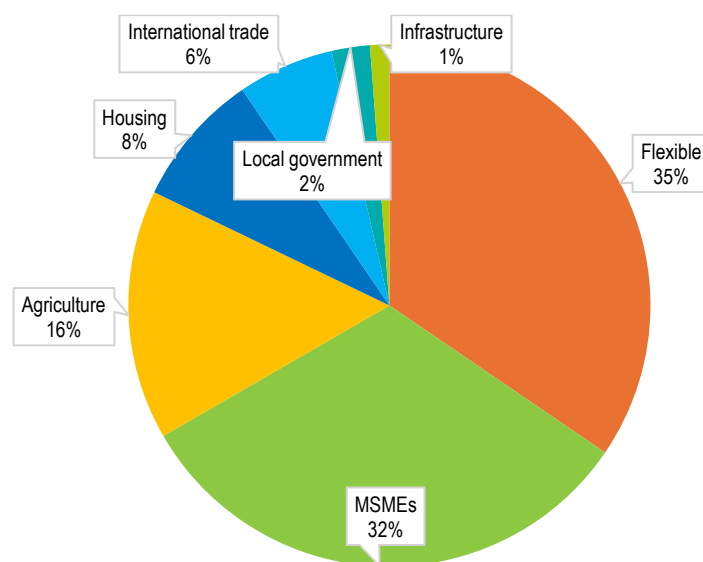
National development finance institutions need to scale up investment for strategic sectors

National development finance institutions (DFIs) in LAC show significant heterogeneity in financial capacity. The size of their assets, equity and loan portfolios varies widely across and within countries. While the region’s largest DFIs reach around 7.4% of GDP in Mexico and 6.9% in Brazil, smaller institutions in Argentina and Brazil represent less than 0.1%.

This heterogeneity extends to national DFI mandates, instruments and operational capacity. Some institutions focus on specific areas, such as MSMEs, agriculture, housing or infrastructure, while others operate under broader mandates (Figure 8). A wide range of instruments is used, tailored to national needs and capacities. These include loans, guarantees, venture capital and green bonds. However, many national DFIs face institutional challenges, such as weak risk management, limited financial sustainability,

poor governance and staffing constraints. These limitations hinder the effectiveness of national DFIs in advancing co-ordinated and large-scale production transformation across the region.

Figure 8. National development finance institutions by mandate in selected LAC countries, 2024



Note: The dataset covers 73 development finance institutions across 22 countries in LAC (Antigua and Barbuda, Argentina, the Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Curaçao, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay and Peru).

Source: Authors' calculations based on (Jiajun et al., 2025^[16]).

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National DFIs already play a central role in advancing production transformation in LAC, but more can be done to expand their impact. National DFIs can enhance production transformation by aligning their financing more closely with strategic national and territorial priorities. This includes supporting firms in key sectors and public-good projects, as well as providing instruments that boost countries' competitiveness in global markets. To maximise their impact, DFIs need clear mandates, strong alignment with development policies, active participation in governance, reinforced institutional capacities and a shared understanding of productive development objectives among stakeholders (Fernández-Arias, Hausmann and Panizza, 2019^[17]).

Multilateral development banks (MDBs) and bilateral DFIs can provide key support to national DFIs in LAC, enhancing their impact on production transformation, financial inclusion and sustainable investment. They can reduce borrowing costs for smaller national DFIs through concessional loans and grants, offer risk-mitigation instruments to crowd in private capital, and support the creation of joint facilities to channel resources and build long-term institutional capacity. MDBs and bilateral DFIs can also foster co-ordination and knowledge sharing among national DFIs by creating platforms, peer-learning forums and harmonised taxonomies, while providing technical assistance, capacity building and policy guidance to align investment with climate, social and productive development objectives. Greater collaboration among MDBs, bilateral DFIs and other multilateral institutions can maximise joint impact, reduce duplication, and mobilise private and concessional capital. This is exemplified by initiatives such as the Kuali Fund, a pioneering Spanish investment fund launched in 2024 with financing from the Green Climate Fund, the European Union, the Development Promotion Fund (FONPRODE) of the Spanish Agency for International Development Cooperation (AECID), and private investors including GAWA Capital and COFIDES (LACIF, 2025^[18]). Another example is the EUR 200 million partnership between the Development Bank of Latin America

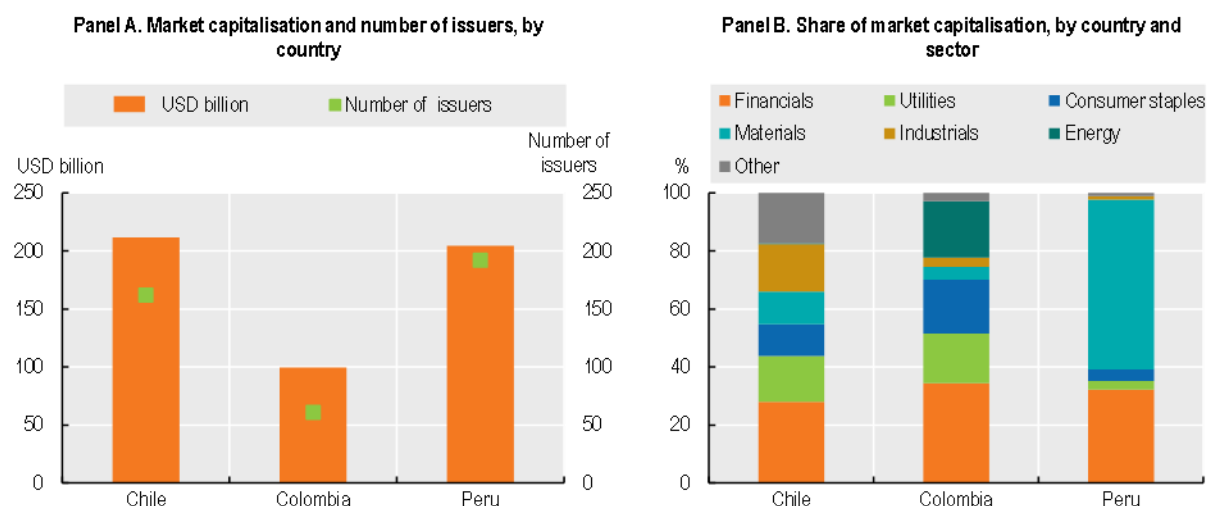
(CAF) and the French Development Agency (AFD), which combines non-earmarked funding, technical assistance, and expert exchanges to advance CAF's goal of becoming the region's green bank and to tackle climate and biodiversity challenges in LAC (OECD et al., 2024^[19]). Both initiatives ultimately contribute to a more co-ordinated, resilient, and effective development finance ecosystem in the region.

Inclusive financial markets will be key to financing productive development

Public and private capital markets are vital for financing productive development. By allocating capital efficiently, they enable scaling, innovation and modernisation – driving investment, productivity and growth. Yet LAC's financial markets remain shallow and concentrated. In 2024, market capitalisation was 37.4% of GDP, versus 64.4% in OECD countries, with limited listings and dominance by a few large firms. Domestic bond markets in LAC are also underdeveloped. Domestic bond issuance is dominated by the public sector, which made up 81% of total issuances between 2015 and 2023, while corporate bonds represented just 19%, mainly in Brazil and Mexico. Venture capital is the most dynamic private capital segment, but it is concentrated in a few countries and in sectors like fintech and mobile apps, with little investment in manufacturing, agri-tech, healthcare or clean tech. Strengthening financial ecosystems and advancing regional integration are key to mobilising long-term capital, deepening markets and channelling investment into strategic sectors.

Regional financial integration offers an opportunity to deepen capital markets and enhance portfolio diversification through the development of key sectors. It can broaden the issuer base, increase liquidity and mitigate risks, thereby attracting investors and channelling resources into strategic areas (Bonita et al., 2020^[20]; Bown, 2017^[21]). The nuam exchange exemplifies this potential, aiming to connect the stock exchanges of Chile, Colombia, and Peru into a single market. Currently, they hold a combined market capitalisation of USD 516 billion and 415 issuers (Figure 9, Panel A). While they still operate as independent markets, they have adopted the same Nasdaq trading system, establishing a foundation for deeper integration. Sectoral composition varies across countries. In 2025, financial institutions accounted for 24–32% of market capitalisation, supporting broader access to finance, while industrials and utilities – which contribute to value-added production and renewable energy supply – represented around 16% in Chile and 17% for utilities in Colombia, and a smaller share in Peru (Figure 9, Panel B). This composition highlights complementarities across markets and areas where diversification could strengthen production transformation and investment portfolios.

Figure 9. Market capitalisation, number of issuers, and sectoral composition in countries integrating nuam exchange, 2025



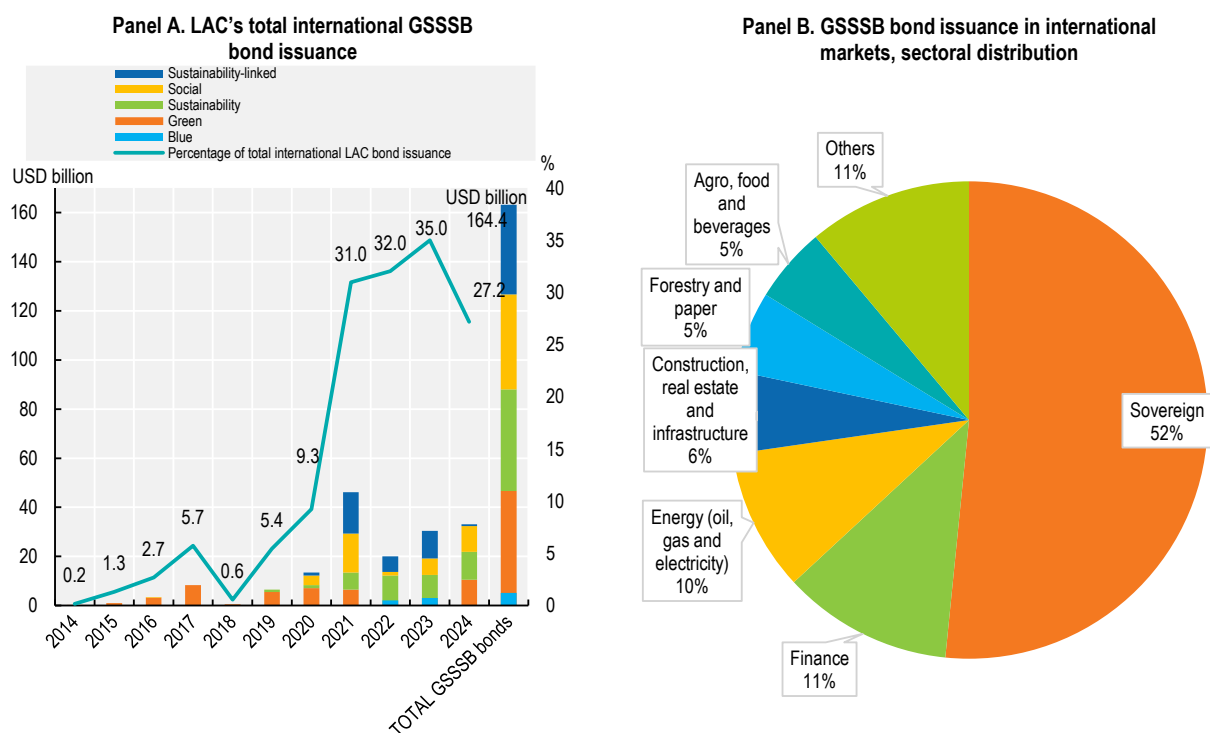
Note: 2025 data refer to information available up to 31 August 2025. Panel B: Other includes consumer discretionary, communication services, healthcare, information technology and real estate. Sector classification follows the MSCI Global Industry Classification Standard (GICS).

Source: Authors' elaboration based on (Nuam, 2025^[22]).

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Green, social, sustainability, sustainability-linked and blue (GSSSB) bonds are emerging as powerful tools to finance LAC's shift towards sustainable, resilient economies. Their share of international bond issuance grew from 9.3% in 2020 to 27.2% in 2024, driven by investor demand and regional sustainability goals (Figure 10, Panel A). Between 2014 and 2024, the GSSSB international bond market in LAC reached a cumulative issuance of USD 164.4 billion. Beyond sovereigns, which accounted for 51.6% of the total, the main issuers were the financial sector (11.5%), energy (9.6%), and construction and real estate (5.6%). Excluding sovereigns, the financial sector has shown the steadiest growth, as institutions increasingly align capital with sustainability goals to attract dedicated investors (Figure 10, Panel B). In 2024, however, the energy sector surged ahead to become the region's top GSSSB bond issuer after sovereigns, with corporate bonds playing a central role in financing the energy transition and decarbonisation. Other sectors – including forestry, chemicals, and food and beverage – are also using GSSSB bonds to fund circular economy projects, low-carbon production and climate resilience. Expanding GSSSB markets to attract global capital for production and sustainable transformation in LAC will require more robust and harmonised sustainable finance frameworks. Strengthening regulatory and monitoring mechanisms can enhance transparency, credibility, and investor confidence, enabling long-term financing for sustainable development and decarbonisation.

Figure 10. GSSSB bond issuance in international markets, sectoral distribution, 2014-24



Note: GSSSB refers to green, social, sustainability, sustainability-linked and blue bonds. Panel B: The category “Others” includes chemical industry (4.2%), transportation (3.1%), telecommunications and information technology (2.4%), construction and real estate (2.0%), and retail and consumer products (1.3%). The sovereign sector includes three sub-sovereign green bond issuances by Argentina’s provinces of La Rioja and Jujuy. The infrastructure sector includes four green bonds (totalling USD 6 billion) issued in 2016 and 2017 by the Mexico City Airport Trust to finance the construction of a new airport, but the project was cancelled in 2018.

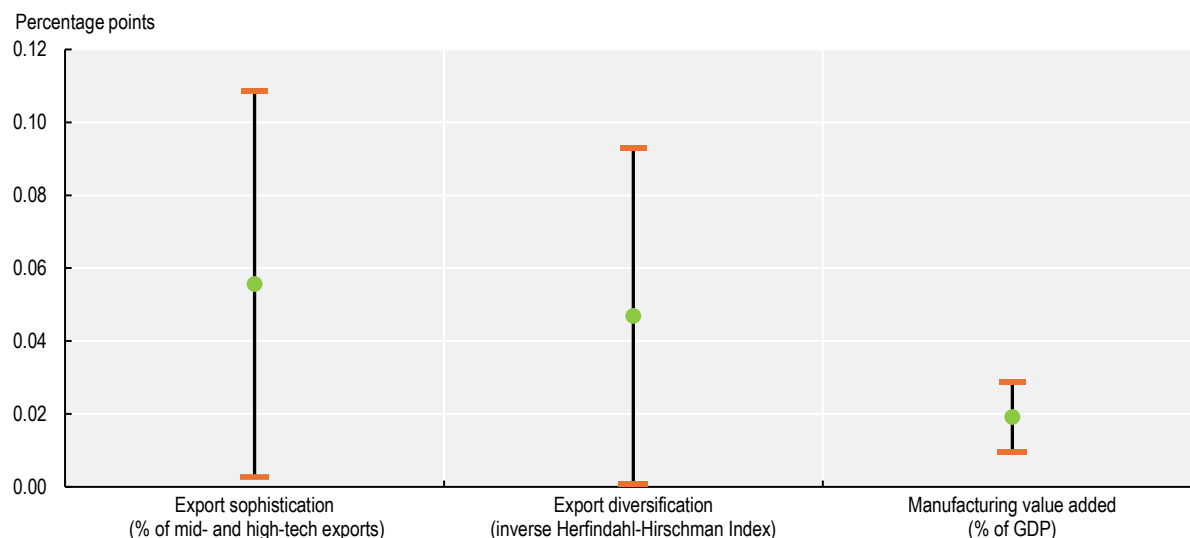
Source: (ECLAC, 2025^[23]; Velloso and Perroti, 2023^[24]; OECD et al., 2024^[19]).

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Attracting foreign direct investment will be critical to accelerating production transformation

FDI plays a pivotal role in advancing production transformation. In 2024, LAC attracted FDI inflows equivalent to 2.8% of GDP, accounting for 12.6% of global FDI – underscoring the region’s relevance as a destination for international capital (ECLAC, 2025^[25]). FDI fosters structural change by enabling technological diffusion, boosting sectoral productivity and mobilising resources to expand industrial bases and develop strategic industries. It also generates positive spillovers for domestic firms through supply chain linkages, competition, imitation and knowledge transfers (OECD, 2019^[26]; OECD et al., 2023^[27]). Greenfield FDI has largely targeted sectors with intermediate and high technological intensity, underscoring its potential to support production transformation in the region. In LAC, a 10% increase in capital expenditure from announced greenfield FDI projects is associated with a 0.05 percentage point rise in the share of medium- and high-tech goods in total exports, a 0.04-point increase in the export diversification index and a 0.02 percentage point increase in manufacturing value added as a share of GDP (Figure 11).

Figure 11. Foreign direct investment impact on export sophistication, diversification and manufacturing value added



Note: The figure displays the estimated percentage-point impact of a 10% increase in capital investment from announced foreign direct investment projects on the share of high- and mid-tech exports, on the export diversification index and on the share of manufacturing value added relative to gross domestic product (GDP), along with their 95% confidence intervals.

Source: Authors' calculations based on (Financial Times, 2024^[28]), (WITS, 2025^[6]) and (World Bank, 2023^[29]).

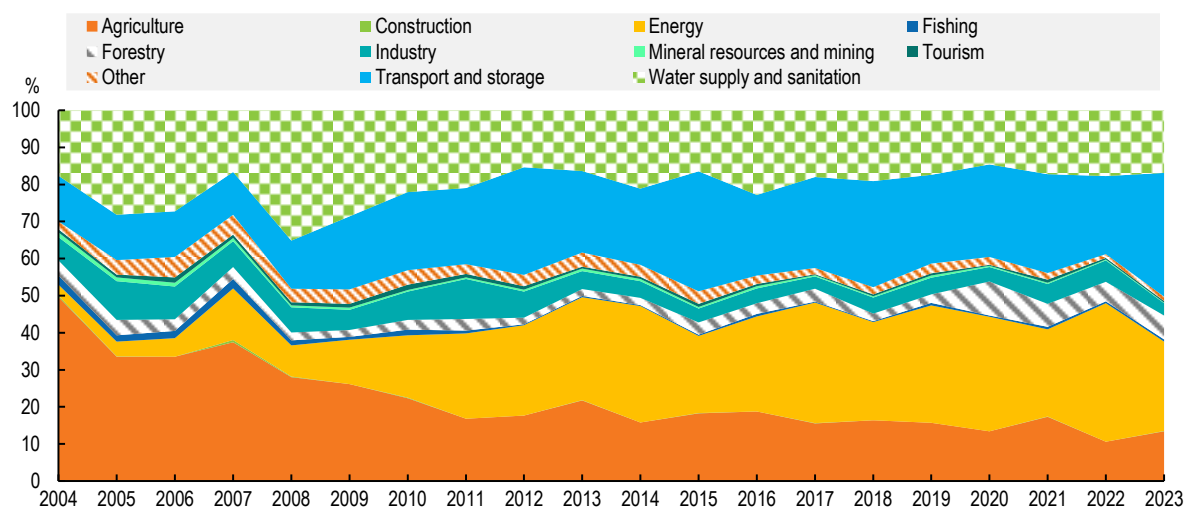
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Reorienting development finance flows can boost production transformation

The evolving landscape of international development co-operation and partnerships, including new donors and instruments, offers both opportunities and complexities for countries in the region that are seeking to strengthen productive capacities. With global public resources under pressure, it is vital to target international financing flows and co-operation on three key enablers of production transformation: skills development, technology adoption and upgrading of regional infrastructure. At the same time, deepening regional integration and forging robust cross-border value chains will elevate value added across the region and boost its competitiveness.

While official development assistance (ODA) represents a limited share of total financing in LAC, it has gained relevance over the years as a catalyst for production transformation in LAC. Over the last ten years, one-third of these funds have supported renewable energy. ODA for the energy sector rose from 3% in 2000 to 24% in 2023, while the share of ODA to sectors such as agriculture has decreased significantly (Figure 12).

Figure 12. Official development assistance received in LAC by production sector, 2004-2023



Note: "Other" includes trade policies and regulations. This figure is representative of the sectors selected as part of the production sectors for this report. Sectors correspond to those in the OECD CRS-database.

Source: (OECD CRS-Database, 2025_[30]).

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While ODA to the region continues to be limited – merely 1% of gross national income –, mobilised private finance for development has taken a larger role in recent years, emerging as a crucial source of finance for production transformation in LAC. In 2023, of total mobilised private finance for development, 51% (USD 9.8 billion) went to production sectors, which include agriculture, forestry, fishing, energy, construction, industry, mineral resources and mining, water and sanitation, transport and storage, and tourism.

Assistance from development co-operation partners reflects this shift. Most notably, European partners have become an important leader in mobilising private finance. In 2017, the European Fund for Sustainable Development (EFSD+) was established to facilitate investments for sustainable development using blending mechanisms, guarantees and other financial instruments. In July 2023, the EU-LAC Global Gateway Investment Agenda (GGIA) was launched in the context of the III EU-Community of Latin American and Caribbean States (CELAC) Summit. It aims to mobilise at least EUR 45 billion by 2027 for initiatives that focus on addressing the region's infrastructure needs, creating local added value and promoting growth, jobs and social cohesion (OECD et al., 2024_[31]). In light of this development, EU ODA now aims to serve primarily as a catalytic instrument to boost transformational impact in the sectors and actions prioritised by the EU-LAC GGIA, where concessional funds are blended with private capital to promote sustainable investments in energy, transport infrastructure, digital connectivity, health and social cohesion projects.

International co-operation can drive productive transformation through key enablers. Skills development, technology adoption and infrastructure development are key enablers for driving production transformation in LAC. Although international assistance for skills and training represents a relatively small share of overall ODA, it has been concentrated and strategically significant. Between 2014 and 2023, donors channelled nearly USD 1.9 billion to LAC in support of skills and training initiatives across diverse sectors such as ICT, energy, agriculture, water and sanitation, and environmental services. The European Union (EU Members and institutions) is the largest donor in absolute terms, followed by the United Kingdom, Canada, Switzerland and the World Bank (OECD CRS-Database, 2025_[30]). This reflects a sustained European commitment to human capital development in the region, particularly through vocational training, education in ICT and technical fields, and teacher training. However, ODA allocation to skills education and training as a share of ODA to the region represents less than 0.05% of total ODA flows for most donors. The only exception is Australia: assistance directed to skills education and training accounts for almost 50% of its aid flows to LAC (OECD CRS-Database, 2025_[30]).

The second key enabler for production transformation is technology and innovation. Enhancing international co-operation for technology transfer and innovation is critical to fostering mutually beneficial solutions and creating virtuous cycles of learning and capability building. For countries in LAC to transition towards more knowledge-intensive and competitive production structures, a strong focus on technology adoption and building robust R&D networks is required. In this context, the EU-LAC Digital Alliance, launched in 2023 with a budget of EUR 172 million, represents a pivotal initiative for accelerating human-centred digital transformation across the region (European Commission, 2025^[32]).

Supporting infrastructure is a third critical enabler for production transformation in LAC. Better international co-ordination is essential for upgrading regional infrastructure to reduce transaction costs and facilitate the movement of goods, services and knowledge via reliable transportation, energy and digital connections. A shift from isolated national strategies to a unified regional electricity market would allow LAC to fully harness its comparative advantages, lower the costs of transition and accelerate the shift towards a low-carbon and interconnected energy future. Initiatives for building regional electricity integration include SIEPA (Electrical Interconnection of Central America), SINEA (Andean Electrical Interconnection System), SIESUR (Energy Integration System of the Southern Cone Countries) and the Arco Norte (OLADE, 2024^[33]).

Regional co-operation is key to support the next generation of productive development policies

A new generation of productive development policies in LAC requires strategic emphasis on regional co-operation, with several interlinked pillars supporting integration and transformation. This will involve building partnerships that support regulatory harmonisation, integrated regional supply chains, skills development and R&D collaboration, technology adoption, and cross-border biodiversity protection and environmental resource management, as well as fostering rules-based international trade agreements (Figure 13).

Figure 13. Building blocks for regional co-operation in productive development policies



Source: Authors' elaboration based on (ECLAC, 2024^[10]), (Ohnsorge, Raiser and Leiyu Xie, 2024^[34]) and (Lebdioui, 2022^[35]).

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Socio-economic and environmental context and challenges

This chapter describes why advancing a comprehensive agenda for production transformation will be key to unlocking higher, more inclusive, sustainable growth in Latin America and the Caribbean (LAC). It reviews the macroeconomic context, including an increasingly uncertain global outlook, before turning to the structural economic challenges facing the region. The complexity of these challenges underscores the urgent need for a holistic response: rethinking production structures through a sustainability and equity lens will be essential to unlocking lasting development. The chapter examines the social context in LAC, where informality remains widespread, and the environmental context, including the health consequences of unsustainable production. It finds that achieving sustainable growth that improves citizens' well-being and reduces environmental impacts requires a broad, systemic transformation across all areas of government.

Introduction

The countries of Latin America and the Caribbean (LAC) face longstanding productivity challenges that constrain their ability to achieve stronger and more inclusive and sustainable development. Despite periods of economic expansion, structural bottlenecks persist across the region. These barriers, such as weak innovation systems and limited adoption of technology, have resulted in stagnating productivity growth and hindered economic diversification and sophistication, leaving LAC economies vulnerable to external shocks and overly dependent on a narrow set of primary exports and trading partners.

However, the region also holds significant untapped potential. In a world marked by increasing geopolitical uncertainty and shifts in global supply chains, LAC is well-positioned to diversify its trade partners and product offerings. The region's abundant natural resources, demographic advantages and emerging innovation ecosystems offer a strong foundation for responding to commercial disruptions and reorienting production models towards long-term resilience.

Seizing these opportunities requires profound production transformation, and this transformation must be both sustainable and inclusive. LAC countries must adopt a development strategy that not only boosts productivity but also aligns with environmental goals and creates decent jobs (OECD, 2019[1]). The economic, social and environmental trends that will be discussed in this chapter underscore the urgency of such a shift.

This report conceives production transformation as the changes needed in the industrial sector – as well as in every other strategic sector – to enhance production while also “fighting climate change, accelerating economic growth, and generating millions of decent jobs, while harnessing cutting edge technologies” (UNIDO, 2024[2]).

The current production model marked by low productivity, dependence on non-renewable resources and a high prevalence of informal employment is in part the result of having addressed economic, social and environmental challenges in isolation. While governance plays a crucial role in determining a country's production structure (Chapter 2), this chapter will focus on how to move towards a more productive, more inclusive and greener model by rethinking these priorities – economic, social and environmental – together. A systemic approach is needed, one that addresses the root causes of these challenges, acknowledges their interdependence and promotes policy coherence in the design and implementation of the new production model.

In this context, promoting strategic sectors that are low in carbon emissions and rich in human capital offers a key opportunity. Investing in such sectors can help to build more resilient societies, enhance gender equality while tackling other inequalities and contribute to a better future. As LAC charts a path forward, rethinking its production structures through a sustainability and equity lens will be essential to unlocking lasting development.

Macroeconomic context

An increasingly challenging international context

Global growth proved more resilient than anticipated in the first half of 2025, particularly in many emerging-market economies. Industrial production and trade were temporarily supported by front-loading ahead of tariff increases, while strong investment linked to artificial intelligence boosted outcomes in the United States. In the People's Republic of China (hereafter “China”), fiscal support helped to offset trade headwinds and persistent weakness in the property sector. Despite rising tariffs, global financial conditions eased, underpinned by buoyant asset prices, improving credit provision and narrow corporate bond spreads. Nonetheless, asset valuations appear stretched and concerns about future fiscal risks are

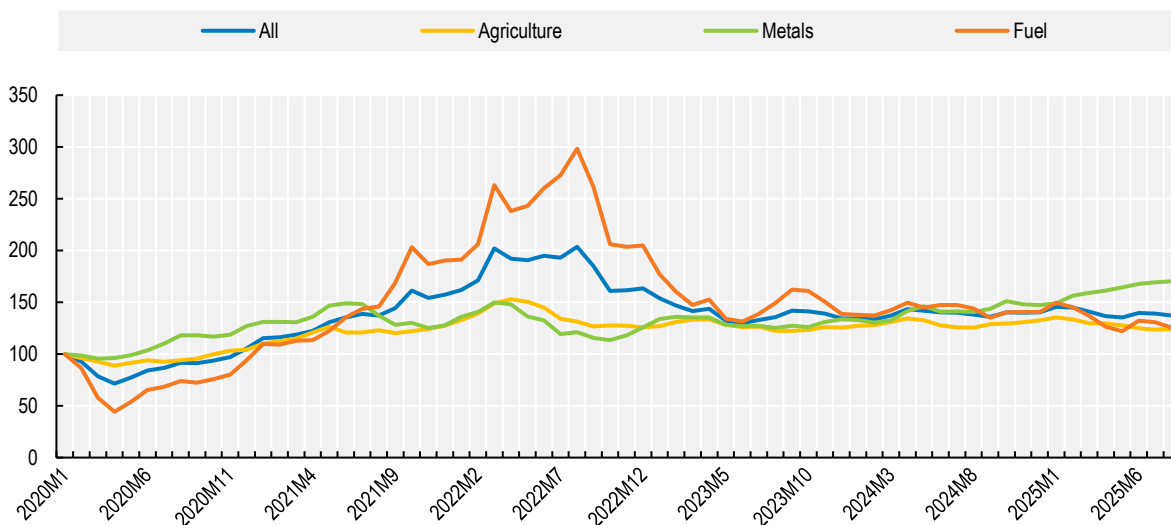
growing. Global GDP growth is projected to ease from 3.3% in 2024 to 3.2% in 2025 and 2.9% in 2026, as the temporary boost from front-loading fades and higher tariffs alongside elevated uncertainty weigh on investment and trade (OECD, 2025^[3]).

Global prospects are increasingly constrained by rising trade barriers, subdued confidence and persistent policy uncertainty. Since May, the United States has raised tariffs on nearly all trading partners, with the effective average rate climbing to almost 20% by the end of August, the highest in close to a century. The full impact has yet to be felt, as firms are still absorbing part of the increases, but pressures are emerging in household spending, labour markets and consumer prices. Signs of labour market softening are already visible, particularly in the United States, where unemployment is edging up and job openings are declining relative to the unemployed. Disinflation has also lost momentum: food costs have reignited goods inflation, while services inflation remains persistent. Headline inflation in the G20 economies is projected to ease, with core inflation in advanced G20 economies moderating only gradually (OECD, 2025^[3]).

Downside risks have increased. Escalating trade tensions and trade barriers, abrupt shifts in investor sentiment and persistent inflationary pressures could further undermine growth and stability. There are concerns about broader financial stability due to heightened financial market volatility coupled with the vulnerability of highly leveraged non-bank financial institutions. However, a reduction in trade barriers, progress in geopolitical conflict resolution and steps to streamline regulatory frameworks could bolster confidence and support a stronger recovery in investment and output over the medium term (OECD, 2025^[3]).

Commodity prices stabilised throughout 2024 and into 2025, following several years of volatility. After sharp increases during the recovery period following the COVID-19 pandemic – especially in fuel and metals – prices gradually moderated. In 2024, all major commodity groups exhibited relative stability, with only modest month-to-month fluctuations. As of August 2025, commodity price indices remained above pre-pandemic levels, with metals showing an upward trend since the end of 2024 that has continued into 2025. (Figure 1.1).

Figure 1.1. Commodity prices, 2020-2025



Note: January 2020 = 100. Monthly data from January 2020 to August 2025.

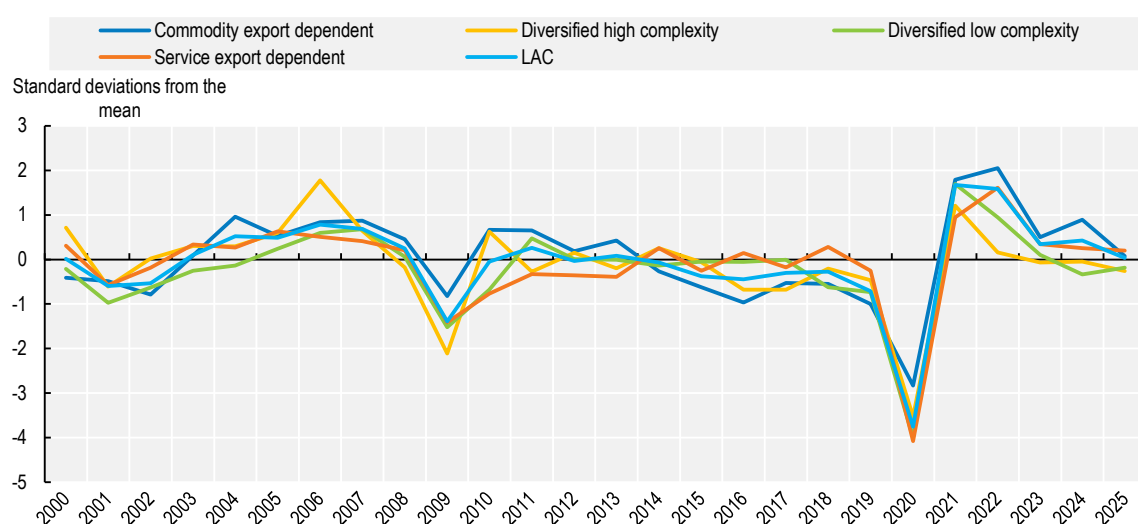
Source: Authors' elaboration based on (IMF, 2025^[4]), accessed on 24 September 2025.

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Growth stabilises in LAC, but risks remain

GDP growth is decelerating in LAC, in line with developments in the global economy. After a period of heightened volatility during the pandemic and the subsequent rebound, per capita GDP growth LAC is stabilising around its potential GDP (Figure 1.2). This broader stabilisation reflects both global economic trends and effective domestic policy responses. Proactive monetary tightening, fiscal consolidation and improved investor confidence have supported macroeconomic stability, helping to anchor inflation expectations and sustain output growth across the region (Ayres, Izquierdo and Parrado, 2025^[5]; OECD, 2025^[6]). Looking ahead, risks remain elevated. Inflation in some countries is still above target, fiscal challenges persist and external uncertainties continue to weigh on the outlook – uncertainties ranging from geopolitical tensions and volatile global interest rates to climate-related disruptions, including record-breaking hurricanes, floods, droughts and wildfires (WMO, 2025^[7]). The degree of exposure to these risks is highly heterogeneous across LAC countries, reflecting differences in economic structure, export patterns, climate vulnerability, and fiscal and institutional capacity.

Figure 1.2. Standard deviations from potential per capita GDP growth in LAC, 2000-2025



Note: Gross domestic product per capita, constant prices, purchasing power parity; 2021 international dollar. Simple averages of different economic groups. Commodity export-dependent economies have more than 60% of their merchandise exports as commodities (Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Guyana, Jamaica, Paraguay, Peru, Suriname, Uruguay, Venezuela). Service-export-dependent economies have more than 45% in service trade (Antigua and Barbuda, the Bahamas, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines). Economies in the top 60 on the Economic Complexity Index (Costa Rica, the Dominican Republic, Mexico, Trinidad and Tobago) are categorised as diversified with high economic complexity; the remaining economies (Barbados, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama) are categorised as diversified with low complexity.

Source: Authors' elaboration based on (IMF, 2025^[8]).

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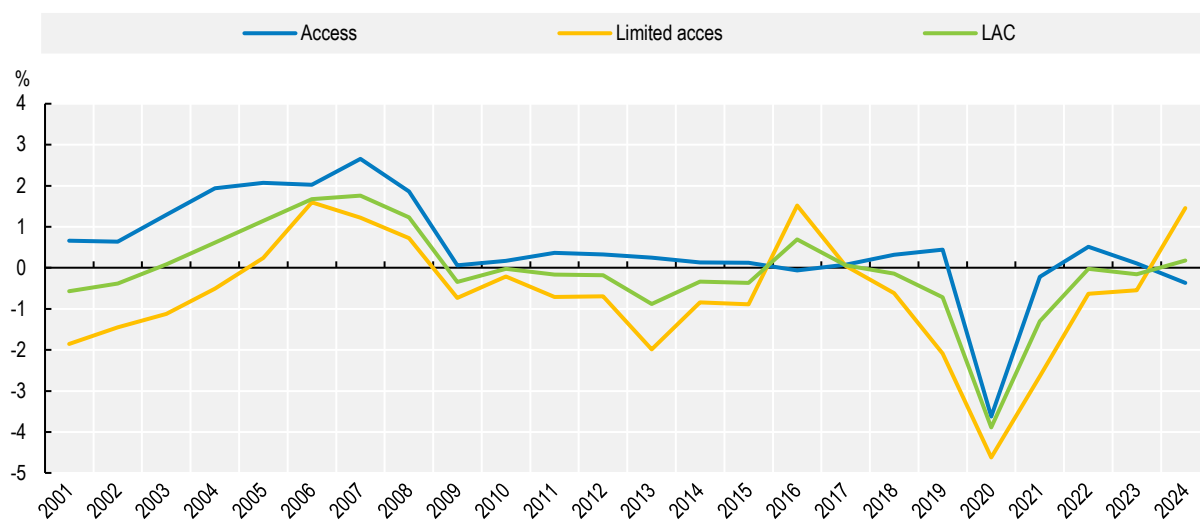
Economic growth in LAC has shown persistent volatility, with recurrent deviations from potential per capita growth across country groups since 2000. Commodity-export-dependent economies tend to underperform more consistently relative to potential, while service-export-dependent economies display sharper fluctuations, particularly during global crises such as in 2009 and 2020. By contrast, diversified economies – of both high and low complexity – have generally maintained growth closer to potential, though they are not immune to shocks. The aggregate LAC trend mirrors these dynamics, highlighting structural vulnerabilities and the region's sensitivity to external conditions.

The region's current economic growth is insufficient to meet its development goals, including the eradication of poverty. In the current context, the space for demand-side policy support – both fiscal and monetary – is increasingly constrained by macroeconomic pressures, limiting the scope for short-term stimuli. To raise overall potential growth, it is essential to address long-standing structural challenges such as low productivity, high informality, limited economic diversification, low public and private investment, increasing environmental degradation and weak innovation capacity. Advancing a comprehensive agenda for production transformation, under a new vision for productive development policies, will be key to unlocking higher, more inclusive, sustainable growth.

Fiscal space to support productive and social investments is limited

The region's primary fiscal balances have remained stable, particularly in 2023 and 2024 (ECLAC, 2025^[9]). However, slowing growth, rising expenditures and increasing debt-servicing costs due to current high interest rates continue to weigh on fiscal accounts (Ayres, Izquierdo and Parrado, 2025^[5]). Countries with access to financial markets have generally maintained stronger primary fiscal balances over the past two decades, recording small surpluses in 2023 and near balance in 2024. By contrast, countries with limited market access exhibited more volatile and weaker fiscal outcomes, moving from a small deficit in 2023 to a surplus in 2024, reflecting their higher sensitivity to global shocks and financing constraints (Figure 1.3). With reduced fiscal space, further strengthening of public finances through improved spending efficiency, revenue mobilisation and debt management is essential to ensure fiscal sustainability and support long-term growth.

Figure 1.3. Primary fiscal balance as a percentage of gross domestic product in LAC, 2000-2024



Note: Simple averages are used. "Access" refers to the group of LAC economies that finance more than 50% of their external public debt in the market via bonds or bank loans. This group includes Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Jamaica, Mexico and Peru. "Limited access" refers to the LAC economies that finance more than 50% of their external public debt with bilateral or multilateral creditors. This group comprises Belize, Bolivia, Dominica, Ecuador, Haiti, Honduras, Nicaragua, Paraguay, Saint Lucia, and Saint Vincent and the Grenadines. Here, "LAC" represents the simple average of the economies in both groups.

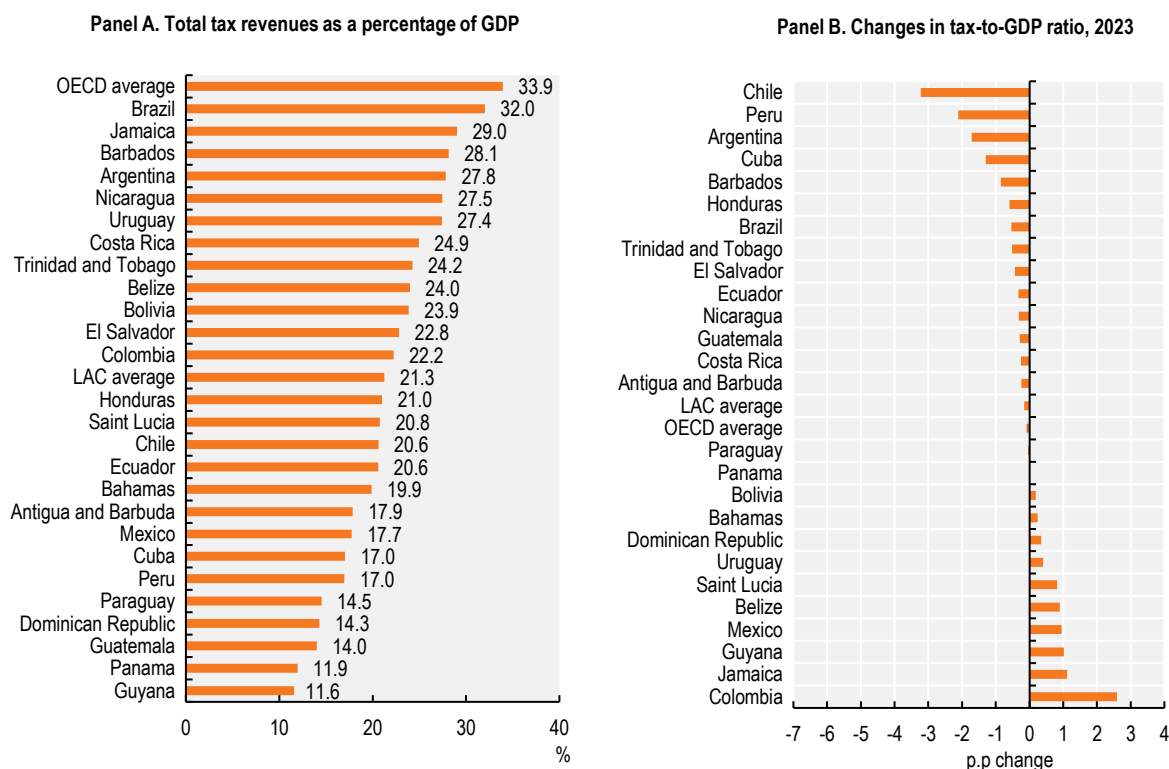
Source: Authors' elaboration based on (ECLAC, 2025^[9]) and (ECLAC, 2025^[10]).

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Low tax-revenue growth continues to constrain fiscal space across LAC. In 2023, the average tax-to-GDP ratio in the region stood at 21.3%, well below the OECD average of 33.9%. The highest ratios were

recorded in Brazil (32%), Jamaica (29%) and Barbados (28.1%), while the lowest were observed in Guyana (11.6%), Panama (11.9%) and Guatemala (14%) (Figure 1.4, Panel A). Compared to 2022, the regional average declined by 0.2 percentage points in 2023, reflecting subdued revenue performance. This trend was not uniform: 14 countries experienced a decline in their tax-to-GDP ratios, 10 recorded increases and 2 saw no change (Figure 1.4, Panel B). Persistently low revenue mobilisation continues to limit the region's ability to finance development priorities and respond to emerging fiscal pressures.

Figure 1.4. Tax-to-gross domestic product ratio and changes in tax-to-gross domestic product ratio in LAC, 2023



Note: In Panel B, p.p. refers to percentage point.

Source: Authors' elaboration based on (OECD et al., 2025^[11]).

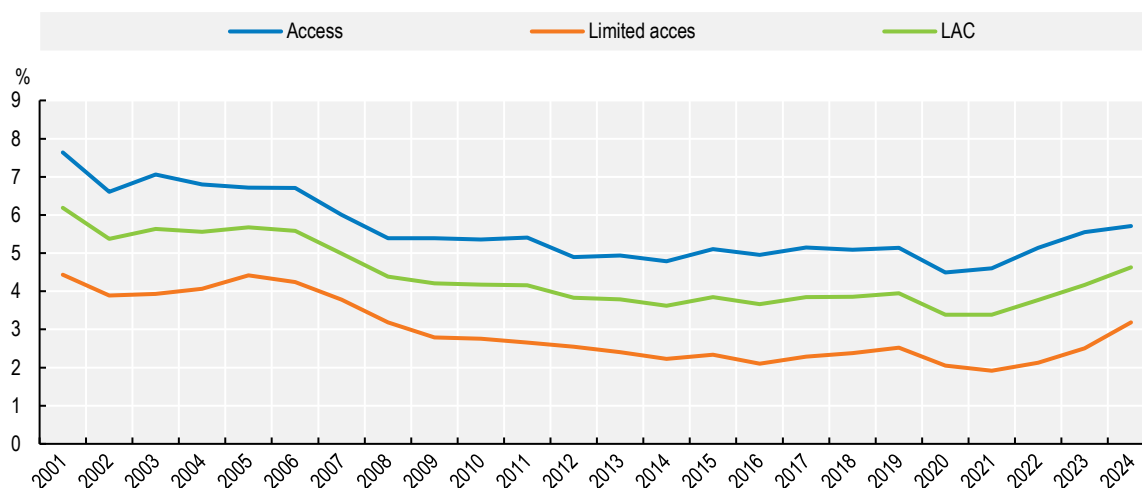
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Public debt levels in LAC remain elevated, with signs of stabilisation in recent years. After peaking during the COVID-19 crisis, general government gross debt has gradually moderated across the region. In 2024, the average debt-to-GDP ratio in LAC declined but remained high, above pre-pandemic levels, reflecting a combination of improved fiscal balances and still-elevated financing needs. Countries with access to financial markets recorded lower and more stable debt ratios, while those with limited access continued to face higher debt burdens. With rising debt-servicing costs and constrained fiscal space, maintaining debt sustainability will require ongoing fiscal discipline and structural reforms to boost growth and strengthen public finances (ECLAC, 2025^[9]). However, fiscal stability is also linked to efforts to foster public spending and investment that improve resilience to external shocks (Expert Review on Debt, 2025^[12]).

Rising debt-servicing costs have become a growing fiscal challenge across LAC (ECLAC, 2025^[9]). Implicit interest rates – measuring the average cost of debt – have increased steadily in recent years, particularly since 2021. This trend reflects tightening global financial conditions and higher risk premiums in the region.

Countries with access to financial markets have seen a more moderate rise but still face upward pressure. Climate vulnerability is another factor to explain the high cost of capital, particularly for the Caribbean (Buhr et al., 2018^[13]). The recent uptick in implicit rates across all groups highlights the deteriorating affordability of debt and underscores the urgency of strengthening fiscal frameworks, improving investor confidence and enhancing debt management capacities (Figure 1.5).

Figure 1.5. Implicit interest rates for LAC gross public debt, 2001-2024



Note: The implicit interest rate is calculated by the ratio of debt service over gross debt. Simple averages are used. “Access” refers to the group of LAC economies that finance more than 50% of their external public debt in the market via bonds or bank loans. This group includes Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Jamaica, LAC, LAC simple average, Mexico and Peru. “Limited access” refers to the LAC economies that finance more than 50% of their external public debt with bilateral or multilateral creditors. This group comprises Belize, Bolivia, Dominica, Ecuador, Haiti, Honduras, LMI, Nicaragua, Paraguay, Saint Lucia, and Saint Vincent and the Grenadines. Here, “LAC” represents the simple average of the economies in both groups.

Source: Authors' elaboration based on (IMF, 2025^[8]).

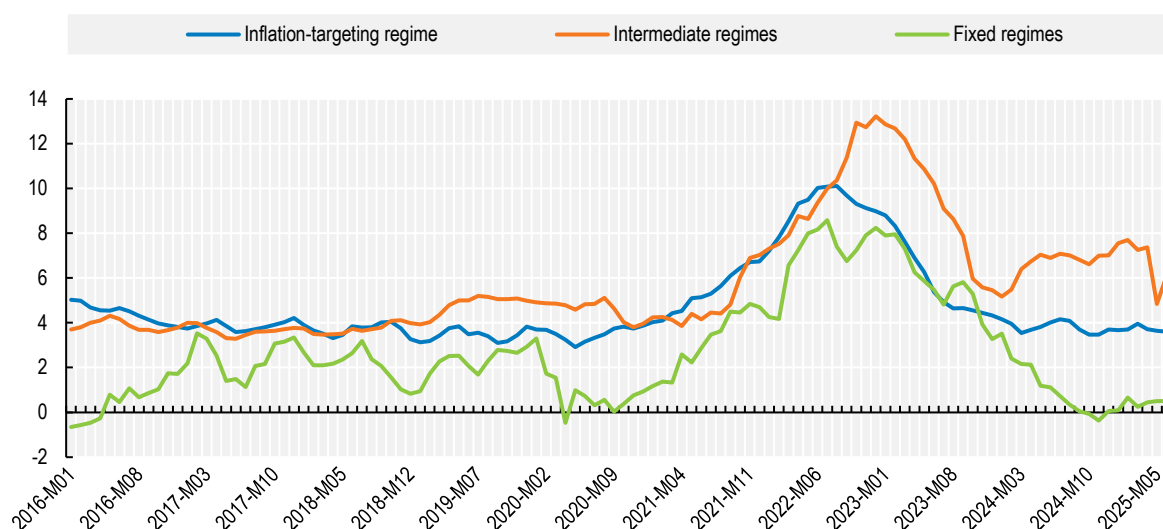
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A deeper global slowdown with renewed inflationary pressures could widen fiscal deficits, increasing debt ratios further and reducing fiscal space in the regions that are already constrained, thus creating important vulnerabilities to deal with potential new negative shocks. High levels of debt are conducive to lower growth rates through the well-documented phenomenon known as debt overhang (Powell and Valencia, 2023^[14]).

Inflation is lower in LAC as policy rates trend downward, but uncertainty lies ahead

Inflation dynamics in LAC have improved markedly, reflecting strong monetary frameworks and declining global cost pressures. At the end of 2024, inflation in many countries across the region had broadly returned to pre-pandemic levels, although it remained slightly elevated in some cases. Intermediate regimes recorded higher and more volatile outcomes, while fixed regimes experienced the sharpest swings in 2022-2023 before easing in 2024-2025. In mid-2025, inflation continued its downward trajectory, with inflation-targeting regimes converging towards 3-4% and displaying more stability (Figure 1.6). This outcome reflects the credibility built by central banks over the past two decades, coupled with proactive and data-driven policy responses during recent global shocks. While spikes in commodity prices in energy, food and metals fuelled inflation during 2021-2022, their subsequent stabilisation and the gradual anchoring of expectations across regimes have supported a reduction of inflation rates. Nonetheless, regime heterogeneity persists, with inflation-targeting frameworks maintaining closer alignment with central bank objectives, compared to more volatile paths under intermediate and fixed regimes.

Figure 1.6 Monthly inflation in LAC economies under different inflation regimes, 2016-2024



Note: Data from January 2016 (M01) up to June 2025 (M06). Simple averages are used. The figure only includes LAC economies with a central bank. The simple average for LAC countries with an inflation-targeting regime includes Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Jamaica, Mexico, Paraguay, Peru and Uruguay. For intermediate regimes, the simple average includes Bolivia, Ecuador, Guyana, Haiti, Honduras, Nicaragua, and Trinidad and Tobago. The simple average for fixed regimes includes the Bahamas, Barbados and Belize. Data for June 2025 (M06) are not available for Bahamas, Chile, Guyana, Haiti, Jamaica, Mexico, Peru, Trinidad and Tobago, and Uruguay.

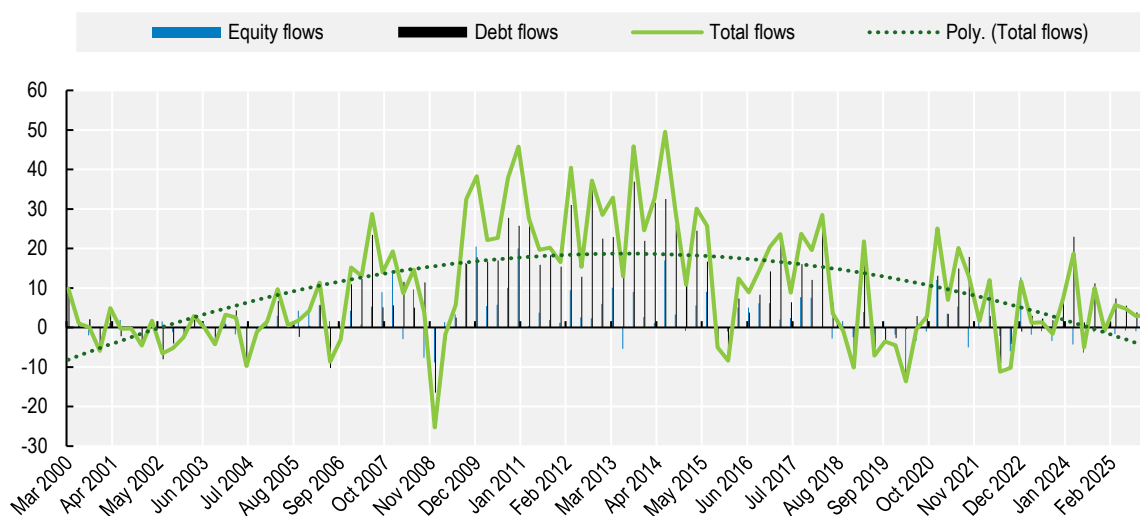
Source: Authors' elaboration based on (IMF, 2025^[15]), accessed on 24 September 2025.

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External flows to the region remain volatile

Portfolio flows to the region have remained subdued and on a declining trend in recent years (Figure 1.7). In 2025, quarterly flows remain weak, typically oscillating between USD 3 and 5 billion, underscoring the sustained retreat of portfolio capital. Between 2021 and 2024, flows were highly volatile, marked by a brief rebound during late 2020 and early 2021, followed by renewed weakness with annual averages of just USD 11.2 billion in 2022-2024. This modest performance contrasts sharply with the average of USD 114.5 billion per year observed in 2010-2014, a reduction of more than 90%. Flows slowed after the commodity supercycle, with a short-lived recovery in 2016-2017 before falling again in 2018. A brief exception occurred during the pandemic, when debt flows of nearly USD 50 billion, mostly from official sources, temporarily reversed the trend. Since then, both equity and debt flows have remained subdued, with intermittent short-lived recoveries.

Figure 1.7. Portfolio flows (equity and debt) in LAC, 2000-2024



Note: The dotted line shows a polynomial trend line fitted to quarterly portfolio flows. It is included to illustrate the medium-term trajectory of total flows, smoothing short-term fluctuations.

Source: Authors' elaboration based on (IIF, 2025^[16]), accessed on 24 September 2025.

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Foreign direct investment (FDI) to the region has stagnated in the last decade and slightly trending down more recently. In 2024, FDI inflows to LAC amounted to USD 189 billion, equivalent to 2.8% of GDP and 13.7% of gross fixed capital formation (ECLAC, 2025^[17]) (see Chapter 4). While this represented a 7.1% increase compared to 2023, both ratios remain below the averages observed in the 2010s (3.3% of GDP and 16.8% of gross fixed capital formation). However, the region remains among the largest recipients of investment globally. The increase in inflows was largely explained by reinvested earnings of existing transnational firms, while the contribution of new capital inflows stagnated, pointing to limited interest from new investors.

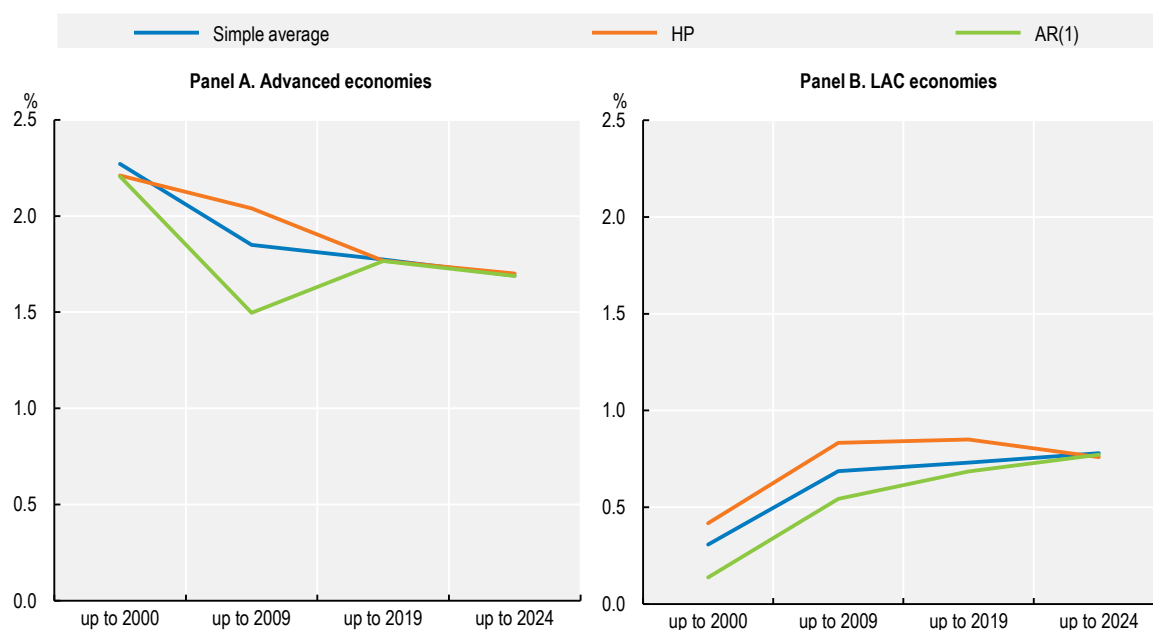
Structural economic challenges in LAC require a holistic response

Sluggish productivity hinders potential growth in LAC

Potential GDP-per-capita growth in LAC is insufficient to ensure convergence with advanced economies, with weak productivity growth at the heart of the problem. The region's potential GDP per capita growth is estimated to be about 0.8% per year, independent of the estimation method and based on data from 1980 to 2024. In comparison, the potential GDP per capita growth of high-income economies is estimated at around 1.7% annually (Figure 1.8). These productivity deficiencies are a key component of the “development traps” that hinder a more productive, inclusive and sustainable future in LAC. The persistence of low growth and low labour productivity underscores the need for virtuous structural transformation to break free of this situation (ECLAC, 2024^[18]).

Figure 1.8. Potential gross domestic product per capita growth in advanced economics and in LAC, 2000-2023

As estimated by different methods since 1980



Note: Average growth is a simple average over the period analysed. HP = the Hodrick Prescott filter, which was used as an alternative model due to its resilience to short-term shocks to create a smoothed curve (lambda equal to 100). AR(1) refers to an autoregressive model of order 1. The AR model uses GDP per capita growth data. The LAC series refers to 33 economies, while the term “advanced economies” includes 41 economies as listed in the International Monetary Fund’s World Economic Outlook database.

Source: Authors’ calculations based on (OECD et al., 2024^[19]) and (IMF, 2025^[8]).

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There is a significant gap in labour productivity between LAC and the OECD, driven primarily by lower total factor productivity (TFP), which accounts for over 80% of the difference. The remainder largely reflects shortfalls in human capital. It is important to note that there is significant labour productivity heterogeneity in the region. For example, labour productivity in Chile, Costa Rica, Panama, Trinidad and Tobago, and Uruguay is 45-85% higher than the regional average. In contrast, labour productivity in Bolivia, Honduras and Nicaragua is 56-60% lower (ECLAC, 2025^[20]).

LAC’s productivity growth has also underperformed in comparison to developed countries. During the period 1991-2024, labour productivity in the region grew at 0.9% per year on average, well below the 1.2% annual rate observed in OECD countries. This again is due to poor TFP growth performance in LAC. According to Penn World Table data, TFP virtually did not grow in the region after 1990 (0.02% per year on average), whereas it grew at 0.8% annually in OECD countries. A factor for concern is that increasing temperatures due to climate change are already negatively impacting labour productivity, and this can worsen if adequate adaptation measures are not implemented (ECLAC, 2023^[21]).

Limited structural transformation has constrained productivity growth in LAC

Sectoral dynamics, not structural change – the shifting of resources towards higher value-added and higher productivity sectors – explain the region’s productivity shortfall. A standard decomposition shows that, during the high-growth years 1950-1979, 61% of LAC annual labour-productivity gain came from within-sector improvements (1.72 percentage points of 2.83%), with the reallocation of labour across sectors explaining the remaining 39%. After 1980, both channels weakened sharply: average productivity growth fell to 0.43% a

year, of which within-sector gains accounted for only 0.20% (46%) and between-sector shifts accounted for 0.23 percentage points. The reversal reflects a fall in service-sector productivity (-0.27% a year in 1980-2018 vs. 1.2% in 1950-1979), combined with a marked slowdown in industry (0.48% a year, down from 2.3%).¹

There is a need to boost productivity both within individual sectors and across most sectors, as well as to sustain and accelerate the structural transformation of economies. Compared to more developed countries, the region still has a large share of employment in low-productivity sectors, while knowledge-intensive services remain an underutilised source of potential. At the same time, the decline in productivity within key economic sectors over the past decade has led many countries to experience a drop in overall labour productivity (ECLAC, 2025^[20]). This structural profile also shapes the region's export mix and position in global value chains – a challenge explored in the next section.

Services lead structural transformation in LAC, but low value added, informality and unsustainable production methods persist

Services dominate the economic structure of many LAC countries, while industry and extraction have stagnated or declined. However, issues affecting services persist: these include low value added, informality and unsustainable production methods. Services now generate roughly two-thirds of regional GDP and employment, spanning wholesale and retail trade, transport, finance, real estate, tourism, education, health and public administration. A high level of informality – jobs without social protection or stable contracts – remains a defining feature of the region's services sector. By contrast, industry contributes approximately 31% of GDP and 21% of employment. This includes manufacturing – which accounted for 13.6% of GDP and 12.1% of jobs in 2023 – along with construction, utilities and, in some classifications, mining (UNIDO, 2025^[22]). After peaking in earlier decades, the industrial share of GDP has stagnated or slipped in LAC. Mining and hydrocarbons still underpin exports in resource-rich countries such as Chile, Peru, and Trinidad and Tobago, yet the extractive sector overall represents only around 4.0% of regional GDP and an even smaller fraction of jobs.

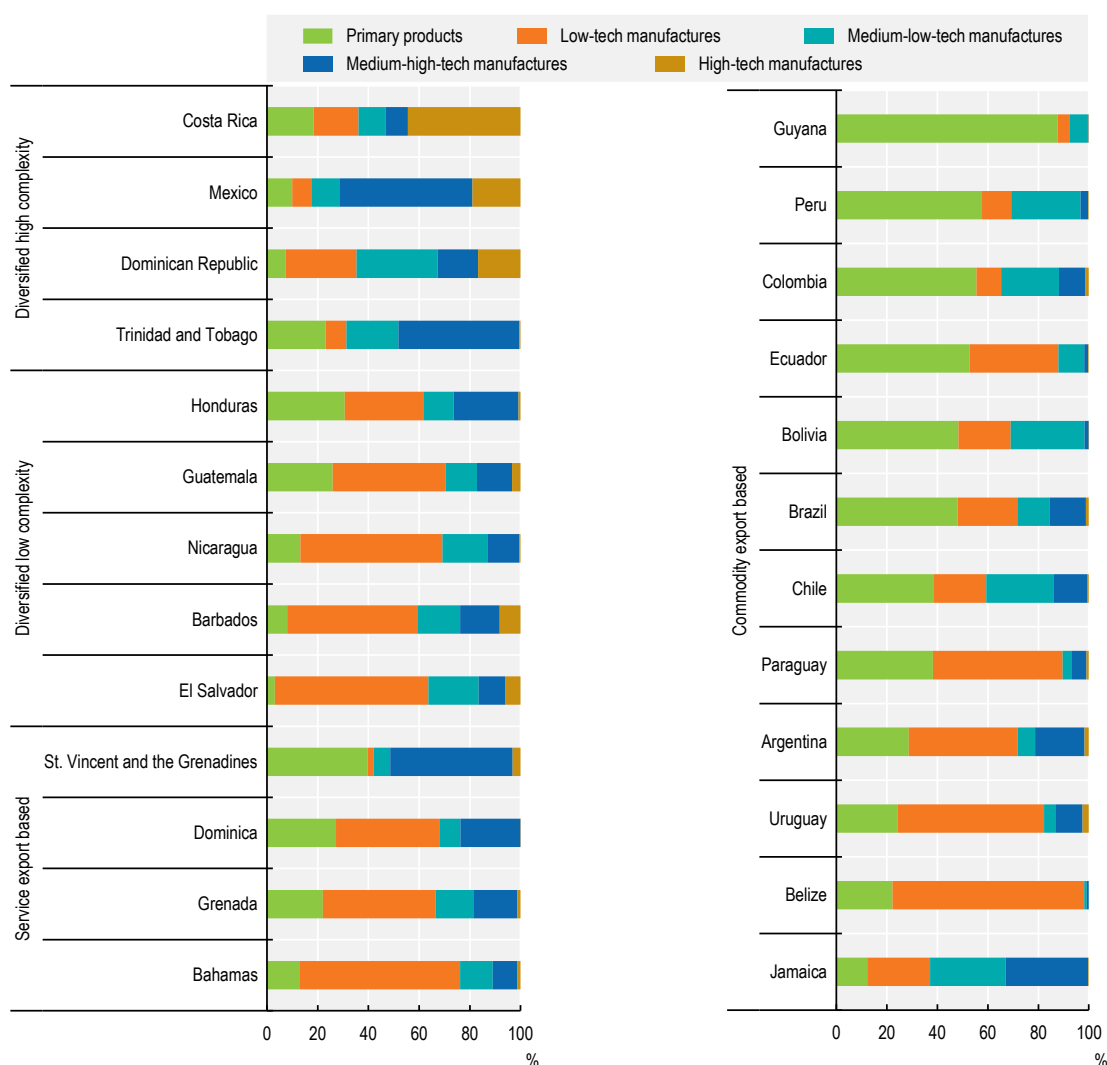
The agriculture share of GDP has shrunk in LAC, but it remains pivotal to growth, livelihoods and exports – much more so than in OECD economies. Farming accounts for about 6.5% of the region's GDP and 13% of employment, compared to 1.4% and 4%, respectively, in the OECD (World Bank, 2024^[23]). The sector is vital for food security and foreign-exchange earnings, through commodities such as soy, coffee and tropical fruit, and continues to anchor rural employment, particularly in Central America and parts of South America.

Limited diversification of LAC export baskets constrains productivity and growth

LAC's heavy dependence on raw-commodity exports, combined with limited participation in higher value-added stages of global supply chains (GVCs), dampens learning-by-doing, technology spillovers and investment in productive capabilities. Lacking opportunities to upgrade into more sustainable and sophisticated goods and services, firms stay stuck in low-productivity niches. This is one of the key reasons why sectoral productivity and income growth remain subdued.

The region's export basket is concentrated in primary goods and low-tech manufacturing. Nearly half of LAC economies are commodity-based, with primary carbon-intensive products such as agricultural goods, minerals and energy commodities accounting for 22-88% of merchandise exports (Figure 1.9) (see environmental section below). Low-tech manufactured products represent up to 75% of exports, including processed foods, textiles and wood- or paper-based products, typically linked to natural resources. Medium-tech manufactured products, such as basic metal products, make up to 40%. Service-exporting economies in the Caribbean remain primarily reliant on tourism, which plays a central role in generating employment, foreign exchange and opportunities for local development. Caribbean merchandise exports continue to reflect limited diversification, often dominated by primary and low-tech goods that generate low value added and offer limited scope for productivity gains.

Figure 1.9. LAC merchandise export composition by economic profile and tech intensity, 2023



Note: Tech-intensity manufacturing groups are based on the OECD Technology Classification in ISIC Rev.3. Commodity export-dependent economies have more than 60% of their merchandise exports as commodities (Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Guyana, Jamaica, Paraguay, Peru, Suriname, Uruguay, Venezuela). Service-export-dependent economies have more than 45% in service trade (Antigua and Barbuda, the Bahamas, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines). Economies in the top 60 on the Economic Complexity Index (Costa Rica, the Dominican Republic, Mexico, Trinidad and Tobago) are categorised as diversified with high economic complexity; the remaining economies (Barbados, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama) are categorised as diversified with low complexity.

Source: Authors' calculation based on (WITS, 2025^[24]).

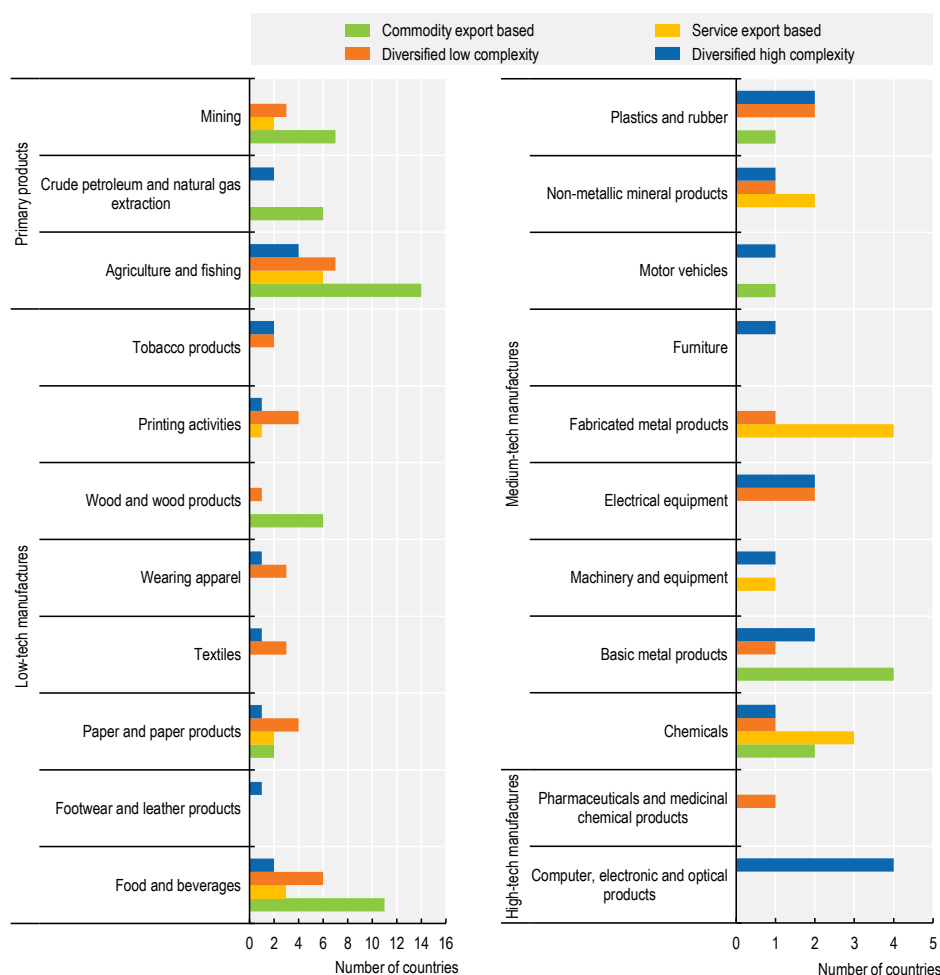
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A few countries in the region, mainly Costa Rica, the Dominican Republic and Mexico, exhibit a more diversified and complex export profile, driven by medium- and high-tech manufacturing. In these economies, medium-tech manufactured products, including machinery, motor vehicles, plastics and chemicals, account for 20-68% of total exports, while high-tech products such as electronics and pharmaceuticals account for 17-44% (Figure 1.9). The remaining diversified economies in the region still exhibit low economic complexity, with export baskets heavily concentrated in low-tech goods (up to 61%), followed by primary (up to 31%) and medium-tech (up to 38%) products. This contrast underscores the structural heterogeneity among LAC countries and the existence of barriers to develop towards more dynamic, knowledge-intensive and productivity-enhancing sectors.

While LAC's traditional exports reveal comparative advantages, tech-intensive sectors offer a path to production transformation

LAC countries show competitive strength in sectors that correspond with their established export patterns. A Revealed Comparative Advantage (RCA) analysis calculates whether a country exports a product more intensively than the global average. It helps reveal sectors where countries hold a comparative advantage, guiding efforts to diversify and upgrade their economies. Commodity-exporting economies show an RCA in primary products and low-tech manufactured products, such as food and beverages. Diversified and low-complexity economies demonstrate RCAs in medium-tech manufacturing, while diversified and high-complexity economies excel in both medium- and high-tech sectors (Figure 1.10).

Figure 1.10. Number of LAC countries with Revealed Comparative Advantage by sector and tech-intensity group, 2023



Note: The horizontal axis displays the number of LAC countries that have a Revealed Comparative Advantage (RCA) value greater than 1 in each sector. RCA is calculated at the ISIC Rev.3 two-digit level following Balassa (1965) methodology. Tech-intensity groups are based on the OECD Technology Classification in ISIC Rev.3. Commodity export-dependent economies have more than 60% of their merchandise exports as commodities (Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Guyana, Jamaica, Paraguay, Peru, Suriname, Uruguay, Venezuela). Service export-dependent economies exceed 45% in service trade (Antigua and Barbuda, the Bahamas, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines). Economies in the top 60 on the Economic Complexity Index (Costa Rica, the Dominican Republic, Mexico, Trinidad and Tobago) are categorised as diversified with high economic complexity; the remaining ones (Barbados, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama) are categorised as diversified with low complexity.

Source: Authors' calculation based on (WITS, 2025^[24]).

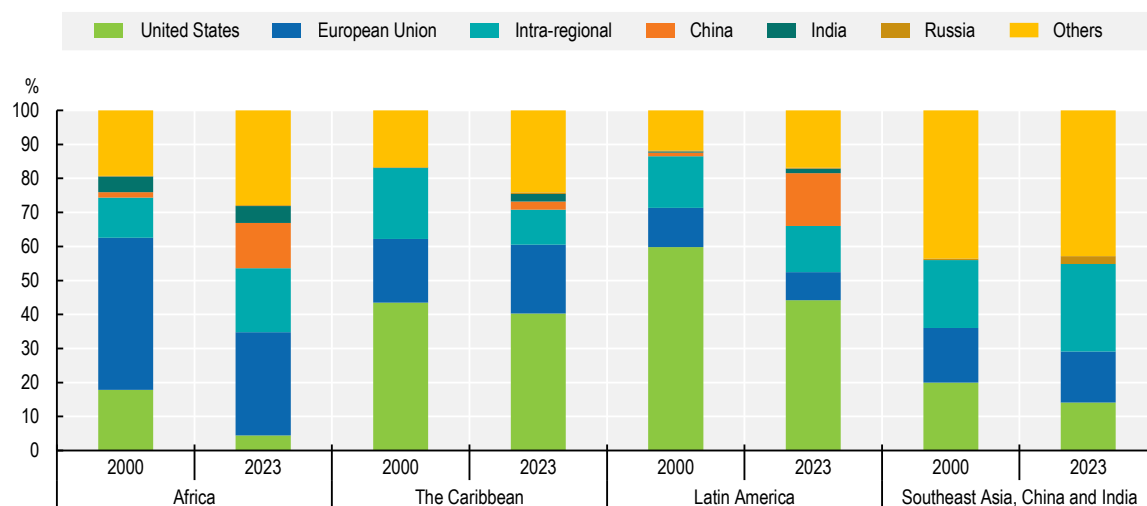
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Revealed comparative advantages are also evident in a few more technologically intensive industries (Figure 1.10). Commodity-based economies exhibit RCAs in medium-tech sectors like plastics, chemicals and metal products. Service-oriented economies in the Caribbean, though focused on tourism, also show strengths in sectors such as metal products and chemicals. The four countries classified as diversified high-complexity economies, Costa Rica, Mexico, the Dominican Republic and Trinidad and Tobago, have RCAs in high-tech products such as computers, electronics and optical products, revealing potential for further development in these areas. By tapping into these more technologically sophisticated sectors, LAC countries can diversify their export base, driving long-term growth, productivity improvements and greater economic resilience. Among various factors, foreign direct investment has the potential to improve the diversification and sophistication of LAC's export baskets and to boost sectors holding RCAs (Chapter 3).

Limited intraregional trade may constrain export diversification

Intra-regional trade in LAC remains limited and lower than in other developing regions. The share of Latin America's intraregional exports in total exports has been relatively stable over the past two decades, but it remains limited, accounting for 15% of total exports in 2000 and 14% in 2023. In the Caribbean, intraregional exports declined from 21% in 2000 to 10% by 2023. During the same period, intraregional trade in Africa increased from 12% to 19%, while in Southeast Asia, China and India it rose from 20% to 26% (Figure 1.11). Figures for import partners show similar patterns, suggesting that these trends broadly reflect the region's overall trade structure. Intraregional trade enables countries to access larger regional markets, which may encourage firms to diversify their production. It also fosters learning, innovation and upgrading, allowing firms to adopt new technologies and move up the value chain. Moreover, regional markets offer lower barriers for new exporters, facilitating product testing and capability building.

Figure 1.11. Export partners by region, 2000 vs. 2023



Note: Africa includes the 54 African countries. The Caribbean includes 15 countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Latin America includes 16 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela. Southeast Asia includes 12 countries: Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

Source: Authors' calculation based on (WITS, 2025^[24]).

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The low levels of intraregional trade in LAC are closely linked to the region's limited participation in robust regional value chains. In contrast to regions where GVCs are strongly underpinned by regional production

linkages, such as East and Southeast Asia, Europe and North America, LAC remains weakly engaged in such regional dynamics. Although imported value added accounts for approximately 23% of total value added in the region's exports, the share originating within the region is notably low, at just over 10% (Sanguinetti et al., 2021^[25]). This limited integration has hindered the development of a strong base for intraregional trade.

The underdevelopment of regional value chains in LAC is reflected in the limited exchange of intermediate goods and relatively limited intra-industry trade across the region. Mexico, thanks to its close integration within North American value chains, and some Central American countries have developed stronger linkages, often as final processing hubs in extra regional chains. But most South American countries continue to participate in GVCs primarily as exporters of basic inputs to global markets rather than to regional markets. Strengthening regional productive linkages is therefore essential. Reducing trade costs, enhancing transport and logistics infrastructure and improving regulatory coherence – particularly through harmonised rules of origin and targeted incentives for vertical foreign direct investment – can play a central role in fostering deeper regional integration. It will also be essential to advance regional productive development agendas in priority sectors, including fostering interactions between cluster initiatives and other productive articulation initiatives from different countries (see Chapter 2). These efforts are critical for boosting intraregional trade and enabling LAC's firms to leverage regional markets as springboards to enhance their global competitiveness.

The complexity of the region's economic challenges, from limited productivity to fiscal vulnerability and external imbalances, underscores the urgent need for a holistic response. As explored in Chapter 2, productive development policies are a key instrument for overcoming these constraints, fostering sustainable and inclusive production transformation that can enable the region to move towards a more resilient and dynamic development model.

Social context

High levels of informality remain widespread in LAC labour markets

Improving social conditions in LAC will require production transformation, with its challenges linked to boosting productivity and strengthening long-term economic growth. Although social conditions differ hugely across the region's countries, common characteristics include high levels of informality, persistent vulnerabilities and insufficient social protection for many people. This section will explore labour informality as one of the main drivers of such conditions and present effective policy practices to boost formal job creation and better protect informal workers, improving people's livelihoods in the region.

LAC's widespread labour informality has deep socio-economic impacts, affecting people's living conditions and public finances. It erodes the tax base while increasing the welfare needs of informal workers and their families (OECD et al., 2024^[19]; IDB, 2025^[26]; ECLAC, 2024^[27]; OECD/OISS, 2024^[28]).

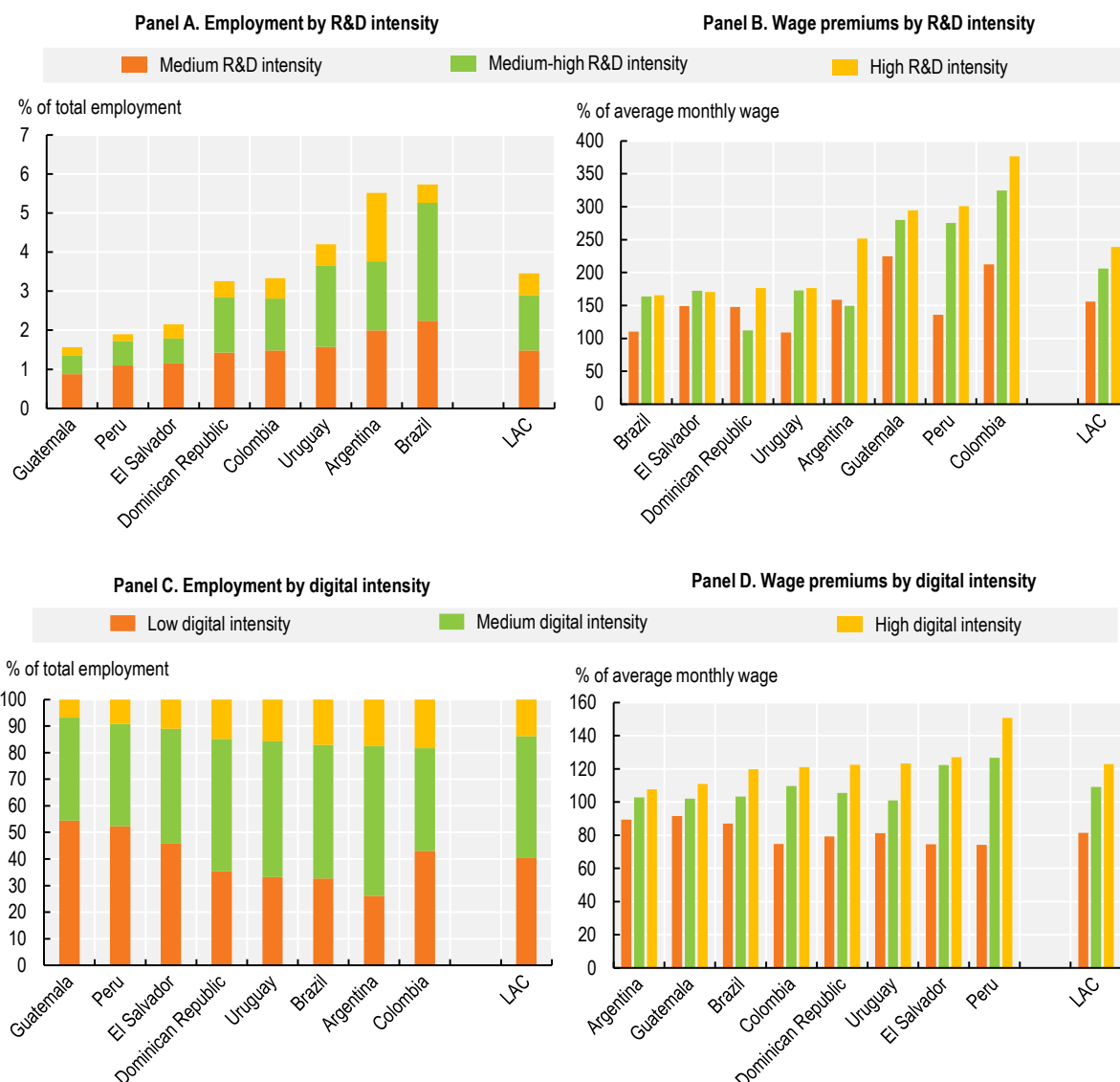
In 2023, one out of two workers was informal in Latin America (55.1%), for countries for which data are available over time (ILO, 2025^[29]). Although the share has declined since 2009 (62.5%), much of the improvement took place in the 2010s. Since 2018, the share has been stable, with little change even after the COVID-19 crisis (OECD, 2023^[30]). The share of informal workers in the workforce varies highly across the region, from 27% in Chile to 83% in Guatemala (ILO, 2025^[29]; Ulyssea, 2020^[31]). Women, youth and older workers are particularly impacted by labour informality. Between 2013 and 2022, the only group in which informality intensified was youth aged 15-24, while higher employment rates for women came together with higher incidences of informal work (ECLAC, 2024^[27]).

Informality is correlated with lower educational achievement in the region. In 2023, the average person aged over 25 in LAC had studied for 9.3 years, 2.2 years more than in 2000. In comparison, the average person aged over 25 in OECD countries had studied for 12.3 years in 2023, an increase of 1.9 years since

2000 (UNDP, 2025^[32]). The educational achievements of formal and informal workers also differ substantially. In 2023, workers with no schooling in LAC accounted for 5.4% of formal workers and 20.3% of informal workers on average, while tertiary graduates accounted for 39.9% of formal workers vs. 19.9% of informal workers (OECD, 2024^[33]).

Figure 1.12. Employment share and wages by technological and digital intensity in LAC

Selected LAC countries, 2023 or latest available year



Note: Data for Argentina, Brazil, Colombia, El Salvador and Peru refer to 2023; for Chile and Guatemala to 2022; for the Dominican Republic and Uruguay to 2018. Technological intensity is defined using the OECD Taxonomy of Economic Activities Based on R&D (Research and Development) Intensity. Industries are classified according to five quintiles of the value or R&D investment relative to the value added. Panel A shows data on the distribution of employment in industries with an intensity ranging from medium to high. Digital intensity is defined using the OECD Taxonomy of Digital-Intensive Sectors. Industries are classified in four quartiles of the digital inputs used in their production. Panel C shows data on the distribution of employment in industries with high, medium (which corresponds to medium-high and medium low in the taxonomy) and low digital intensity.

Source: (OECD, 2024^[33]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database, based on (Galindo-Rueda and Verger, 2016^[34]) and (Calvino et al., 2018^[35]).

The lack of formal employment opportunities in LAC reflects the sectoral distribution of firms in the formal sector and their lack of dynamism. Formal firms are more likely to operate in sectors with relatively low levels of productivity, such as the private services sector, where the distribution of firms by size is skewed towards smaller firms and job quality is persistently low (OECD et al., 2023^[36]). As a result, jobs with high technological and digital content are scarce (Figure 1.12, Panels A and C). In the latest available year for which data are available, jobs with high and medium-high technological intensity represented 2.0% of total employment in LAC, compared to 7.7% in OECD countries, while jobs with high digital intensity represented 13.8% of total jobs in LAC, compared to 21% in the OECD (OECD, 2022^[37]). Investing in those sectors is key to creating well-paid jobs, as wage premiums are substantial. Workers in high-intensity technological and digital jobs receive far more than the average wage (Figure 1.12, Panels B and D).

More generally, 79% of jobs in LAC offered daily wages above USD 6.85 in 2023, compared to 76% in 2013, among countries for which data are available. Jobs provided health insurance or retirement benefits to only 44% of workers in 2023, up from 40% in 2013. In 2023, 63% of workers had a written contract with a relatively long tenure (three years or more), compared to 62% in 2013 (World Bank, 2025^[38]).

In this challenging context, the production transformation is a unique opportunity to foster decent labour-augmenting technological shifts, which increase productivity and the creation of good-quality jobs, in contrast to the recent past, when the region experienced a labour-saving industrialisation process (OECD et al., 2023^[36]; Apella and Zunino, 2022^[39]). Moreover, the use of information and communication technologies (ICTs) in formalisation policies can become an important tool for reducing informality in LAC. Recent studies have highlighted how ICTs have helped in formalising small firms, through better traceability of informal activities, productivity enhancement due to digital applications, or better access to financial instruments for small firms (OECD et al., 2024^[19]).

The extent of labour informality seems negatively correlated with the level of unemployment across LAC labour markets, although imperfectly (IDB, 2025^[26]). Workers in LAC labour markets face trade-offs between formal employment, informal employment and unemployment, each of which is associated with distinct costs and benefits. Formal jobs tend to offer higher wages and greater stability, while informal work may allow workers and employers to avoid labour tax obligations while providing workers with access to certain social benefits, such as non-contributory cash transfers. Unemployed individuals may receive government support – such as conditional cash transfers or unemployment insurance (even if unemployment benefits barely exist in LAC) – if certain requirements are met, and must weigh sector-specific job-finding probabilities (ECLAC, 2023^[40]; OECD et al., 2024^[19]). All of these factors contribute to an interconnected decision framework where individuals evaluate labour market options simultaneously, given the quality of jobs demanded by firms and the benefits provided by social policies (David, Pienknagura and Roldos, 2020^[41]; Rubião and Santos, 2022^[42]).

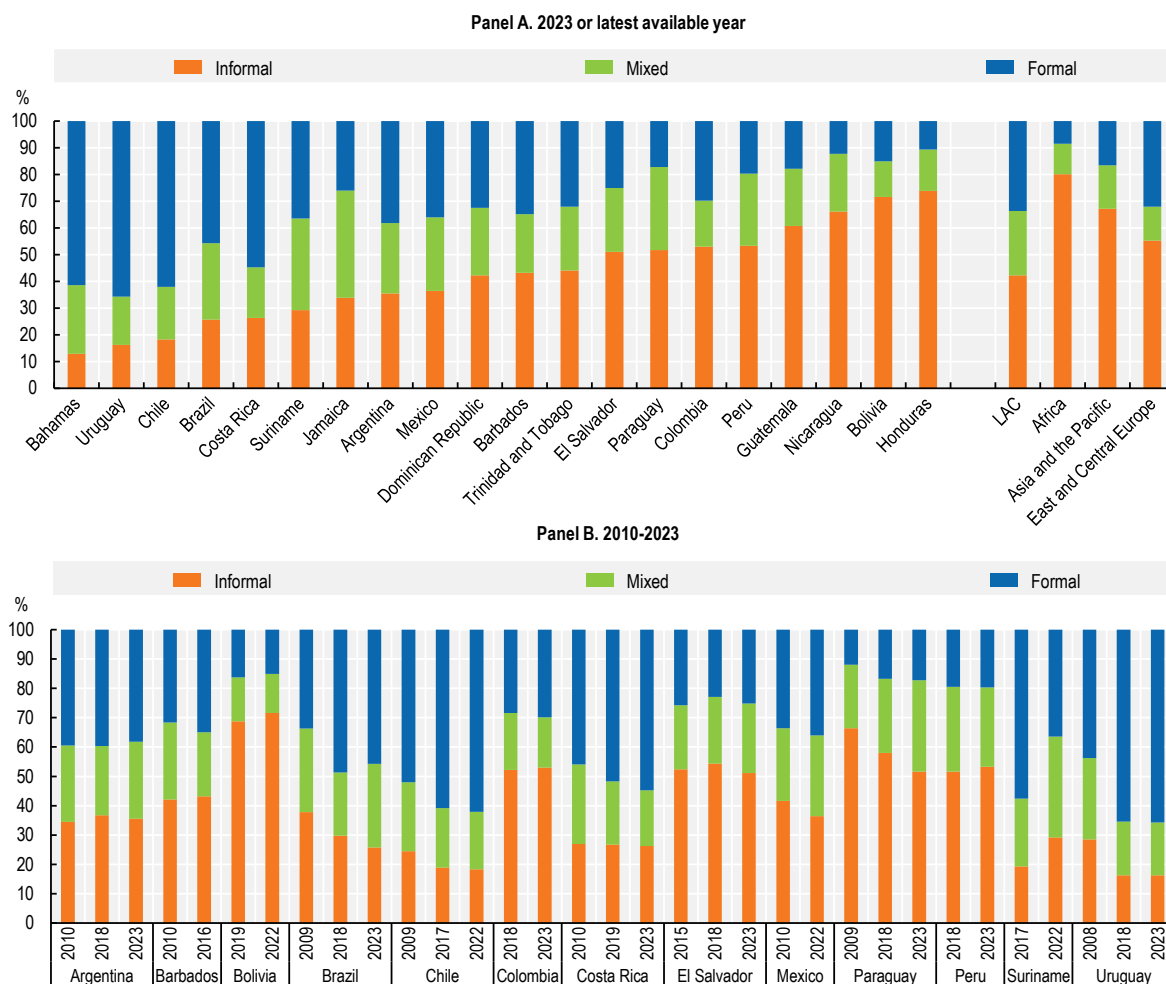
A recent analysis of labour-market transition rates in LAC reveals patterns between unemployment and informality (Aristizabal-Ramirez, Santos and Torres, 2024^[43]). The study showed that people tend to remain unemployed longer in countries with high unemployment rates and low informality, while they persist in informal work status in economies characterised by low unemployment and high informality. It also showed that transitions from formal jobs to unemployment are more frequent in countries where unemployment is more prevalent and that transitions from formal to informal jobs are more frequent in countries where informality is more prevalent. This suggests that the transition path is shaped by labour market structures. Informal employment rarely acts as a stepping stone to formal jobs, with such transitions out of informality being disproportionately rare (Aristizabal-Ramirez, Santos and Torres, 2024^[43]; IDB, 2025^[26]).

The informal or formal status of workers affects not only their living standards but also the welfare of members within their households. For instance, the formal employment status of at least one household member may increase the household's access to social insurance programmes, work-related programmes, or other private and public services, such as care, which often cover the contributor's spouse and/or children, as in the case of health insurance. For this reason, households with only informal workers face

different vulnerabilities than mixed households. Adding the household dimension to the analysis of informality may help policy makers to identify the recipients of social assistance programmes and to design well-targeted policies to address the vulnerabilities of informal workers and their households (OECD et al., 2024^[19]; OECD/OISS, 2024^[28]).

Within the Global South in 2023, LAC was the region where the share of the population living in completely informal households was the lowest (42.3%). The share in Africa was 80.1%, while in Asia and the Pacific it stood at 67.2%. In East and Central Europe, the share was 55.3% (Figure 1.13, Panel A). Nonetheless, two out of three Latin Americans lived in a household depending entirely or partially on the income of informal workers, with little social protection coverage.

Figure 1.13. Population distribution by level of household informality in selected LAC countries



Note: Households are categorised based on the level of informality of their earners. Informal households are those in which all earners are informal workers, mixed households are those in which at least one earner is an informal worker and formal households are those in which all earners are formal workers.

Source: (OECD, 2024^[33]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database.

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The share of the region's population living in households in which all earners are informal workers has been remarkably stable in the last two decades, in countries for which data are available consistently since

the beginning of the 2010s. Some 36.4% of people lived in this type of household in the latest available year (Figure 1.13, Panel B), down from 39.1% at the beginning of the 2010s. The share of the population living in households in which at least one earner is informal was 23.5% in the latest available year, down from 25.2% at the beginning of the 2010s. Taken together, these figures signal a marginal improvement in the overall dependency of LAC families on informal income. However, they also indicate that six out of ten people in the region rely on income from informal work.

Nonetheless, the differences across countries and over time are significant. In Chile and Uruguay, fewer than four people out of ten live in households that rely totally or partially on informal workers. Those countries also experienced a significant improvement in the last decades, with a drop of more than 10 percentage points for Chile and more than 20 for Uruguay. The share also dropped in Brazil, by 12 percentage points, and Costa Rica, by 8.8 percentage points. In contrast, the situation did not improve notably in Argentina, Bolivia, El Salvador, Mexico and Paraguay (Figure 1.13, Panel B).

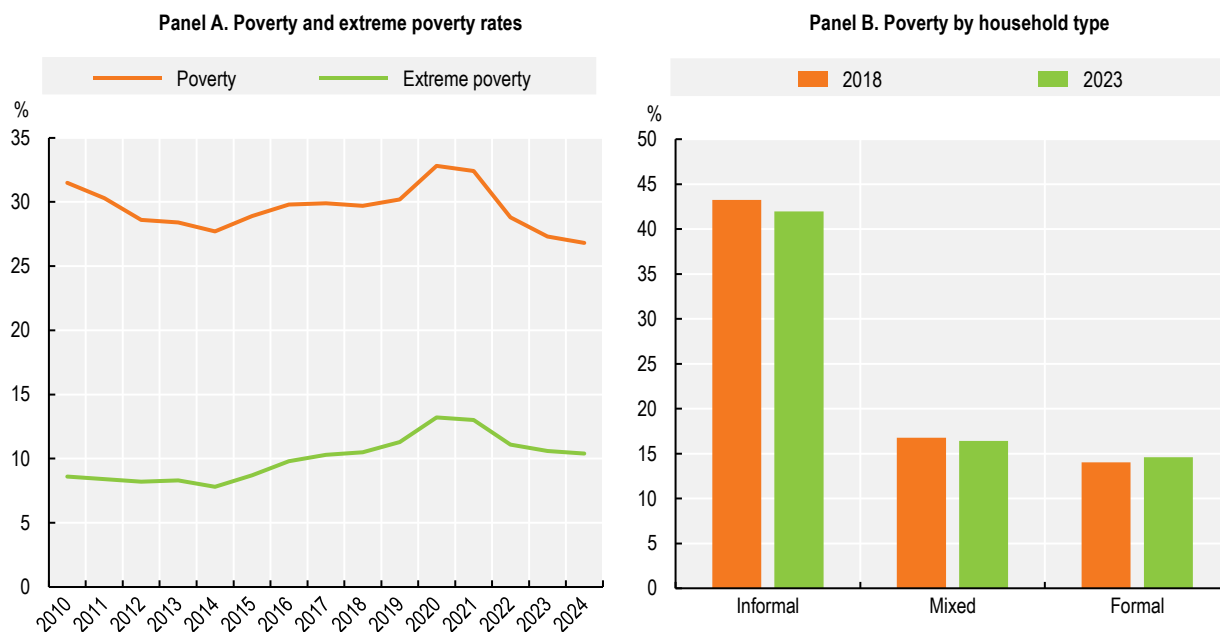
As poverty declines in LAC, informality remains the main driver

Monetary poverty has been declining steadily in LAC in recent years, yet extreme poverty remains high and persistent. In 2024, 26.8% of the region's people were living in households with income below the national poverty line, a decline of 4.7 percentage points since 2010 (Figure 1.14, Panel A). However, people living in extreme monetary poverty – those not having the monetary resources to fulfil basic human needs, including food, safe drinking water, and basic services such as sanitation facilities, health, shelter, education and information – in 2024 represented 10.4% of the overall population, an increase of 1.8 percentage points since 2010 (ECLAC, 2024^[27]).

Informality is the main driver of low pay for individuals and of low income and poverty for LAC households, which negatively impact living conditions. In the latest year for which data are available, 42% of the people living in completely informal households were poor; of those living in mixed households, 16.4% were poor; and of those living in completely formal households, 14.6% were poor (Figure 1.14, Panel B). This signals that the presence of at least one formal worker in the family significantly improves living conditions. The poverty rates across different typologies of households have been broadly stable since 2018, with a drop of 1.3 and 0.4 percentage points for informal and mixed households, respectively, and a slight increase of 0.6 percentage points for formal households.

Figure 1.14. People living under the national poverty line in selected LAC countries

Percentage of the population, latest available year



Note: In Panel B, data refer to an unweighted average of the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Jamaica, Mexico, Paraguay, Peru, Suriname and Uruguay. Households are categorised based on the level of informality of their earners. Informal households are those in which all earners are informal workers, mixed households are those in which at least one earner is an informal worker and formal households are those in which all earners are formal workers.

Source: (ECLAC, 2024^[27]) for Panel A; (OECD, 2024^[33]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database for Panel B.

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The reduction in poverty in LAC is confirmed using non-monetary measures which estimate poverty in other dimensions of well-being, such as education, health, access to basic services and quality of life. People in the region experienced a steep reduction in non-monetary poverty, as measured by multidimensional poverty indexes. According to the most available comparable and homogenous data, the multidimensional poverty rate across the region has declined by more than 22 percentage points since 2008, when 45.7% of people were living in non-monetary poverty conditions, to reach 26.5% in 2022 (ECLAC, 2025^[44]). The substantial decline in multidimensional poverty between 2008 and 2022 can be attributed to reductions in 11 of the 12 deprivation indicators in the overall index, with notable improvements in several of these indicators.²

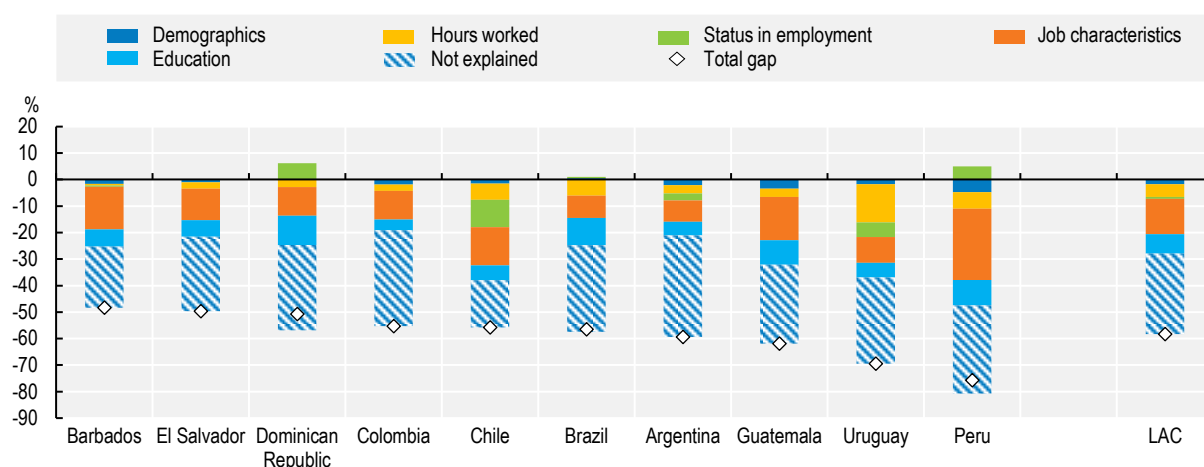
At the regional level, the most pronounced reduction occurred in Internet access deprivation, which decreased at an average annual rate of 3.7 percentage points. This was followed by declines in low adult educational attainment (1.0 percentage point per year), inadequate sanitation (0.8 percentage points) and overcrowding (0.5 percentage points). Within the employment dimension, the most significant improvement was observed in the subdomain of job opportunities, which fell by 0.4 percentage points annually, while precarious employment declined at a rate of 0.2 percentage points per year. Pension inadequacy was the sole indicator within this dimension, and across all indicators, to exhibit an increase in incidence over the period, confirming that the prevalence of informal work persists as a major contributor to material deprivation, combined with gender and other inequalities, by not providing sufficient pension coverage. Production transformation, by boosting inclusive job opportunities in the formal sector, will be an opportunity to further improve the material conditions and social protection coverage of people and families.

Labour income differences between formal and informal workers explain the variations in monetary poverty rates across household typologies. The wage gap between formal and informal work is correlated with the higher proportion of informal workers in the first few income quintiles. According to recent evidence, the average wage of formal workers across LAC countries is three to four times the average wage for informal work, revealing a considerable wage disadvantage related to informality (ECLAC, 2023^[40])

Observable characteristics of jobs and workers explain about half of the wage gap between informal and formal workers in LAC countries (Figure 1.15). Informal workers are less educated than formal workers and less likely to be employed in high-paid industries and occupations. Nonetheless, more than half of the in gap is unexplained, indicating that other factors, such as productivity and labour market efficiency, are at play.

Figure 1.15. Decomposition of informal-formal wage gap in selected LAC countries

Earnings of informal workers as a percentage of average monthly wage of formal workers aged 15 or over, 2023 or latest available year



Note: Data for Argentina, Brazil, Colombia, El Salvador and Peru refer to 2023; for Chile and Guatemala to 2022; for the Dominican Republic and Uruguay to 2018; and for Barbados to 2016. The decomposition is based on the methodology developed by (Oaxaca, 1973^[45]) and (Blinder, 1973^[46]), pooling the two groups of reference (informal and formal workers). The dependent variable is defined as the natural logarithm of the monthly earnings in a primary job. Demographic characteristics are defined using information on age (and the square of age) and gender. Hours worked refer to the actual or usual weekly hours worked in the job. Education refers to four categories of the highest education attained: no schooling, primary, secondary and tertiary education. Job characteristics refer to the one-digit international classifications of industries (ISIC Rev. 2008) and occupations (ISCO-08).

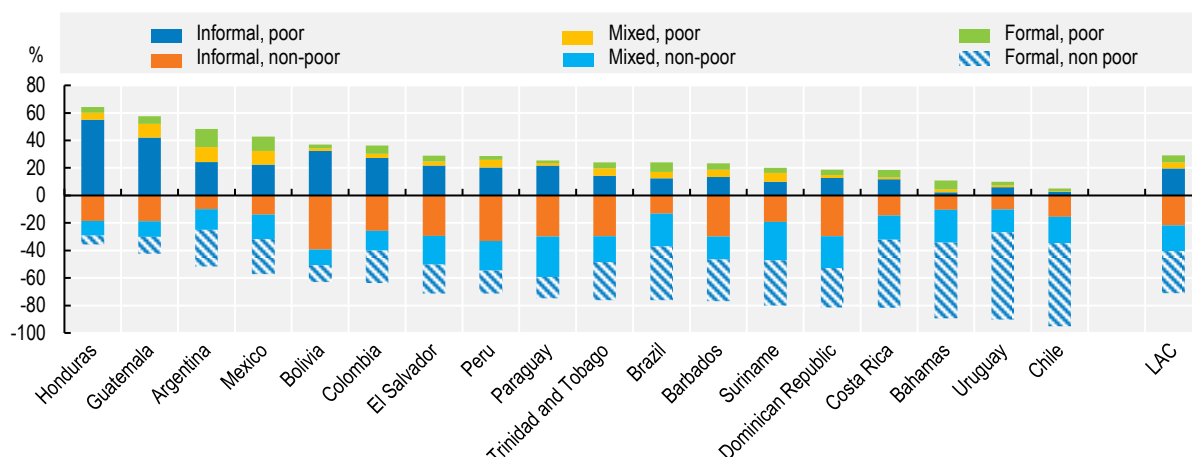
Source: Estimates based on (OECD, 2024^[33]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database.

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Although the poverty status of individuals is associated with the informality status of households, a non-negligible share of people in LAC countries live in non-poor informal households (21.7%), with an additional 18.8% living in non-poor mixed households and 30.4% in non-poor formal households (Figure 1.16). This signals that some households, although informal, may be able to contribute to social protection systems.

Figure 1.16. Distribution of LAC population by level of household informality and poverty status

Percentage of the population, selected countries, 2023 or latest available year



Note: Data refer to 2023 for Argentina, Brazil, Colombia, Costa Rica, El Salvador, Paraguay, Peru and Uruguay; to 2022 for Bolivia, Chile, Guatemala, Mexico and Suriname; to 2019 for Honduras; to 2018 for the Dominican Republic; to 2016 for Barbados; to 2014 for Trinidad and Tobago; and to 2013 for the Bahamas. Households are categorised based on the level of informality of their earners. Informal households are those in which all earners are informal workers, mixed households are those in which at least one earner is an informal worker and formal households are those in which all earners are formal workers.

Source: (OECD, 2024^[33]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database.

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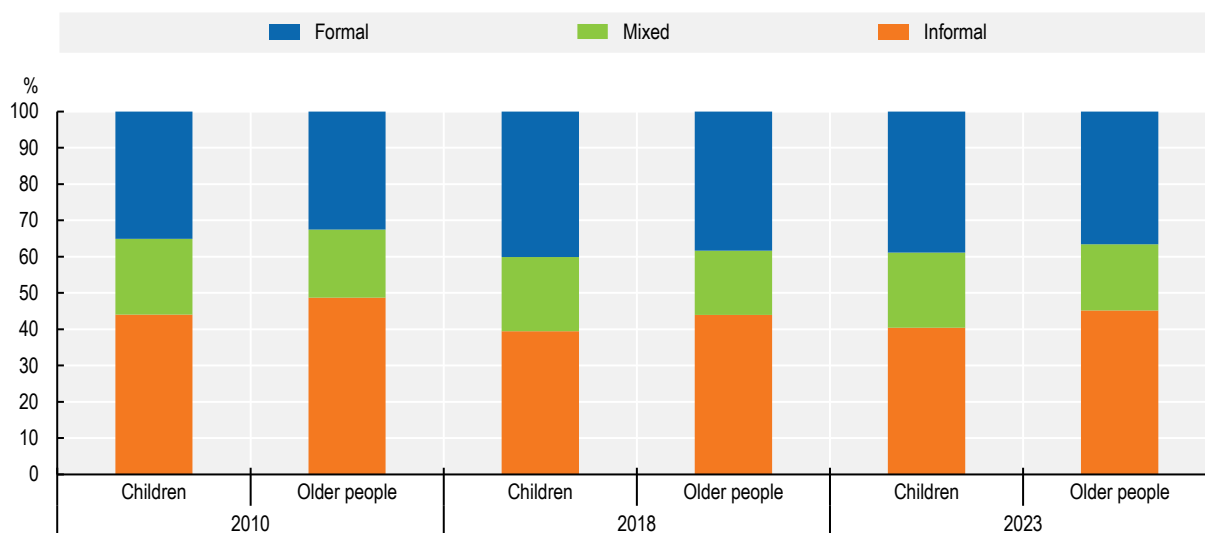
Social protection systems in LAC are far from universal and can be improved

There remain substantial gaps in social protection for Latin American households. As of 2022, one in four households (23.5%) across Latin American countries lacked any form of social protection, contributory or not. In the same year, 27.1% of people lived in households receiving conditional cash transfers, but the benefits were insufficient to bridge the poverty gap fully (ECLAC, 2024^[27]). In many middle-income countries, including in the LAC region, policies to tackle persistent poverty are shifting towards non-contributory, tax-financed programmes to help close the social protection gap for people not having contributor capacity (OECD, 2024^[47]; Kolev, La and Manfredi, 2023^[48]).

A 2021 ECLAC study across 15 countries (2014-2017) found that non-contributory transfers reduced poverty by 2.0 percentage points and extreme poverty by 1.7 percentage points (Cecchini, Villatoro and Mancero, 2021^[49]). This is particularly relevant given the high share of vulnerable dependants living in households relying entirely or partially on informal labour income. In 2023, 61.1% of children aged under 15 and 63.5% of people over 65 lived in such households. However, this share has decreased slightly since 2010, by 3.7 percentage points for children and 4.0 percentage points for the elderly (Figure 1.17). Household informality status may also affect other people with high care needs and other basic services (e.g. health and education), such as younger or older populations or persons with disabilities.

Figure 1.17. Distribution of dependants in selected LAC countries, 2010-2023

Percentage of the population in each age group



Note: Children refer to people aged under 15; elderly refer to people aged 65 years or over. Data refer to an unweighted average of the following countries and years: Argentina (2010, 2018, 2023), Brazil (2009, 2018, 2023), Chile (2009, 2017, 2022), Colombia (2010, 2018, 2023), Costa Rica (2010, 2018, 2023), El Salvador (2015, 2018, 2023), Mexico (2010, 2018, 2022), Paraguay (2009, 2018, 2023), Peru (2010, 2018, 2023) and Uruguay (2008, 2018, 2023). Households are categorised based on the level of informality of their earners. Informal households are those in which all earners are informal workers, mixed households are those in which at least one earner is an informal worker and formal households are those in which all earners are formal workers.

Source: (OECD, 2024^[33]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database.

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Despite consensus around supporting poor groups with cash transfers and non-monetary programmes, agreement is less common when it comes to providing informal workers who are not classified as poor with benefits such as universal health care, pensions and cash transfers. Extending social protection to this group presents a range of complex policy choices, such as whether to provide universal entitlements or rely on other mechanisms like voluntary or mandatory public social insurance schemes. According to a 2024 study, universal social protection systems – reaching all vulnerable workers, regardless of their labour market status – are preferable (Arnold et al., 2024^[50]). Under this line of thinking, a basic set of social protection benefits should be made available to all workers, with no distinction between formal and informal workers. However, a policy mix for achieving better social protection for informal workers may also consider different entry points, depending on the specific employment status of informal workers. In 2023 or the latest year for which data are available, own-account workers were overrepresented among informal workers (47.6% of the total), followed by employees (41.6%), unpaid family workers (6.2%) and employers (4.6%) (OECD, 2024^[33]).³

Many LAC countries currently have presumptive tax regimes (also known as simplified tax regimes), aimed at encouraging tax compliance and business formalisation by reducing tax compliance costs and by levying lower tax rates than the standard tax system. These regimes usually target micro and small businesses and levy tax on a presumed tax base that intends to approximate taxable income by indirect means. Hence, such regimes can be particularly relevant where actual taxable income is difficult to assess accurately (Mas-Montserrat et al., 2023^[51]). Presumptive tax systems have the potential to expand social protection coverage and gradually increase revenue generation, especially when they incorporate social security

contributions (OECD et al., 2024^[19]). Under such a regime, a small business could be allowed to pay a single tax that replaces as many taxes as possible, including social security contributions. By offering social protection access and the possibility to opt in to various programmes (such as health insurance), these systems may encourage individuals to formalise their businesses. Specific cases in LAC demonstrate that simplified tax regimes can effectively reduce informality. Uruguay, for instance, now boasts the lowest level of informal employment in the region following implementation of the Monotributo regime (Mas-Montserrat et al., 2023^[51]; Teixeira, 2021^[52]). Introduced in 2001 and expanded in 2006, Monotributo offers a simplified framework that consolidates social security contributions and income tax into a single payment. It allows self-employed individuals running small businesses to register either as personal enterprises with one employee, as partnerships with two partners or as family businesses with a maximum of three partners and no employees.

In LAC countries as in other developing economies, contributory social protection schemes mainly cover formal employees with defined employment contracts. Some schemes also include other categories, like the self-employed. Expanding these schemes to informal workers normally involves legal reforms, simplified registration and payment processes, and the use of new digital tools, which may help in formalising jobs. Key challenges in this expansion include i) determining whether informal work relationships can support employer-employee contributions, with a sustainable contribution rate; ii) assessing workers' financial capacity to contribute, especially for the informal self-employed; and iii) deciding between voluntary or mandatory enrolment approaches (ECLAC, 2024^[27]; OECD, 2024^[47]; IDB, 2025^[26]; OECD/OISS, 2024^[28]). Better linkages between contributions and benefits can foster voluntary enrolment in social protection. Recent policies such as Colombia's guaranteed minimum pension scheme demonstrate how such incentives can foster participation. At the same time, risk pooling through social insurance is becoming less common, with deep impacts on social policy design, due to the changing socio-demographic structure of Latin American families. According to the most recent estimates, the share of households with a single, separated or divorced person as head of household has considerably increased, from 24.5% of the total in the 2000s to 31.9% in the early 2020s, while households headed by a married couple have decreased, from 63.2% in the 2000s to 57.8% in the early 2020s (OECD, 2024^[33]).⁴

Given the high levels of vulnerability confronting households in LAC, many of the region's countries have expanded the range of non-contributory social protection policies (ECLAC, 2024^[27]; ECLAC, 2025^[10]; OECD et al., 2024^[19]). The importance of wide coverage was especially evident during the COVID-19 pandemic, but such coverage was not enough to prevent severe consequences for the population, leading to a prolonged social crisis with effects that still persist (ECLAC, 2025^[10]; OECD et al., 2021^[53]). Non-contributory public and private transfers account for a large share of the income of the poorest groups. Around 22% of the income of the first quintile comes from this source, while the share decreases for higher household income quintiles. It represents around 14% of income for the second quintile, 10% for the third, 7% for the fourth and 4% for the fifth (ECLAC, 2023^[40]).⁵

Labour market dynamics played a crucial role in poverty reduction in LAC during the period 2019-2023 (Maloney, Melendez and Morales, 2025^[54]). During this period, the performance of real labour income kept pace with inflation and outweighed the negative impact on employment levels, although not consistently across all LAC countries for which data are available. Poverty reduction is expected to depend less on this channel in the coming years, given that pandemic-era public transfers have returned (incompletely) to pre-2020 levels and that governments are addressing fiscal concerns (OECD et al., 2024^[19]; ECLAC, 2023^[40]). Looking to the future, formal job creation stemming from production transformation will be increasingly decisive in the fight against poverty. It will be necessary to implement policies to generate an inclusive labour market, increasing decent labour opportunities while generating competitive advantages for the country through production transformation.

Financing the extension of social protection to informal workers remains key in LAC countries, especially due to the constraints posed by limited fiscal space (OECD et al., 2024^[19]; Arnold et al., 2024^[50]; OECD,

2024^[47]). According to the International Monetary Fund (IMF), increasing the tax-to-GDP ratio by five percentage points over a decade is ambitious but manageable for most developing countries (Gaspar, 2019^[55]). Raising significant amounts of additional tax revenue over time will require alignment with sustainable economic growth objectives – that are compatible with production transformation – through country-specific tax reforms that need to be carefully developed, implemented and evaluated over time.

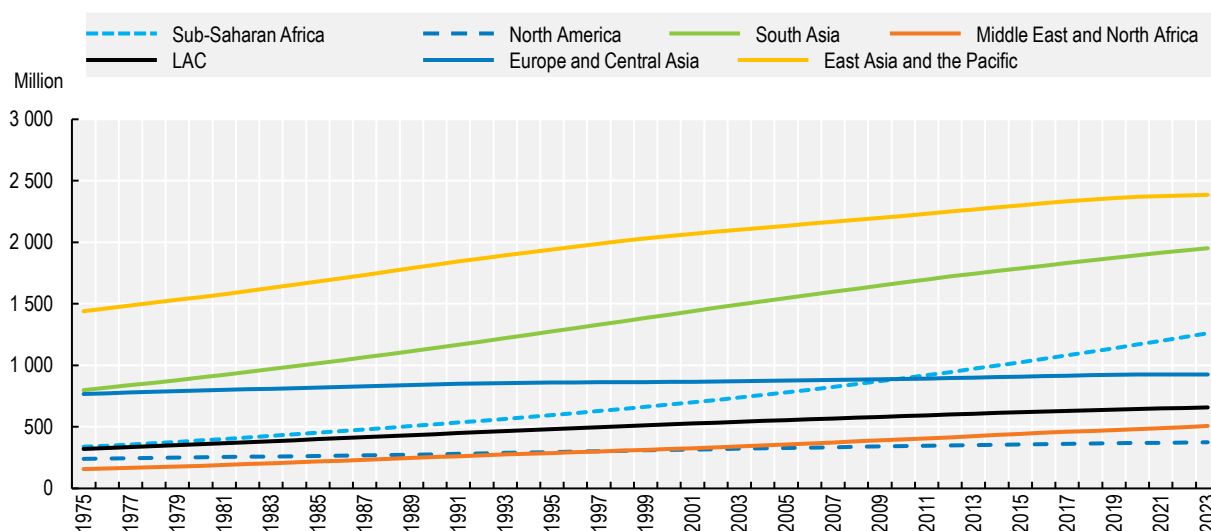
A preliminary OECD analysis indicates that, in economies with high informal employment, a good mix of direct personal taxes and indirect taxes, such as value-added tax (VAT) and sales taxes, offers the greatest short-term revenue potential due to their broad and inelastic base (OECD, 2024^[47]; Arnold et al., 2024^[50]). In Latin America, conditional cash-transfer programmes are already predominantly funded through general government revenues, positioning them as effective foundational components for expanding social protection systems. If these programmes are developed to respond more efficiently to transitory income shocks, they could partially substitute for or complement contributory social insurance schemes – particularly for low-income earners, for whom mandatory contributions may significantly reduce formal employment incentives. Analogous to reforms in pension systems, an economically efficient benchmark may be to target near-zero effective social contribution rates at income levels around the formality threshold, commonly proxied by the minimum wage (Arnold et al., 2024^[50]).

However, indirect taxes are already high in the region (OECD et al., 2025^[11]). Increasing them to fund universal social protection may disproportionately affect the poor and risk expanding informal market activity, for example, in the case of small informal businesses operating in the sales sector. While evidence suggests that wealthier households bear a larger share of VAT in some developing countries (Bachas, Gadenne and Jensen, 2020^[56]), affordability remains a concern for the poorest. Policy options include eliminating reduced VAT rates and exemptions on non-essential goods to fund targeted social protection. In the meantime, VAT systems create paper trails that enhance regulatory enforcement and encourage formalisation along supply chains (Ulyssea, 2020^[31]). Evidence suggests that digital tools are powerful instruments for better tax enforcement, with direct positive impacts on formalisation (Barreix et al., 2025^[57]). Expanding the VAT base or reducing exemptions can increase tax revenues to fund social protection, but such policies must be implemented with well-designed compensatory measures, such as targeted transfers or exemptions for basic goods, in order to avoid worsening regressivity and mitigate political and social backlash.

LAC's demographic structure may pose challenges to production transformation

The population structure of LAC countries poses both challenges and opportunities for production transformation. Between 1975 and 2023, the region's population grew by 105%, from 321 million to 658 million. The sharpest increase came between the years 1975 and 2000, when the population grew by 200 million. The growth rate has slowed since 2000. By comparison, sub-Saharan Africa experienced much faster growth, quadrupling its population from 337 million in 1975 to 1.26 billion in 2023. South Asia also saw significant expansion, nearly tripling in size, from 799 million to 1.95 billion over the same period, while regions like Europe and Central Asia and North America showed much slower growth, with signs of stabilisation in recent years (Figure 1.18).

Figure 1.18. World population by region, 1975-2023



Note: Population is based on the de facto definition, which counts all residents regardless of legal status or citizenship. The values shown are midyear estimates.

Source: Authors' elaboration based on (World Bank, 2025^[58]).

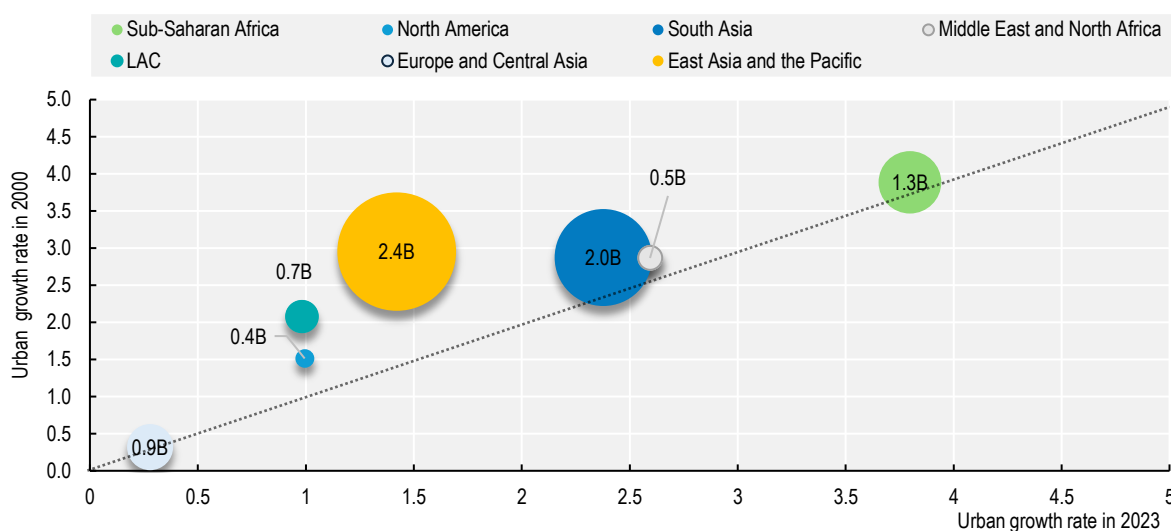
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If properly trained and empowered, LAC's young population can be a strategic element to foster the region's productive potential. In 2024, the LAC population comprised approximately 194.7 million women and 189.2 million men of working age (15-64 years). A slight increase is projected by 2050, with 197.6 million women and 195.9 million men of working age. However, this trend shows signs of stabilising, with growth in older age groups, suggesting future challenges in terms of population aging, the attractiveness of labour markets, and the sustainability and adequacy of pension systems (OECD et al., 2024^[19]; ECLAC, 2024^[27]; Arenas De Mesa, 2019^[59]; ECLAC, 2022^[60]).

Urbanisation levels are high in the region

According to recent estimates, 81.2% of the population in LAC lived in urban areas as of 2018 (ECLAC, 2025^[61]). However, urban population growth in LAC has experienced a significant slowdown, decreasing from an annual rate of 2.1% in 2000 to just 0.98% in 2023. In comparison, developing regions such as sub-Saharan Africa and South Asia continue to show high urban growth rates, with sub-Saharan Africa maintaining a rate of 3.8%, while South Asia's rate dropped from 2.9% to 2.4% from 2000 to 2023. Over the same period, North America saw a decrease in its urban growth rate (from 1.5% to 1%), while Europe and Central Asia continued with growth of only 0.3%, reflecting a more stabilised and less dynamic urbanisation (Figure 1.19).

Figure 1.19. World urban population annual growth and population by region, 2000-2023



Note: Regions positioned above the diagonal line experienced a decline in their urban growth rate, while those below the line saw an increase in urbanisation trends over the period. The size of each bubble represents the total population of the region in 2023 (B = billion).

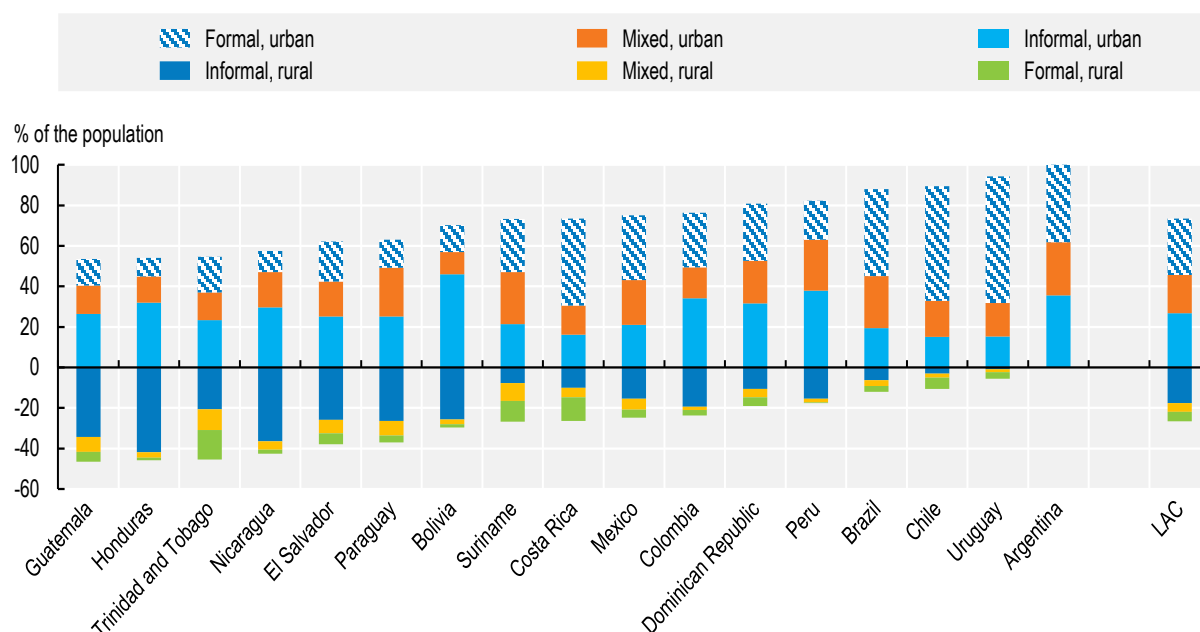
Source: Authors' elaboration based on (World Bank, 2025^[58]).

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Although growth of LAC's urban population is now low, most of the region's working-age population lives in urban areas (Figure 1.20). In 2023, 73.5% of people between 15 and 64 years of age lived in urban areas: 26.8% in informal households, 18.8% in mixed households and 27.8% in formal households. People in rural areas (26.5% of the total) lived predominantly in informal households (17.7%), with 4.3% in mixed households and 4.6% in formal households. In El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, and Trinidad and Tobago, however, the share of the working-age population living in rural areas was close to or significantly higher than 40%, with people living in informal households being the substantial majority.

Figure 1.20. Distribution of LAC working-age population by area and level of household informality

2023 or latest available year



Note: Data refer to the distribution of people aged 15-64. Households are categorised based on the level of informality of their earners. Informal households are those in which all earners are informal workers, mixed households are those in which at least one earner is an informal worker and formal households are those in which all earners are formal workers. Data for Argentina refer only to urban areas. Data refer to 2023 for Argentina, Brazil, Colombia, Costa Rica, El Salvador, Paraguay, Peru and Uruguay; to 2022 for Bolivia, Chile, Guatemala, Mexico and Suriname; to 2018 for the Dominican Republic; and to 2014 for Nicaragua and Trinidad and Tobago.

Source: (OECD, 2024^[33]), *Key Indicators of Informality based on Individuals and their Households (KIIbIH)* database.

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Environmental implications of the current production structure

The LAC region stands at a crossroad where bold and urgent action is essential to address the challenges of climate change and biodiversity loss. Historically, production strategies in the region have been closely tied to significant environmental degradation, threatening the very ecosystem services on which the economies depend (Dasgupta, 2021^[62]). Climate action in several LAC countries increased considerably between 2010-2023 but has slowed down from 2020, mostly due to increased fossil fuel subsidies as part of countries' COVID-19 measures (OECD, 2025^[63]). Moving forward, a new production model must integrate both social equity and environmental sustainability goals. Otherwise, the burden of transformation risks falling unevenly on specific communities, deepening existing inequalities and potentially weakening public support for much-needed reforms, while eroding the provision of critical ecosystem services to the economy.

For this transformation to be truly inclusive and sustainable, it must prioritise the region's distinctive natural endowments and human capital (ECLAC, 2024^[64]). Aligning productive development policies with the principles of green, blue and circular economies offers a pathway to reshape the region's productive and energy systems (ECLAC, 2025^[20]). An integrated approach fosters higher productivity, the development of new economic activities and quality jobs – and it also plays a vital role in reducing greenhouse gas emissions and protecting the environment. The region holds tremendous potential: it has a unique green

energy matrix and abundant critical minerals for the global energy transition. With the right productive development policies – supported by international co-operation, climate finance and technology transfer – LAC can become a competitive supplier of the green goods and services needed to meet global climate goals. Strengthening local and regional green value chains can attract investments, lower transition costs, offer tailored solutions to territorial challenges and unlock gains in diversification, technological upgrading, productive inclusion, job creation, inequality reduction and competitiveness. Achieving these interlinked goals requires a systemic vision for a green and just transition – one that combines effective strategies to protect the environment and mitigate climate change and adaptation with a firm commitment to enhancing social well-being and reducing inequalities (OECD et al., 2022^[65]; 2025^[66]).

This section will examine why the use and preservation of LAC's natural assets must be afforded equal priority with the economic and social objectives of production transformation, presented above. The analysis presented here is limited to a selected set of indicators intended to highlight some of the most pressing priorities and alternatives. When possible, regional comparisons are included to provide a picture of the main trends of developing countries. For a more comprehensive examination, readers are encouraged to consult the *Latin American Economic Outlook 2022: Towards a Green and Just Transition* (OECD et al., 2022^[65]).

This brief analysis is structured around the principle of fair consumption, defined as an ecologically sustainable boundary within which resources and opportunities are equitably distributed, allowing individuals and societies to meet their needs and achieve well-being (Hot or Cool Institute, 2021^[67]). It includes a summary of emission levels, trends in natural resource consumption and potential alternatives to make production and consumption more just and more sustainable.

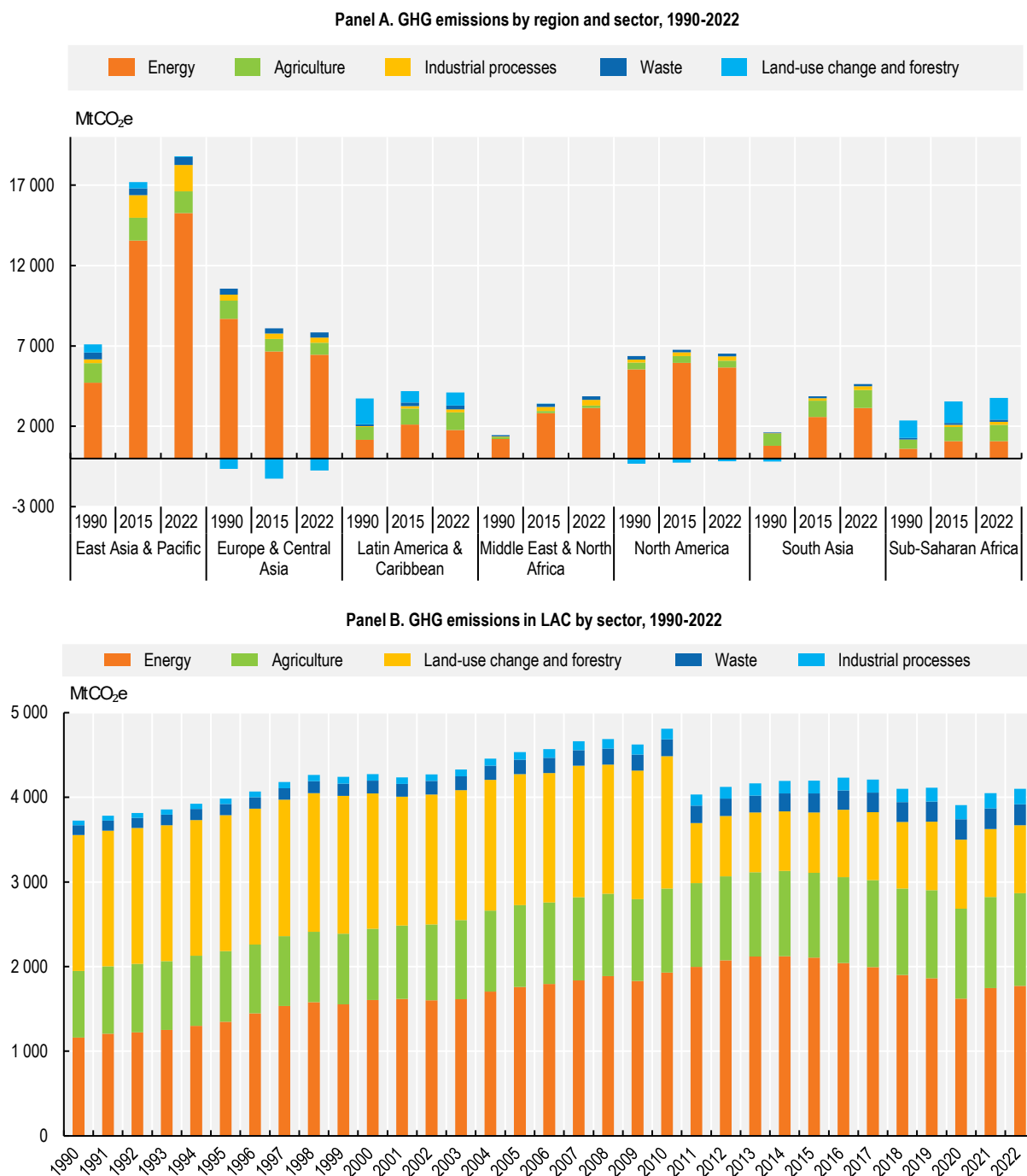
Carbon emissions continue to grow in LAC under its current production model

Greenhouse gas (GHG) emission levels have grown in LAC under its current production model, even though LAC remains among the lowest GHG-emitting regions globally. GHG emissions in LAC increased by 10% between 1990 and 2022, reaching 4.1 gigatonnes of carbon dioxide equivalent (GtCO₂e) and representing approximately 8.4% of global emissions. Although this increase may appear modest, it is largely the result of declining net emissions from land-use change and forestry (LUCF), which partially offset significant growth in emissions from energy- and agriculture-related sources. Excluding LUCF, GHG emissions in LAC would have increased by around 56% over the same period.

While the region's contribution to greenhouse gas emissions still remains similar to its contribution to total population, GHG emissions in LAC grew across all sectors between 1990 and 2022, with the increase mainly driven by key strategic sectors of the current production model. The growth came from both energy-related activities and non-energy sources (primarily land use and agriculture). Energy-related emissions increased by 53%. The transport sector, embedded with energy, is a key driver of higher emissions, linked to urban expansion, increased car ownership and underinvestment in public transport. Agricultural emissions, historically the largest non-energy source, rose by 39%, highlighting the role of livestock, land-use practices and fertiliser use in sustaining high emission levels. Emissions from industrial processes more than tripled (+223%), reflecting deep transformations in manufacturing, construction and the extractive industries. Despite the recent decline in LUCF emissions, that sector remains a dominant source in the region (Figure 1.21, Panel B).

Looking at other regions, between 1990 and 2022, East Asia and the Pacific experienced the highest growth in emissions, which surged by 165%, while Europe and Central Asia reduced emissions by 28%. The rising emissions in LAC mirror trends in sub-Saharan Africa, where emissions also surged from agriculture (+81%) and energy-related activities (+80%) in the same period. In contrast, Europe and Central Asia managed to reduce emissions from agriculture by 33% and energy-related emissions by 26%. This example offers pathways for a low-carbon transition that LAC could adapt to its context (Figure 1.21, Panel A). The upward emission trends in LAC underscore the challenges of decoupling growth from emissions in key economic sectors.

Figure 1.21. Greenhouse gas emissions by region and sector, 1990-2022



Note: LAC includes data available from 33 countries. The energy sector includes emissions from electricity and heat production, transportation, buildings, manufacturing and construction, other fuel combustion, and fugitive emissions. GHG refers to greenhouse gases, and MtCO₂e denotes million tonnes of carbon dioxide equivalent.

Source: Authors' elaboration based on (Climate Watch, 2025^[68]).

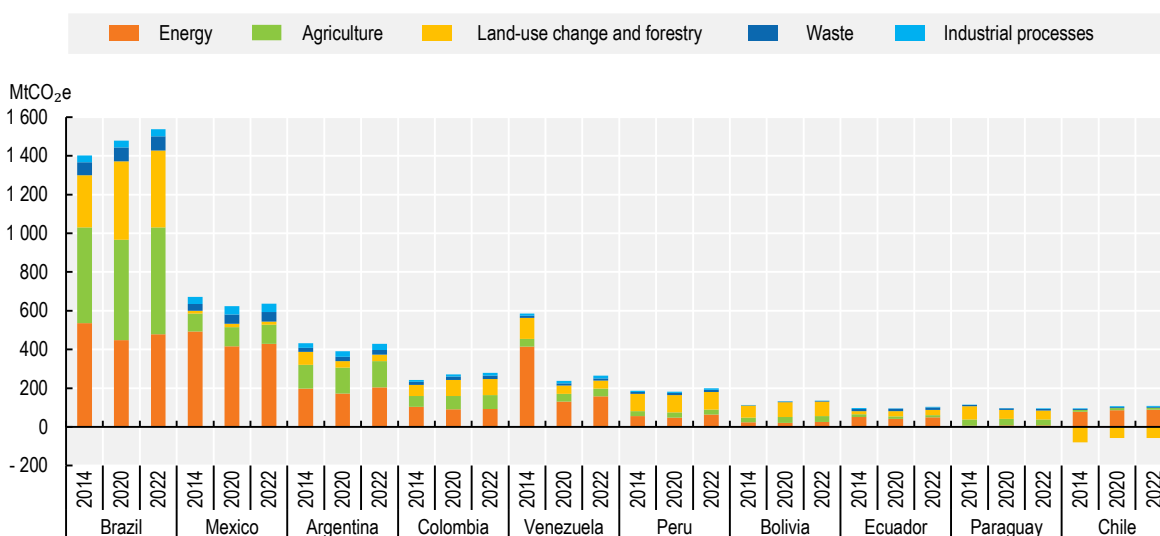
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In 2020, end-users of energy, such as industries, the transport sector and households were responsible for more than 50% of all GHG emissions. Within industry, which accounted for 24% of direct energy-related emissions in LAC, the cement, steel and chemical subsectors were particularly significant, representing 57% of these industrial emissions and often proving difficult to decarbonise. Transport accounted for 25% of energy-related emissions in 2021. Urban passenger transport and freight were particularly important, representing nearly 90% of the sector's emissions (CAF, 2024^[69]).

In seven LAC countries, transport is the largest emitter among energy sectors but shows the lowest level of climate action, highlighting a critical misalignment (OECD, 2025^[63]). While overall household energy consumption is modest, the type of fuel used has environmental implications. Despite progress in reducing reliance on dirty fuels (down from 82% in 1970 to 36% in 2021), firewood remains the primary household energy source in 8 out of 19 countries studied, contributing to indoor air pollution and impacting health outcomes and local air quality (IEA, 2020^[70]; CAF, 2024^[69]).

GHG emissions in LAC have rebounded after a temporary decline. Between 2014 and 2020, emissions fell in the key sector of energy (−23.7%), while industrial process and waste emissions rose by +13.3% and +13%, respectively. This reduction aligns with a temporary slowdown linked to structural shifts and the start of the COVID-19 pandemic. However, between 2020 and 2022, emissions rose again, increasing by +3.1% in agriculture, by +9.3% in energy, by +10.5% in industry and +2.6% in waste (Figure 1.21, Panel B). This rebound reflects persistent structural challenges, such as emissions-intensive agriculture, dependence on fossil fuels and limited progress in waste management. Illustrating this trend are countries like Chile, Colombia and Mexico, where progress is needed on zero- and low-emission vehicles, supportive infrastructure and consumer behaviour in order to reduce emissions effectively. The buildings sector, which has the lowest emissions share, demonstrates the highest level of climate action across six of the seven countries analysed (Figure 1.22).

Figure 1.22. Greenhouse gas emissions by country and sector in selected LAC countries, 2014-2022



Note: The energy sector includes emissions from electricity and heat production, transportation, buildings, manufacturing and construction, other fuel combustion, and fugitive emissions. The figure includes only ten Latin American countries, selected based on their emission levels. This selection was made to avoid disproportionately small representation of other countries when compared to Brazil. MtCO₂e denotes million tonnes of carbon dioxide equivalent.

Source: Authors' elaboration based on (Climate Watch, 2025^[68]).

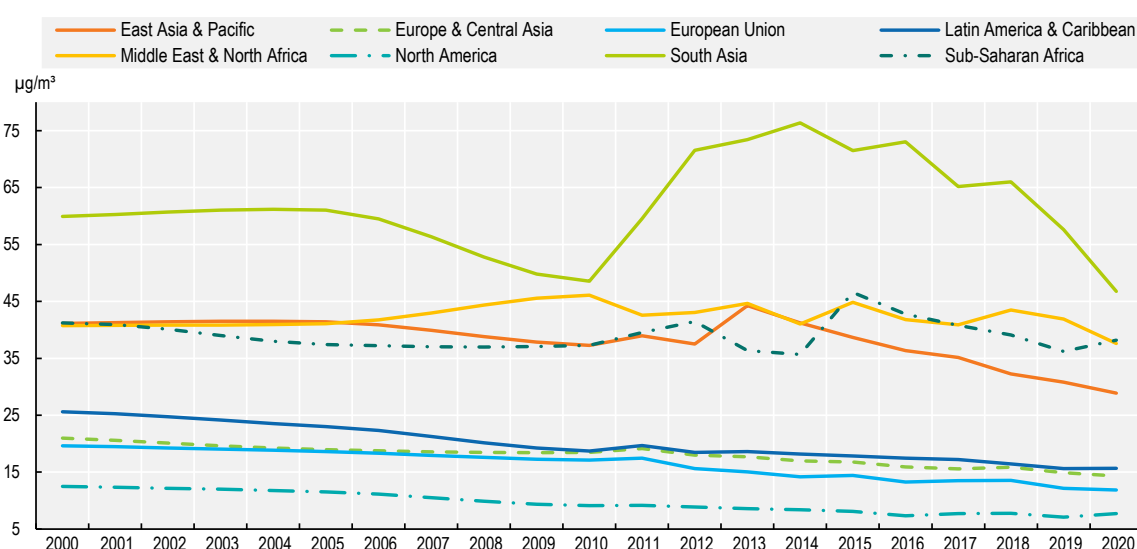
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Consequences of unsustainable production: Air pollution and natural disasters

Air pollution

Core processes in the current production model are significant contributors not only to GHG emissions but also to air pollution. High GHG emissions augment air pollution, causing severe damage to human health: respiratory diseases, heart problems and premature death. Air pollution levels of fine particulate matter less than 2.5 microns in diameter (PM_{2.5}) have steadily declined in LAC over the past two decades, from an annual average exposure of 25.6 micrograms per cubic meter (µg/m³) in 2000 to 15.6 µg/m³ in 2020. Yet pollution levels remained above those of North America (7.7 µg/m³) and Europe and Central Asia (14.3 µg/m³) in 2020 (Figure 1.23).

Figure 1.23. Air pollution by world region, mean annual exposure, 2000-2020



Note: Population-weighted exposure to ambient PM_{2.5} pollution is defined as the average level of exposure of a country's population to concentrations of suspended particles measuring less than 2.5 microns in aerodynamic diameter, which are capable of penetrating deep into the respiratory tract and causing severe health damage. Exposure is calculated by weighting mean annual concentrations of PM_{2.5} by population in both urban and rural areas.

Source: Authors' elaboration based on (World Bank, 2025^[58]).

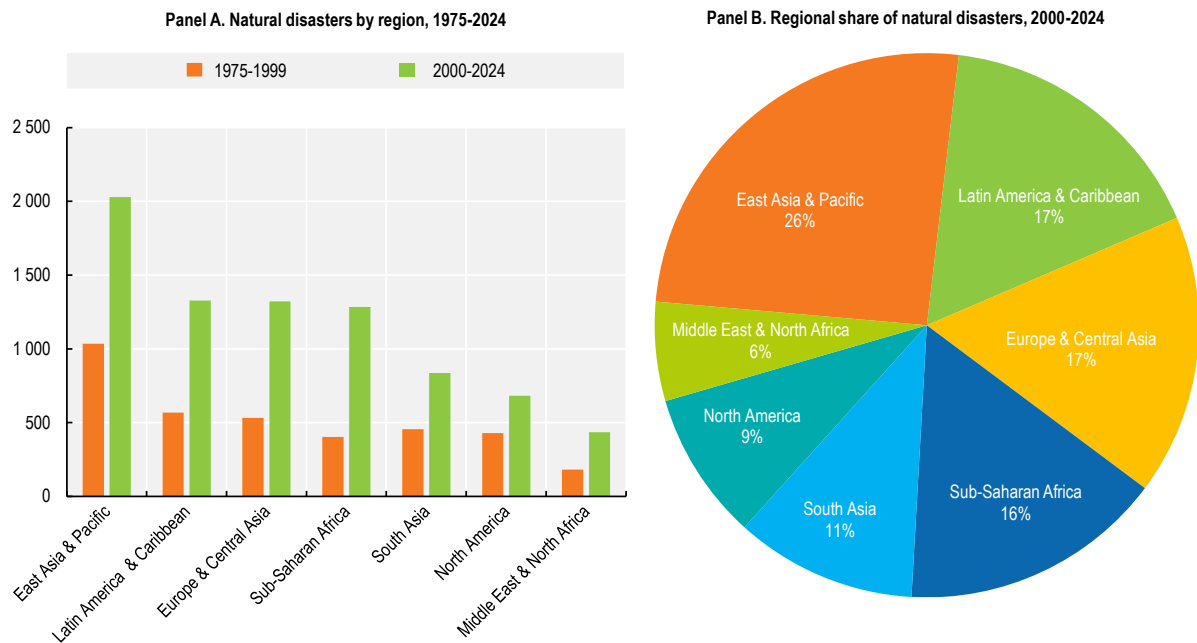
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Among all environmental risks, air pollution poses the greatest threat to human health given the harmfulness of PM_{2.5} (UNECE, 2021^[71]). Key activities from the current production model directly contribute to air pollution. Transport is a major contributor to certain types of air pollution and elevated GHG emissions, a challenge amplified by the vast geography, car dependency, congestion, old vehicle fleet and poor infrastructure of many LAC countries. In urban areas across Latin America, private motor vehicles account for approximately 75% of carbon dioxide (CO₂) emissions and 82% of particulate matter less than 10 microns in diameter, both of which are linked to adverse health effects (Vasconcelos, 2019^[72]). However, it is important to note that some pollutants, such as sulphur dioxide, are primarily emitted by fixed sources like coal-fired power plants.

Natural disasters

Despite contributing relatively little to cumulative GHG emissions, LAC countries experienced a sharp rise in climate-related natural disasters such as floods and storms between 1975 and 2024. The number of such events more than doubled over two 25-year periods, from 569 in 1975-1999 to 1 328 in 2000-2024 (Figure 1.24, Panel A). LAC accounted for 17% of natural disasters worldwide during 2000-2024, underscoring the region's exposure to natural catastrophes with high economic losses (Figure 1.24, Panel B) and direct consequences in terms of productivity and stranded assets. The only region more affected was East Asia and the Pacific (26%), while the shares in Europe and Central Asia (17%) and sub-Saharan Africa (16%) were similar to LAC's.

Figure 1.24. Natural disasters by world region, 1975-2024



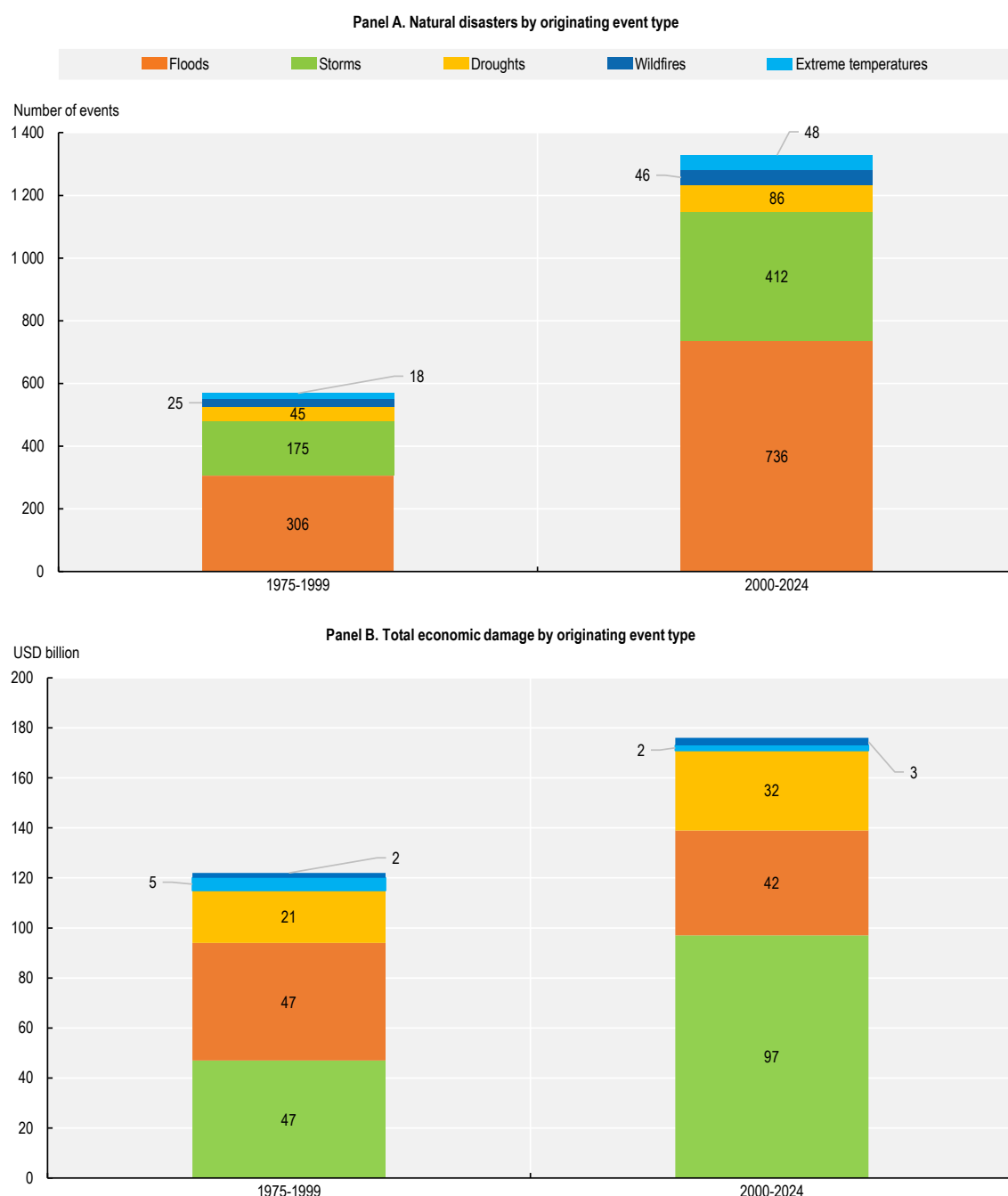
Note: The data by region show the total number of events per year during the periods 1975 to 1999 and 2000 to 2024. Natural disasters are defined as situations or events that exceed the ability of local resources to respond effectively, requiring help from national or international sources. They are unexpected and often sudden occurrences that result in significant damage, destruction and human suffering. The following types of natural disasters have been considered: droughts, wildfires, extreme temperatures, storms and floods.

Source: Authors' elaboration based on (CRED, 2025^[73]).

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Current production practices are driving climate change and environmental degradation, leading to more frequent and intense extreme weather events. Floods and storms were the most frequent types of natural disasters in LAC over the full 1975-2024 period. Comparing the two 25-year periods, 1975-1999 and 2000-2024, the number of floods increased from 306 to 736, and the number of storms from 175 to 412 (Figure 1.25, Panel A). Deforestation, land-use changes and GHG emissions reduce ecosystems' capacity to absorb water, leading to faster runoff and higher flood risks. The number of droughts increased from 45 to 86, wildfires grew from 25 to 46 and extreme temperature events rose from 18 to 48. Storms caused the most economic damage to the region, and the cost doubled over the two 25-year periods, from USD 47.2 billion (1975-1999) to USD 96.8 billion (2000-2024) (Figure 1.25, Panel B). Floods also caused significant economic damage, costing USD 42.3 billion in the latter period. Although less frequent, droughts also caused substantial damage, with losses amounting to USD 31.5 billion over 2000-2024 (CRED, 2025^[73]).

Figure 1.25. Natural disasters in LAC by originating event type, 1975-2024



Note: The figure categorises natural disasters based on their originating event type, measured as a percentage of the total recorded events. Natural disasters are defined as situations or events that exceed the ability of local resources to respond effectively, requiring help from national or international sources. They are unexpected and often sudden occurrences that result in significant damage, destruction and human suffering. Economic damage from disasters is often underreported, with data mainly available for high-impact events in insured countries. The economic damage figures available are based on reports submitted to EM-DAT, and less than 40% of those reports include economic damage data. The LAC regional aggregate includes the following countries: Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, the Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

Source: Authors' elaboration based on (CRED, 2025^[73]; Brassiolo et al., 2023^[74]).

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There is growing evidence that extreme climate events are becoming more interconnected, leading to escalating economic losses and unprecedented social impacts. Current production methods contribute to environmental degradation and climate change, which increase the frequency and severity of extreme climate events and their economic and social impact. In 2024, the increasing frequency of natural disasters severely impacted agricultural productivity and food security in LAC, affecting not only enterprises investing in the region but also low-income populations. These groups not only rely on climate-sensitive businesses such as farming, but they also lack simple access to insurance or savings and live in areas that are more vulnerable to environmental hazards. In Brazil, in 2024, floods in Rio Grande do Sul affected key crops such as soybeans and led to agriculture-sector losses amounting to approximately USD 1.575 billion. In Guatemala, 56% of farmers reported insufficient water irrigation in 2024, while in Colombia, 42% of agricultural producers faced similar problems due to drought. In the Orinoco region of Colombia, wildfires destroyed 125 000 hectares of pasture, harming livestock farming. In Ecuador, milk production fell by 20% due to drought, and in Haiti, food insecurity affected 48% of the population. In Peru, the El Niño phenomenon reduced anchoveta catches by 50%, significantly impacting the fishing sector (WMO, 2025^[7]).

These events highlight the urgent need to increase, in an inclusive manner, mitigation and adaptation policies. These include land use and ecosystem resilience, strengthen early warning systems, improve climate risk management and promote resilient agricultural practices. Further investment in land protection, biodiversity conservation, ecosystem restoration, climate technologies and locally adapted data is crucial to ensuring new private investments, sustainable production and stable supply chains (WMO, 2025^[7]). Strengthening institutional capacities will be key to progress. The use of digital solutions, such as earth observation systems, the Internet of Things, artificial intelligence, cloud and blockchain, provides enterprises and farmers with fundamental information to make better decisions aimed at optimising their investments, increasing productivity and improving disaster prevention and risk management (Telefónica, 2023^[75]). Including natural capital in economic and financial decisions will also be essential to ensure investment for nature-based strategic sectors (Systemiq, 2025^[76]).

Towards sustainable and inclusive production and consumption in LAC

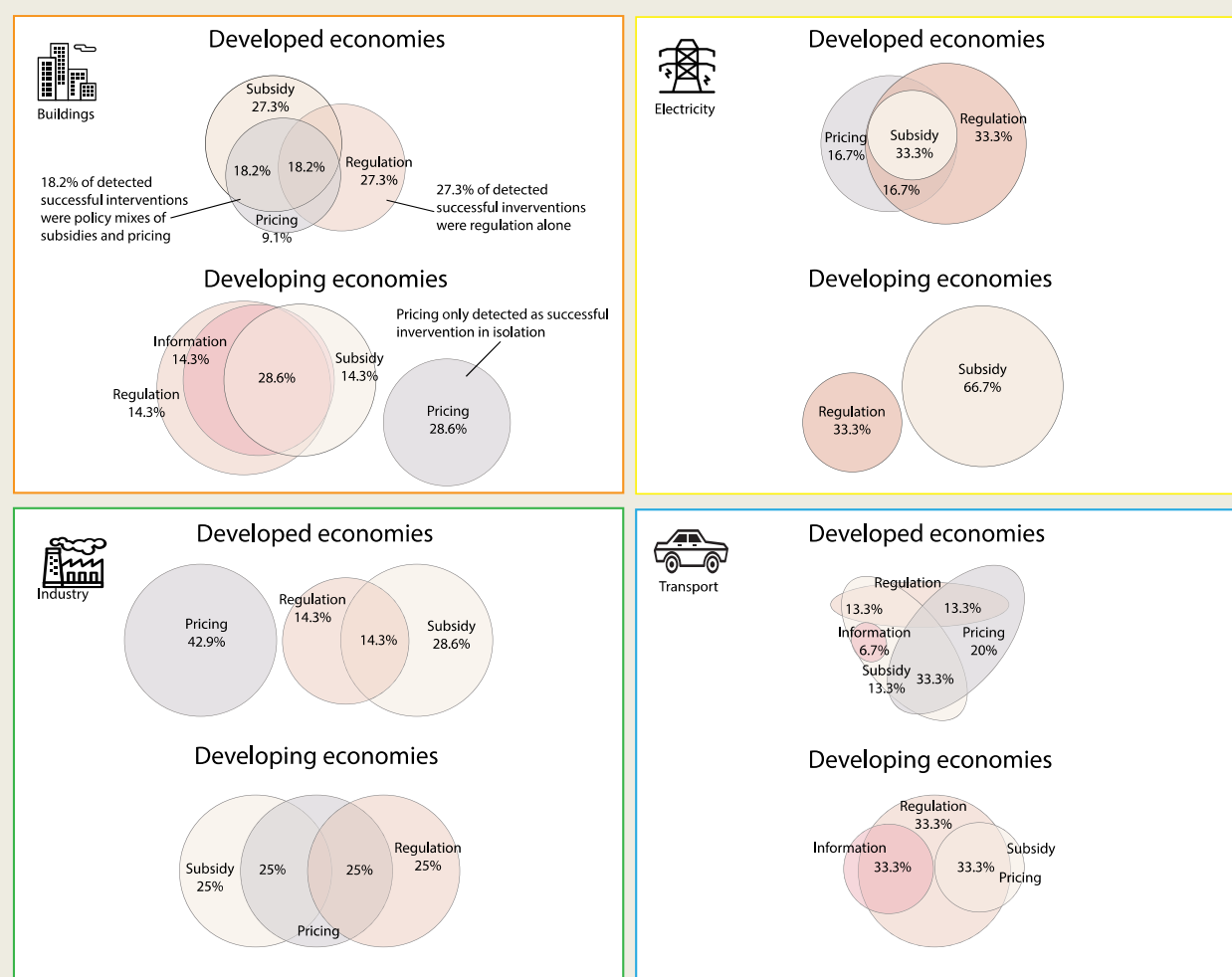
In response to the current levels of GHG emissions and their impact on the environment and humans, LAC governments are promoting initiatives to support the implementation of various sustainable methods of production. Ensuring that production is balanced across its economic, social and environmental dimensions requires careful design and management of complex trade-offs and potential synergies. To achieve this, the region needs to implement active policies to mitigate pressures on the environment and health arising from the development of its main production sectors.

Efforts at the domestic level should go beyond the emissions of the main supply chains and integrate a systemic perspective for the development model of each country, based on environmental performance. Environmental performance is defined by the environmental impact per unit of product or service generated by key strategic activities. Productive policies should prioritise the environmental performance of each output as a guiding principle. In this regard, the strengthening and implementation of sustainable finance taxonomies is a useful guide for investments (UNEP, 2023^[77]). This horizontal approach for sustainable production aims to advance several goals at once: lower GHG emissions, minimise the impact of wastewater and solid waste, reduce pollution and the use of harmful substances and help prevent environmental incidents (Rustico and Stanko, 2022^[78]). While productive policies play a critical role, achieving sustainable growth through policy mixes that reduce environmental impacts and improve citizens' well-being necessitates a broader, systemic transformation across all areas of government (OECD et al., 2022^[65]). Box 1.1 share examples of effective policy interventions in LAC.

Box 1.1. Effective policy interventions in LAC

Policy makers need to know which policies reduce emissions at scale to meet the goals of the Paris Agreement. A study led by the Potsdam Institute for Climate Impact Research (PIK) combines data from the OECD Climate Actions and Policies Measurement Framework with a machine learning approach to provide the first global ex-post evaluation that identifies policies and policy mixes that have led to significant emissions reductions or emissions breaks. Three key messages stand out: i) There is no one-size-fits-all approach. Effective policies and policy mixes vary significantly across country groups and sectors (Figure 1.26); ii) Policy mixes are more successful in reducing emissions than stand-alone policies. 70% of emissions breaks can be attributed to a mix of policies, whereas only 30% are caused by stand-alone measures; iii) The complexity of effective policy mixes differs significantly across sectors. Policy mixes are more complex in the buildings and transport sectors, which are characterised by heterogeneous households subject to barriers (e.g. asymmetric information) rather than profit-maximising firms.

Figure 1.26. Effective policy mixes across sectors and country groups



Note: The figure presents the effectiveness of combinations of policy types. Each circle shows the share of successful interventions that involved a specific policy type or combination. The percentages indicate how often each policy setup contributed to success.

Source: Based on (Dilger et al, 2024^[79]).

In LAC countries, market-based instruments such as carbon pricing or subsidies are particularly effective. Covering seven LAC countries, the study concludes that 8 of the 11 identified emissions breaks (73%) were associated with the adoption of market-based instruments. This is despite the fact that the region's policy approach relies predominantly on non-market-based instruments such as standards, as shown in the Data Insight on Latin America. More work and data are needed to further assess the effectiveness of LAC's unique policy approach and guide the region towards net-zero emissions.

Note: The diagram shows which combinations of policy types are effective. Each circle shows the share of successful interventions that involved a specific policy type or combination. The percentages indicate how often each policy setup contributed to success.

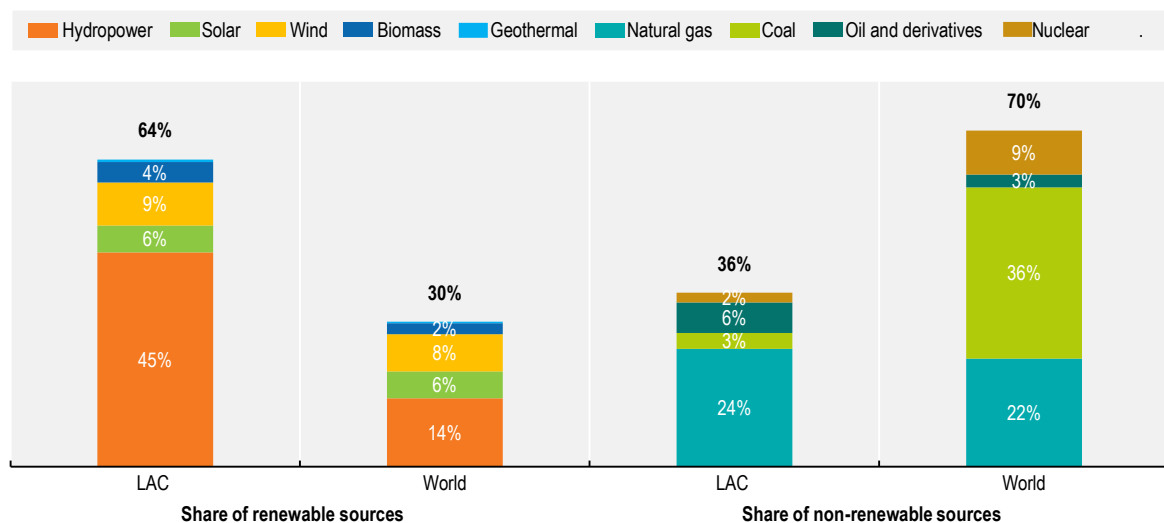
Source: Based on (Dilger and al, 2024^[79]); CAPMF data available under <https://oe.cd/dx/capmf>.

Properly maximising socio-economic opportunities while addressing any negative social consequences of production transformation requires policy coherence at the international level, as well: among developed and developing countries, the international community and other key stakeholders, notably the private sector. In the context of globalisation and international trade, operations and supply chains often span multiple regions and are subject to a variety of environmental regulations. Consequently, inconsistencies in regional environmental policies can contribute to carbon leakage and other adverse effects that local efforts often strive to prevent (OECD et al., 2024^[80]; Wu, Ding and Cheng, 2024^[81]) (Chapter 4).

Energy

The renewable energy sector in LAC stands out as a clear example of how natural resources can be leveraged to drive production transformation that is both sustainable and inclusive. Even if LAC relies on fossil fuels for key strategic sectors such as transport or industry, the region is notable for having a more sustainable energy production profile than the world as a whole. In 2023, 64% of LAC's electricity generation came from renewable sources, more than double the global average of 30%. This energy mix relies heavily on hydropower (45%) but also shows significant progress in wind (9%) and solar (6%) energy. Non-renewable sources accounted for 36% of the region's electricity generation, compared to 70% globally (Figure 1.27).

Figure 1.27. Share of renewable and non-renewable sources in electricity generation (%), 2023



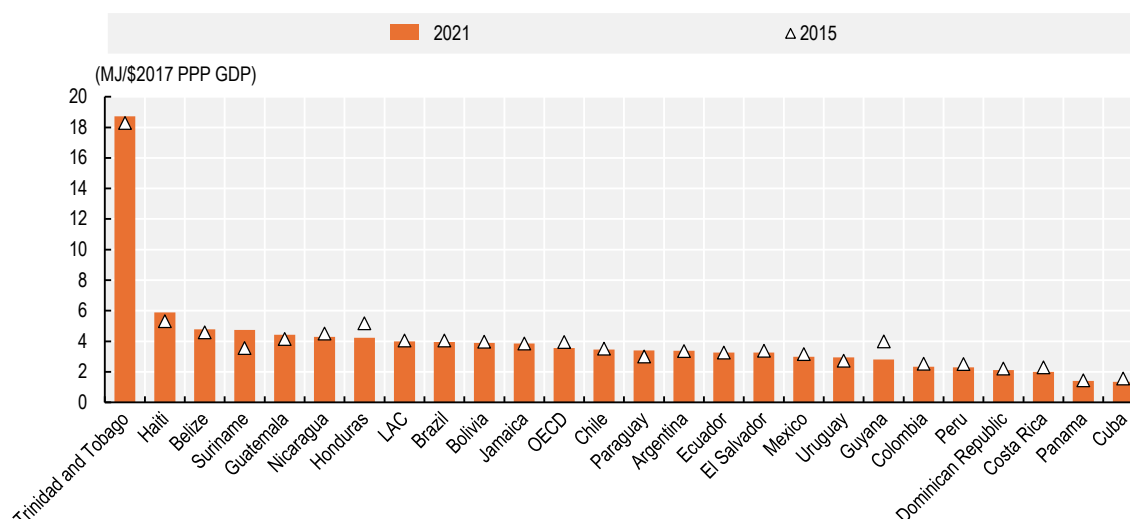
Note: Although the percentages in the third column (LAC Share of non-renewable sources) add to 35% when rounded, the actual total is 36%.

Source: Authors' elaboration based on (OLADE, 2024^[82]).

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Nevertheless, challenges remain in terms of how much primary energy is used in the economy. Energy intensity levels in LAC reveal substantial variation in the structure and efficiency of production and consumption. The regional average in 2021 – 3.99 megajoules (MJ) at 2017 GDP purchasing power parity – is close to the OECD’s (3.56 MJ). But there is wide heterogeneity across the region, varying from countries with a highly energy-intensive economy, like Trinidad and Tobago (18.7 MJ), to Panama (1.41 MJ) (Figure 1.28). In addition to deploying renewable energy, reducing energy intensity should remain a priority to advance sustainable production and remain aligned with global low-carbon standards, particularly in energy-intensive economies that face greater structural challenges.

Figure 1.28. Energy intensity level of primary energy in LAC, 2015 and 2021



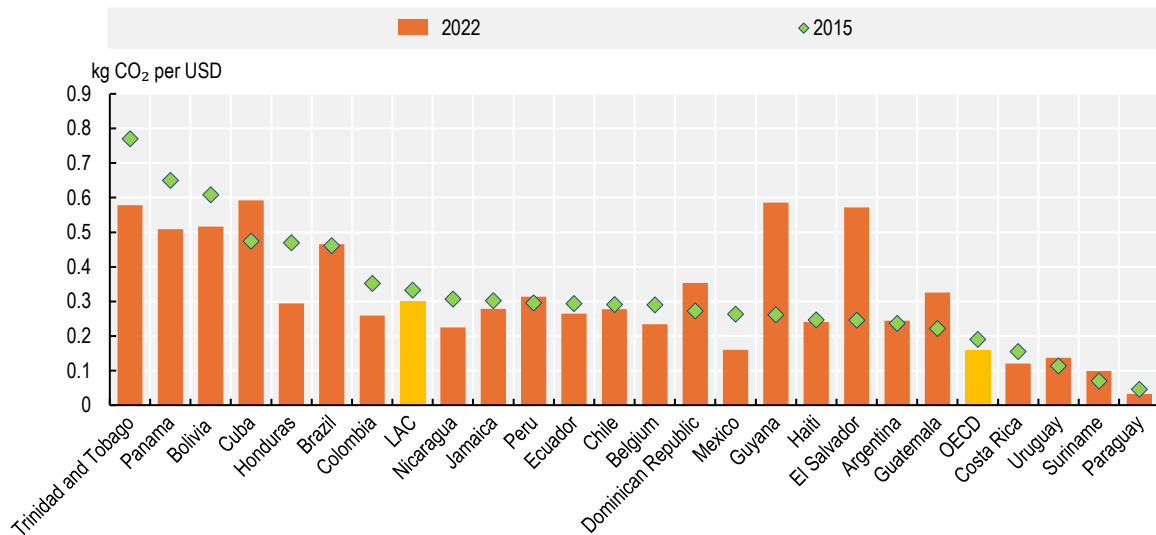
Note: Energy intensity is expressed in megajoules (MJ) per 2017 purchasing power parity–adjusted (ppp) U.S. dollar of gross domestic product (GDP). This indicator reflects the ratio of total primary energy supply to gross domestic product measured at purchasing power parity. It shows how much primary energy is used to produce one unit of economic output. A lower ratio indicates that less energy is used to produce one unit of output.

Source: Authors' elaboration based on (World Bank, 2025^[58]; IEA, 2025^[83]).

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The decarbonisation of the energy matrix and the reduction of energy-intensive methods have a direct impact on nearly the entire production structure. The implementation of renewable energy sources helps to reduce the carbon intensity of the economy, including manufacturing, by lowering the amount of CO₂ emitted per unit of output. In LAC, the average carbon intensity of manufacturing decreased from 0.33 kilograms (kg) of CO₂ per USD in 2015 to 0.30 kg of CO₂/USD in 2022, indicating a slight reduction in emissions relative to manufacturing value added. However, the region remains above the OECD countries' average of 0.16 kg of CO₂ per USD in 2022. Trinidad and Tobago, historically one of the highest emitters per unit of value added, managed to reduce its indicator significantly, from 0.77 to 0.58 kg of CO₂/USD, as did Honduras and Panama (Figure 1.29). Notable examples of economies with cleaner energy matrices include Uruguay (0.13 kg of CO₂/USD), Costa Rica (0.12 kg of CO₂/USD) and Paraguay (0.03 kg of CO₂/USD), reflecting the benefits of a renewables-based energy strategy (Hall, 2023^[84]; Abekhon, 2025^[85]).

Figure 1.29. Carbon dioxide emissions per unit of manufacturing value added in LAC and OECD, 2015 and 2022



Note: Carbon dioxide (CO₂) emissions from manufacturing industries per unit of manufacturing value added (MVA) are measured in kilogrammes (kg) of CO₂ equivalent per unit of MVA in constant 2015 USD.

Source: Authors' elaboration based on (UNIDO, 2025^[86]).

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Renewable energy gives LAC a structural advantage to attracting investment and advancing towards more just and sustainable production, offering both lower carbon intensity and greater relative energy independence (E+ Energy Transition Institute, 2025^[87]). These are key factors for industries aiming to decarbonise their value chains and comply with emerging global sustainability standards. Under current policies, renewables are projected to supply around 80% of electricity generation by 2050 in the region (IEA, 2023^[88]). Reducing energy losses during generation, transmission and distribution is also a crucial supply-side mitigation action.

Despite progress in innovative sources of energy, significant gaps persist in terms of access, especially in rural areas where more than 10% of households lack grid connection in several countries. Electrification based on distributed generation using renewables beyond hydroelectric energy offers an alternative path to close these gaps and ensure that the new production model is also just. While acknowledging the continued role that some fossil fuels may play, the development of sustainable alternatives – such as advanced or sustainable biofuels – is essential. Natural gas can serve as a potential transition fuel, but this shift must be cautious and consider social implications, ensuring that the energy transition is inclusive and supports communities affected by the changes in the energy landscape (CAF, 2024^[69]).

Land use

Deforestation stands out as a critical issue and a priority for non-energy mitigation efforts, given its contribution to GHG emissions and biodiversity loss. LAC, which held 19.6% of global forest cover in 2022, faces one of the highest deforestation rates worldwide. The region has experienced a steady decline in forest cover over recent decades. Compared to 1990, forest cover had decreased in the region by 10.7% in 2010 and by 14.2% in 2022. Comparatively speaking, sub-Saharan Africa experienced an even sharper decline, with forest area shrinking by about 27.2% between 1990 and 2022, while in East Asia and the Pacific, forest area increased slightly relative to 1990, by 1.7% in 2010 and 3.6% in 2022. Europe and Central Asia also demonstrated steady growth, with forest cover expanding from 10.2 million square kilometres (km²) to 10.6 million km² between 1990 and 2022, with an increase of 1.6% by 2010 and 2.2%

by 2022. Within the European Union, forest cover increased relative to 1990 by 8.4% by 2010 and 10.2% by 2022. South Asia and the Middle East and North Africa have much less forested area. In the latter, forest covered only about 229 000 km² in 2022, a 3.6% increase since 1990 (Figure 1.30, Panel A).

Within LAC, the largest absolute declines in forest area between 2010 and 2020 occurred in Brazil (-173 847 km², -2.1%), Paraguay (-40 266 km², -10.0%), and Bolivia (-26 696 km², -2.5%). In relative terms, Paraguay (-10%) and Nicaragua (-8%) experienced the steepest proportional declines as a share of total forest area. In contrast, net gains in forest cover were achieved in Costa Rica (+3.85%), Cuba (+3.69%), and Chile (+2.33%), reflecting comparatively stronger reforestation or conservation policies (Figure 1.30, Panel B). A major obstacle in some countries is lack of capacity to effectively implement anti-deforestation laws. For example, estimates suggest that more than 96% of deforestation within the Amazon region is illegal – despite the fact that specific regulations targeting critical ecosystems exist, such as Brazil's Forest Code governing activities in the legally defined Amazon, alongside similar laws for wetlands and glaciers (OECD et al., 2022^[65]).

Figure 1.30. Global forest cover levels and forest area change in LAC, 1990-2022



Note: Forest area is land under natural or planted stands of trees of at least five meters in situ. In Panel B, forest area is expressed in square kilometres (km²). Values on the left-hand side (LHS) axis refer to absolute area, and values on the right-hand side (RHS) axis refer to percentage of total land area from 2010 to 2022.

Source: Authors' elaboration based on (World Bank, 2025^[58]).

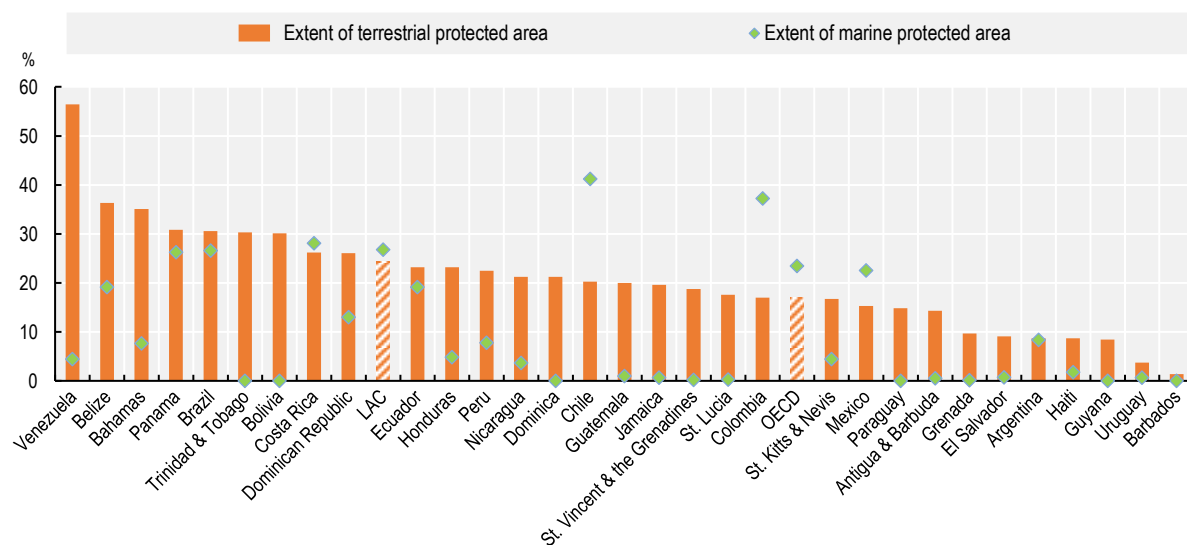
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The high contribution of agriculture and land use to GHG emissions and deforestation reflects intensive land utilisation. However, there is potential to alleviate the environmental implications of intensive land use by significantly boosting agricultural productivity. Studies indicate that planning for land use, adopting best practices, utilising technology and making informed crop choices could increase production per hectare fivefold (Adamopoulos and Restuccia, 2021^[89]).

Conservation efforts are directly addressed through land-use planning tools like protected areas and other effective area-based conservation measures (OECMs). Protected areas and OECMs can serve as tools to prevent the expansion of polluting and illicit activities. They are highly relevant given the role in conservation and protection measures of ethnic communities (e.g. in Colombia), privately owned reserves (e.g. in Costa Rica) and community forests (e.g. in Mexico). Protected areas range from strict reserves to multiple-use zones that allow sustainable economic activities by local communities, creating incentives for conservation. Protected areas in LAC expanded significantly between 2016 and 2021, increasing from 16.3% to 22.9% of the total territorial area (Figure 1.31). This reflects not just strong regional conservation initiatives but also efforts to achieve the Convention on Biological Diversity's Aichi Target 11 calling for the protection of at least 17% of terrestrial and inland water areas by 2020.

In other world regions, protected areas expanded between 2016 and 2022: from 17.9% to 19.0% in East Asia and from 14.2% to 14.7% in sub-Saharan Africa. LAC has notably surpassed the global average, but it remains below the 2030 target of 30% of both land and marine areas. This target – known as Target 3 of the Kunming-Montreal Global Biodiversity Framework – includes both protected areas and OECMs; it emphasises not only quantitative coverage but also effectiveness, equitable governance and respect for the rights of Indigenous peoples and local communities (UNEP, 2024^[90]). Another important instrument is payments for ecosystem services, a field where LAC is a pioneer, hosting roughly half of the world's known programmes. These schemes compensate participants for undertaking specific conservation actions, typically funded by state or international sources (OECD et al., 2022^[65]).

Figure 1.31 Terrestrial and marine protected areas in LAC by country, 2024



Note: The figure shows the share of marine protected areas as a percentage of each country's Exclusive Economic Zone (EEZ) and terrestrial protected areas as a percentage of total land area, both for 2024. Marine protection data exclude areas beyond national jurisdiction (the high seas), which represent 64% of global oceans, of which only 0.72% are currently protected. The LAC and OECD averages are calculated by dividing the total sum of protected areas across countries in the region by the region's total EEZ or land area, respectively.

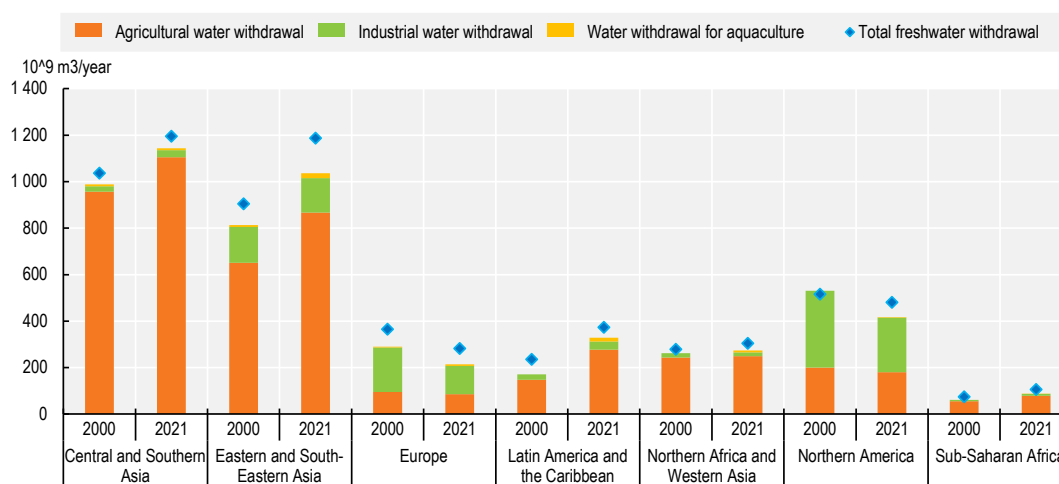
Source: Authors' elaboration based on (OCDE, 2025^[91]).

StatLink  <https://stat.link/3wfgqn>

Water

Water is a critical resource that supports the operation of nearly all industrial and manufacturing activities, agriculture, hydropower and human consumption. Total freshwater withdrawal increased in LAC by 58.5% between 2000 and 2021. This rise was driven primarily by a sharp 87.9% increase in agricultural water use, nearly doubling over the period. Industrial water withdrawal also grew, though at a slower pace, rising by 51.7% (Figure 1.32). However, compared to other developing regions, LAC faces an opportunity to further develop water-intensive sectors while improving sustainability strategies for water abstraction (the withdrawal of water from natural resources). In 2021, LAC withdrew only 2.7% of its internal renewable water resources, the lowest level among all global regions. Comparatively, water withdrawals exceeded 50% of total internal resources in South Asia, while in the Middle East and North Africa, the levels exceeded total internal resources (127%) in 2021. Within the LAC region, the distribution of water use is uneven. For example, Mexico withdrew approximately 45% of its internal resources in 2022, facing significant challenges in water availability (World Bank, 2022^[92]; FAO, 2025^[93]).

Figure 1.32. Water abstraction by sector and world region, 2000 and 2021



Note: Water withdrawal by sector is expressed in 10⁹ m³/year (1 000 million cubic metres per year).

Source: Authors' elaboration based on (FAO, 2025^[94]).

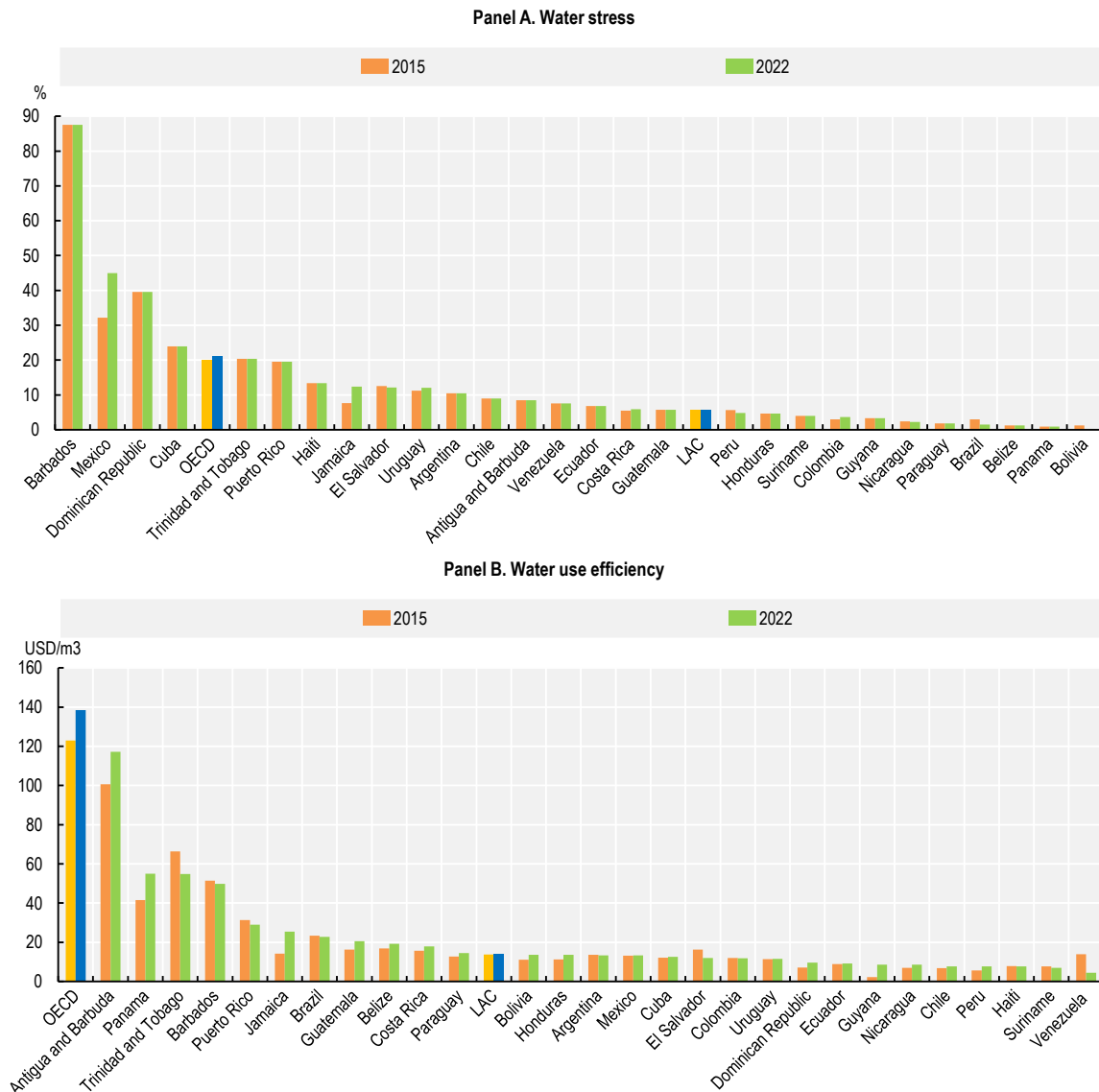
StatLink  <https://stat.link/jvf4yr>

The rising levels of freshwater withdrawal in LAC highlight the consequences of expanding production sectors without a systemic approach that integrates environmental and social considerations into development strategies. Water resources in the region are under growing pressure due to climate change, agricultural expansion, population growth, climate variability and industrial development. The rise in water-intensive crops like soybeans and sugarcane, alongside increased food demand, has significantly increased water use (FAO et al., 2025^[95]). Climate variability has also played a major role, as the increasing frequency and severity of droughts has led to greater reliance on artificial irrigation in countries such as Brazil and Mexico (Juárez-Lucas, Perez and Cohen, 2024^[96]).

Even if the regional average shows a steady level of water stress between 2015 and 2022, many countries are surpassing the sustainability threshold. Water stress refers to the level of pressure on freshwater resources, calculated as the proportion of total freshwater withdrawn relative to the available renewable freshwater resources. Values exceeding 25% indicate significant pressure on and potential unsustainability of water use. In 2022, countries such as Barbados (87.5%), Mexico (44.9%) and the Dominican Republic (39.6%) had water stress levels significantly above the sustainability threshold (Figure 1.33, Panel A).

These values reflect structural pressure on renewable water resources in contexts of high demand and limited availability. However, the regional average for water stress remains stable and low, below the OECD average (21.0%) but with large internal disparities. Although the aggregate water stress level value for LAC remains around 5.7%, the stress levels of Bolivia (0.2%), Panama (0.9%) and Belize (1.3%) contrast sharply with the most exposed countries.

Figure 1.33. Water stress and use efficiency in LAC and OECD, 2015-2022



Note: Panel A shows the level of water stress, calculated as the proportion of total freshwater withdrawn to available renewable freshwater resources (%). Values above 25% indicate significant pressure on water resources. Panel B displays water use efficiency, expressed as the economic value added (in constant USD) generated per cubic meter (m³) of freshwater withdrawn. Higher values reflect more efficient use of water resources.

Source: Authors' elaboration based on (FAO, 2025^[94]).

StatLink  <https://stat.link/61dlkf>

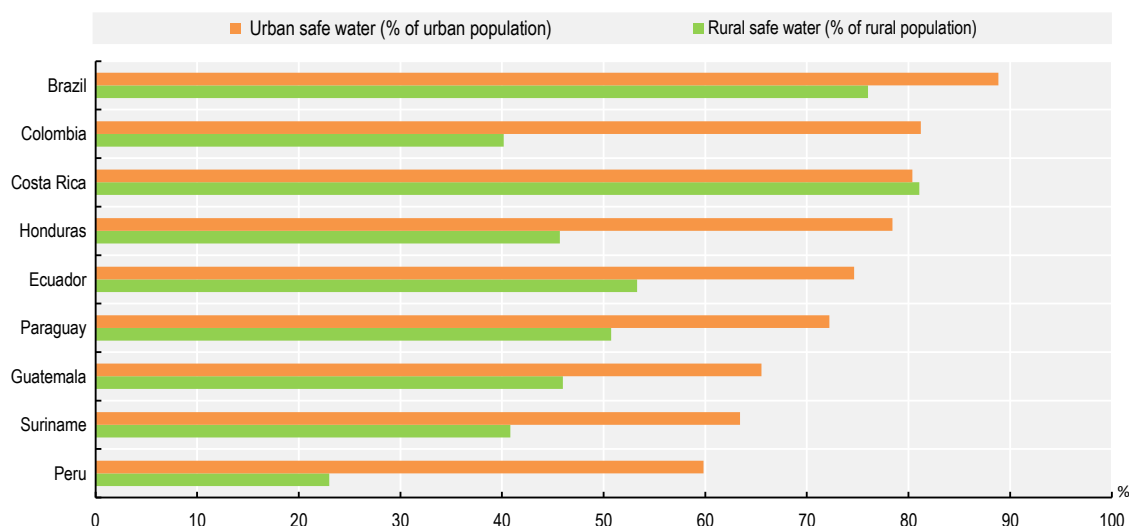
Sustainable water management must go beyond consumption metrics, focusing instead on achieving maximum efficiency in water use across productive sectors. Water use efficiency refers to the economic

output generated per unit of freshwater withdrawn, typically measured as the value added (in constant USD) per cubic meter (m^3) of water used. Higher values indicate a more productive and sustainable use of limited water resources. While the OECD average shows a higher percentage of water stress than the LAC region, the OECD's water efficiency in 2022 reached USD 138.5/ m^3 , well above the LAC average of USD 13.7/ m^3 (Figure 1.33, Panel B). This highlights a structural gap in water protection and productivity in LAC. In 2022, high-efficiency performers in the region included Antigua and Barbuda (USD 117.2/ m^3) and Panama (USD 54.9/ m^3). In contrast, countries like Mexico and the Dominican Republic face a double vulnerability: high levels of water stress (44.9% and 39.6%, respectively) combined with low efficiency levels (USD 13.3/ m^3 and USD 9.7/ m^3), reflecting more complex sustainability challenges. When designing sustainable water management, it is essential to consider that there is often a spatial mismatch between water supply and demand within many LAC countries, with water-abundant regions far from population centres or productive hubs.

A systemic approach to water management can both improve production strategies and increase well-being (FAO, 2023^[97]). Improving the development and modernisation of water infrastructure can prove particularly useful for LAC. In several countries of the region, aging and inefficient infrastructure contributes to water losses of up to 60%, undermining the efficiency of water extraction and increasing the energy costs associated with water transport (CAF, 2018^[98]). Additionally, surface water storage in the region remains limited, representing only 7% of renewable water resources, compared to 24% in the United States and 29% in China. This highlights the need for strategic investment in water storage capacity (World Bank, 2022^[92]). Inadequate water infrastructure directly affects the well-being of citizens, limiting access to reliable and safe water services. When designing a systemic approach for water management, governments are encouraged to base the design at the river basin level, where water governance can better align with ecological and hydrological realities.

In LAC, around 161 million people – one out of four residents – lack safely managed drinking water services, and around 431 million (seven out of ten) lack safely managed sanitation services (ECLAC, 2022^[99]). In 2022, access to safe drinking water remained uneven, with a notable rural-urban divide (Figure 1.34). In countries where a large proportion of the population is urban, like Brazil (89%), Colombia (81%) and Honduras (78%), urban areas reported relatively high access to safe drinking water in 2022, while rural populations lagged. For instance, only 23% of Peru's rural population had access to safe drinking water, compared to 60% in urban areas. Similar disparities were observed in Suriname (41% rural vs. 63% urban) and Colombia (40% vs. 81%). Costa Rica stood out as the only country where rural access (81%) slightly exceeded urban access (80%) (World Bank, 2025^[58]).

Figure 1.34. Population with access to safely managed drinking water services, urban vs. rural (%), in selected LAC countries, 2022



Note: Percentage of the population with access to safely managed drinking water from improved sources, which are available at the household, accessible when needed and free from faecal and priority chemical contamination. Improved water sources include piped water, boreholes, tube wells, protected dug wells, protected springs and packaged or delivered water.

Source: Authors' elaboration based on (World Bank, 2025^[58]).

StatLink  <https://stat.link/rmpow>

The LAC region has the opportunity to advance productive policies that both safeguard water reserves and enhance equitable access to water. The adoption of new technologies alone is insufficient if these innovations continue to place excessive demands on water and other natural resources. Effective production strategies must prioritise not only technological advancement but also the efficient and sustainable use of critical inputs such as water. Given its horizontality, systemic thinking can be applied to water management.

Policy messages

LAC countries face persistent productivity challenges that limit their ability to achieve inclusive and sustainable development. Structural bottlenecks, including weak innovation systems and limited technology adoption, have stifled productivity growth, hindered economic diversification and left economies dependent on a narrow range of exports and trading partners. Yet the region possesses significant untapped potential: abundant natural resources, favourable demographics, and emerging innovation ecosystems provide a strong foundation for diversifying trade, enhancing resilience and reorienting production models in the face of geopolitical uncertainty.

Seizing this potential requires a profound, systemic production transformation that is both sustainable and inclusive. LAC must adopt strategies that boost productivity, align with environmental goals and generate formal jobs. This entails rethinking economic, social and environmental priorities together, promoting strategic low-carbon, high-skill sectors and investing in technologies and policies that enhance resilience, equity and long-term development. By embedding sustainability and inclusion at the core of production, the region can unlock lasting growth and stronger societal outcomes.

Box 1.2. Key policy messages

Macroeconomic context

- LAC growth is slowing and converging towards its potential, reflecting global trends and domestic policy responses.
- Fiscal space to support productive and social investments is limited. Weak revenue mobilisation and rising debt-servicing costs constrain fiscal space, underscoring the urgency of stronger public finances.
- Inflation is lower in LAC, as policy rates trend downward, but uncertainty lies ahead. Credible monetary frameworks help bring inflation close to targets, though global volatility keeps uncertainty elevated.

Structural economic challenges

- Sluggish productivity limits potential growth and convergence with advanced economies.
- Export baskets remain concentrated in commodities and low-tech goods, curbing productivity gains and resilience to shocks.
- Limited intraregional trade may constrain export diversification.
- While LAC's traditional exports reveal comparative advantages, tech-intensive sectors offer a path to production transformation.
- Structural economic challenges in LAC require a holistic response. A comprehensive productive development agenda is needed to tackle fiscal, productivity and external vulnerabilities.

Social context

- Policies should be designed to foster the production transformation and channel private and public investment towards high-tech and digital-intensive sectors for creating well-paid formal jobs.
- Labour market policies should aim at generating an inclusive labour market, increasing decent labour opportunities.
- Simplified tax regimes have had good results in terms of tax compliance and business formalisation, in some countries of the region. The introduction of such schemes may be considered, drawing from effective policy experiences.
- In a context of persistent extreme monetary poverty and social inequalities, social protection schemes should move towards universality.
- General taxation can be a tool for the extension of social protection systems, as indirect taxes are already high in the region, and informality hinders the use of social security contributions.
- Conditional cash transfers must be developed and designed to respond more efficiently to income shocks, as they could partially substitute for or complement contributory social insurance schemes.
- Countries with limited fiscal space may consider a policy mix for informal workers using different entry points in social protection systems, depending on the specific employment status of informal workers.

Environmental context

- Production transformation should give equal weight to environmental sustainability, social inclusion and productivity. This systemic vision must be embedded across all strategic sectors.

- Domestic efforts should move beyond targeting emissions in key supply chains and adopt a systemic, country-specific approach to development that integrates environmental performance. Policy mixes – tailored to each sector and context – are more effective than stand-alone measures, accounting for 70% of emissions reductions, particularly in complex areas like buildings and transport.
- Ensuring international policy coherence – across developed and developing countries, the private sector and other stakeholders – can maximise the environmental efforts of production transformation.
- Recent improvements in LAC highlight the opportunity to promote land protection. Boost forest conservation and agricultural productivity through stronger reforestation policies, effective land-use planning, technology adoption, and payments for ecosystem services, addressing implementation gaps in anti-deforestation laws.
- Prioritising the reduction of energy intensity and losses while expanding renewables to advance sustainable production and meet low-carbon standards can help ensure equitable access, particularly in rural areas.
- Designing water management at the river-basin level and modernising infrastructure can reduce losses, improve efficiency and ensure safe, reliable access across LAC.

Notes

¹ These figures are calculated using data from the Groningen Growth and Development Center (GGDC) for the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru (Hamilton and J. de Vries, 2025^[100]).

² The Multidimensional Poverty Index for Latin America has been recently developed by the Economic Commission for Latin America and the Caribbean (ECLAC). It is structured in four major dimensions – dwelling, health, education, and employment and pensions – with 12 specific indicators (3 for each dimension) measuring the well-being conditions of people living in LAC households. It currently covers the following 17 LAC countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

³ The data refer to 2023 for Argentina, Brazil, Colombia, Costa Rica, El Salvador, Paraguay and Peru; to 2022 for Bolivia, Chile, Guatemala, Mexico and Suriname; to 2019 for Honduras, Jamaica and Uruguay; and to 2018 for the Dominican Republic.

⁴ The data refer to the following countries: Argentina, Chile, Colombia, Costa Rica, Mexico, Paraguay and Peru.

⁵ The figures refer to an unweighted average of income shares for the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Panama, Paraguay, Peru and Uruguay.

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2 Towards strong production transformation strategies

The complex and interconnected challenges facing Latin America and the Caribbean in the 21st century demand a fundamental shift in how the region approaches production transformation. This chapter presents a new vision for productive development policies in the region. The goal of the new approach is to foster not just productivity growth but also social inclusion and environmental sustainability. It requires scaling up investment in productive development policies, strengthening their governance, deepening place-based approaches and bolstering private-sector commitment, with a strong focus on internationalisation. The chapter also presents a comparative analysis of productive development strategies across the region. It concludes with recommendations emphasising areas where improved policy can offer the highest potential return.

Introduction

The Latin America and the Caribbean (LAC) region has historically exhibited significant reliance on commodity exports, a situation that contributes to macroeconomic volatility and limited diversification towards higher value-added activities (Ocampo and Ros, 2011^[1]; OECD/UN, 2018^[2]). This dependence is coupled with substantial heterogeneity in productivity levels – not only between sectors, for example a modern agricultural export sector versus informal sectors, but also within sectors at the firm level and across different territories within countries (ECLAC, 2007^[3]; IDB, 2010^[4]; OECD et al., 2019^[5]) (OECD/UN/UNIDO, 2019^[6]). There are significant disparities in labour productivity between large, export-oriented firms and smaller, domestically focused enterprises in the same sector (Chapter 1).

The imperative for production transformation in LAC extends beyond traditional economic considerations to encompass social and environmental dimensions. The region faces the urgent challenge of transitioning towards production structures that are not only more productive and diversified but also more sustainable, inclusive and resilient to global shocks. This comprehensive transformation requires moving from abstract development goals to well-designed productive development policies (PDPs) that can drive structural change across multiple dimensions simultaneously.

The early 21st century has witnessed a resurgence of interest in PDPs globally. This renewed focus is driven by several interconnected factors. The resurgence of interest in industrial and PDPs was strongly inspired by the better understanding, based on overwhelming evidence and increasingly accepted by the mainstream economic profession, that the developmental states of East Asia had successfully used industrial policies to help them rapidly absorb know-how, technology and knowledge from the rest of the world, to assimilate it at a tremendous pace and to diversify into new and more sophisticated products. The work of the World Bank's Commission on Growth and Development, launched in 2006, was an important step towards a fresh appraisal of industrial policies. Its report concluded that economists lack understanding of the growth process, in particular of the link between education, training and technologies, on the one hand, and growth, on the other. One the strongest boost to the reassertion of industrial policy came with the onset of the financial crisis in 2007-2008. The crisis served as a reminder that unregulated markets and weak states provide a poor institutional environment for managing economies and societies. Just as importantly, it opened up an interest in more sustainable and more inclusive strategies in advanced countries, including a possible role for industrial policy, not only in areas such as infrastructure development and the green economy but also in what some saw as the undue hollowing out of the manufacturing and skills based (Salazar-Xirinachs, Nubbler and Kozul-Wright, 2014^[7]).

More recently, growing concerns about the fragility of global value chains, exposed by events like the COVID-19 pandemic, have prompted governments to prioritise the resilience and diversification of domestic value chains (Baldwin and Evenett, 2020^[8]). The urgent need to address climate change has spurred the development of industrial policies aimed at fostering green technologies and sustainable production practices (UNEP, 2011^[9]). Evolving geopolitical landscapes and increasing strategic competition among major economies have also highlighted the importance of bolstering domestic productive capabilities in key sectors, such as digital or advanced manufacturing (ECLAC, 2020^[10]). The pursuit of sustained and higher growth remains a central motivation for the renewed interest in PDPs, as policymakers seek to unlock productivity gains and create better jobs (ECLAC, 2024^[11]).

Major economies have implemented proactive PDP efforts in the past years. The European Union has strengthened its industrial strategy through initiatives like the New Industrial Strategy for Europe (European Commission, 2020^[12]), the European Green Deal, and more recently the European Digital Compass and the European Chips Act and the comprehensive strategy outlined in the Draghi Report on the future of European competitiveness, which emphasises strategic autonomy in critical technologies and supply chains (European Commission, 2024^[13]), back to back with the Letta report on strengthening of the EU single market. In 2021, the European Union launched its Global Gateway Strategy to boost smart, clean

and secure links in the digital, climate, energy and transport sectors and to strengthen health, education and research systems across the world. Global Gateway aims to mobilise investments with a transformational impact through a Team Europe's 360° approach. The focus is on smart investments in quality infrastructure, respecting the highest social and environmental standards, in line with European Union values: rule of law, human rights and international norms.

The United States has launched initiatives such as the American Jobs Plan and the CHIPS and Science Act (United States Congress, 2022^[14]). These initiatives aim to reshore critical manufacturing, invest in infrastructure and boost research and development (R&D) in key technologies. A more recent initiative is the Inflation Reduction Act, which represents the largest climate investment in United States history while also targeting critical manufacturing and supply chain resilience (United States Congress, 2022^[15]).

The People's Republic of China continues to implement its strategic industrial policies, exemplified by Made in China 2025, which focuses on technological self-reliance and global leadership in strategic industries (State Council of the People's Republic of China, 2015^[16]). Similarly, countries like Singapore and South Korea have long histories of leveraging targeted interventions to achieve remarkable transformations in their production structures (Amsden, 1992^[17]; Wade, 1990^[18]).

For LAC, the ongoing reconfiguration of global value chains and the rise of nearshoring and friendshoring present significant opportunities and challenges for achieving comprehensive production transformation (ECLAC, 2023^[19]) (Chapter 4). The potential to attract foreign direct investment (FDI) seeking closer proximity to major markets could provide a much-needed boost to productivity and diversification. However, in order to enhance the region's genuine competitiveness, proactive PDPs are needed to address existing bottlenecks in infrastructure, skills, regulation and the business environment (ECLAC, 2020^[10]). Without well-designed interventions, LAC risks remaining on the periphery of these global shifts or attracting only low value-added activities (Devlin and Mogueilansky, 2011^[20]).

Against the backdrop of increasing geopolitical tensions, climate urgency and technological disruption, there is a clear and compelling case for LAC to embrace a renewed vision for PDPs – one that learns from past experiences, adapts to the current global context and is tailored to the region's unique challenges and opportunities (ECLAC, 2024^[21]; Salazar-Xirinachs and Llinás, 2023^[22]; ECLAC, 2024^[11]). These policies must be designed to foster sustainable and inclusive growth (ECLAC, 2022^[23]) (Chapter 1). The need for strong production transformation strategies becomes even more urgent given the current trade frictions between major economies and strategic competition for technological and energy dominance, which are reshaping global production networks and innovation ecosystems. This chapter presents frameworks and recommendations for taking action on PDPs in LAC in order to forge strong production transformation strategies. It analyses the region's current initiatives and provides policy guidance to enhance their scale and effectiveness.

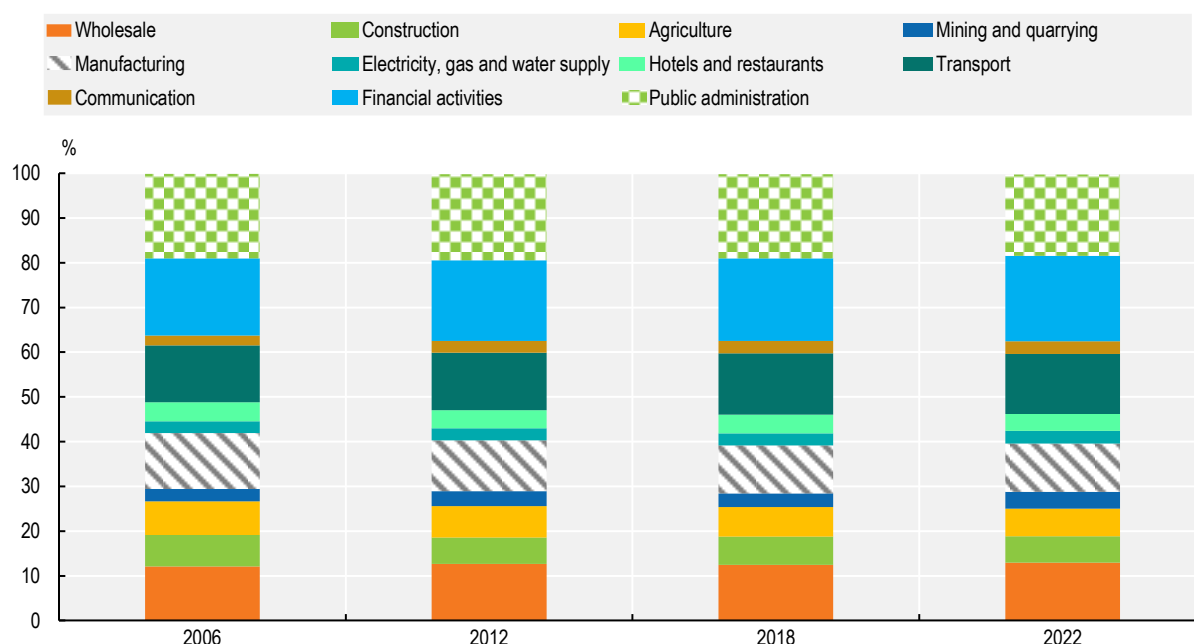
A new vision for productive development policies in LAC

To understand why LAC needs a renewed vision for PDPs, the evolution of the region's production structure and their rich but complex history of industrial and economic transformation must be examined. This historical perspective reveals patterns of both achievement and limitation that should inform new approach for the design and implementation of PDPs.

The regions' production structure remained relatively stable in the last two decades. Services related activities make the largest contribution to GDP (Figure 2.1). Wholesale and retail, trade, financial activities, communication, transport and public administration accounted for 67% of GDP in 2022, slightly lower than the 70% recorded in 2006. Within this group, financial services have expanded since 2006, increasing from 17% to 19%. Even though industry has stagnated or declined in most LAC countries over the past years, the manufacturing sector continues to contribute a significant share of the region's GDP, accounting for

11% in 2022. The agriculture's contribution shrunk from 8% in 2006 to 6% in 2022, yet the sector remains an essential driver of growth and exports (Figure 2.1).

Figure 2.1. LAC production structure, 2006-2022 (% of GDP by sector)



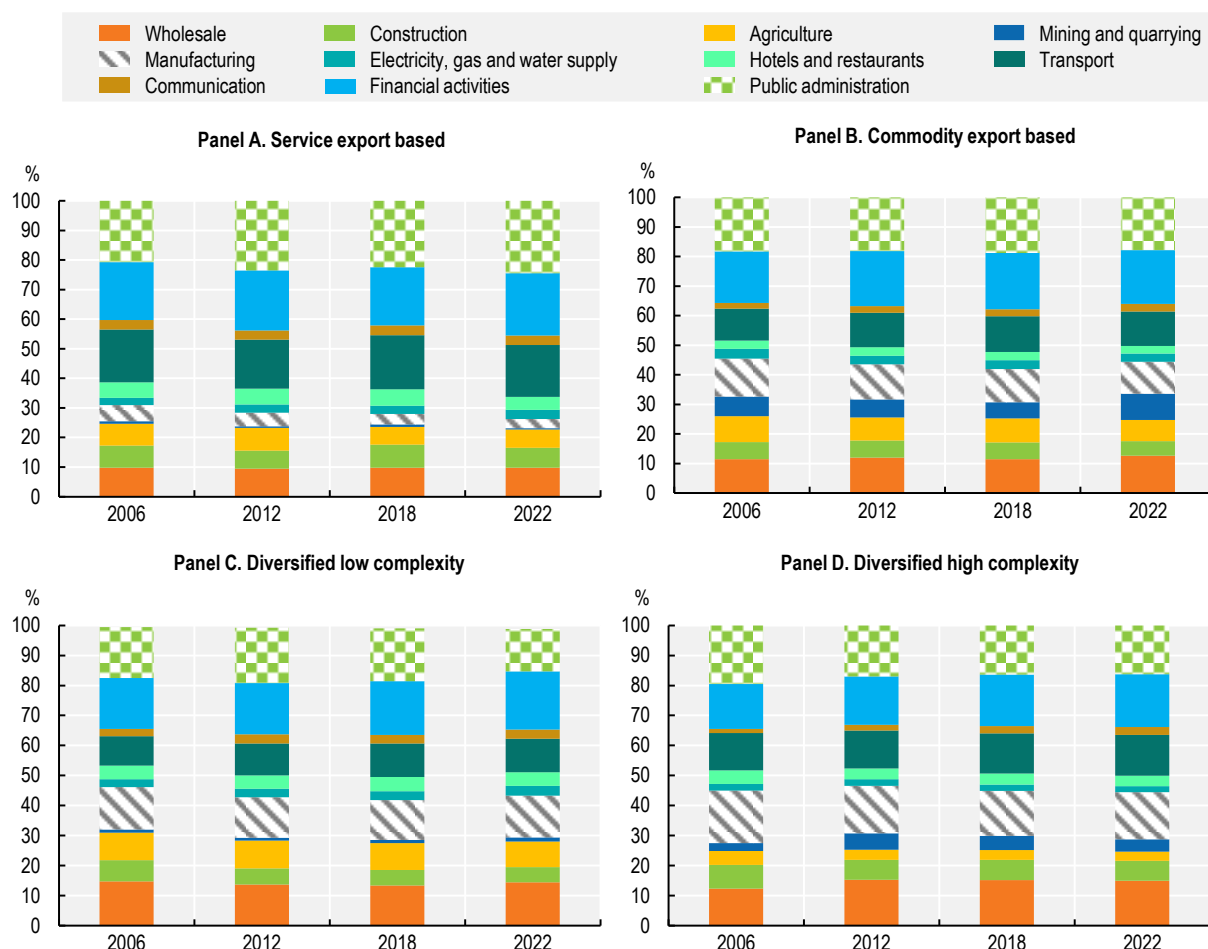
Note: LAC countries are detailed in the note of Figure 2.2. Transport includes storage, communications and auxiliary activities. Financial activities include intermediation, real estate, renting and business activities. Public administration includes defence, compulsory social security, education, health and social work and other community, social and personal service activities. Wholesale includes retail trade and repair of goods. Agriculture includes hunting, forestry and fishing. Communication includes post and telecommunications.

Source: Authors' elaboration based on (ECLAC, 2025^[24]).

StatLink  <https://stat.link/x9c34t>

The strong heterogeneity of the region's economies can be illustrated by grouping LAC countries into four different types, based on their export profile. Service export-based economies are predominantly oriented toward activities such as wholesale, finance, public administration, communication, hotels and restaurants, which serve as the main driver of value added. In these economies service-related activities made up 80% of GDP, while the manufacturing sector played a minor role compared to the rest of LAC, representing only 3% of GDP in 2022. On the contrary, commodity export-based economies rely more heavily on agriculture and mining, jointly contributing to more than 15% of GDP in 2022 (Figure 2.2). Diversified low complexity economies present a more balanced mix between manufacturing, services and primary sectors, but with a more limited industrial upgrading and technological sophistication than diversified high-complexity economies. These economies are characterised by a similar sectoral mix, though with greater industrial depth and technological intensity, which is associated with higher levels of productivity and economic sophistication. In these countries services remain central, but manufacturing has a stronger weight compared to the regional average, accounting for approximately 16% of GDP in 2022 (Figure 2.2).

Figure 2.2. Production structure of LAC economies by export profile, 2006-2022 (% of GDP)



Note: For the four panels, the following classification was applied: commodity export-based economies are defined as those with more than 60% of merchandise exports in commodities, with data stemming from Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Jamaica, Paraguay, Peru, and Uruguay. Service export-based economies are defined as those with more than 45% of exports in services, with data stemming from the Bahamas, Dominica, Grenada, and Saint Vincent and the Grenadines. Economies ranked in the top 60 of the Economic Complexity Index – Costa Rica, the Dominican Republic, Mexico, and Trinidad and Tobago – are classified as diversified with high economic complexity, while the group of diversified low complexity is based on data from Barbados, El Salvador, Guatemala, Honduras, and Nicaragua. Regarding the sector definitions, transport includes storage, communications, and auxiliary activities. Financial activities include intermediation, real estate, renting, and business activities. Public administration covers defence, compulsory social security, education, health, social work, and other community or personal services. Wholesale includes retail trade and repair of goods. Agriculture includes hunting, forestry, and fishing. Communication refers to post and telecommunications.

Source: Authors' elaboration based on (ECLAC, 2025^[24]).

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Historical context

The need for a renewed vision for PDPs in LAC is not only underscored by the region's persistent structural patterns and growing heterogeneity among its economies but also by the historical experiences with industrial transformation. Despite relative stability in the production structure over the past two decades, services continue to dominate GDP, while industry and agriculture have either stagnated or declined. The diversity of economic profiles highlights the need for tailored, context-sensitive PDPs. Learning from past

successes and limitations, future policies must reflect this complexity to foster inclusive and sustainable production transformation across the region.

The import substitution legacy (1950s-1980s): Ambitious vision, mixed results

The region's first systematic approach to production transformation emerged from the structuralist thinking pioneered by Raúl Prebisch and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Countries like Argentina, Brazil and Mexico built substantial industrial capacity through protected domestic markets and state-led investment. While this era successfully diversified economies away from pure commodity dependence and created important industrial capabilities, it also generated protected industries with limited international competitiveness and high fiscal costs.

One of the key lessons from this period is not that state intervention in addressing market failures was wrong per se, but rather that the design lacked mechanisms for ensuring efficiency, international competitiveness, adaptation and phasing-out over time. This experience taught us that PDPs need built-in incentives for continuous improvement and global integration and that they need to be accompanied by measures to prevent rent-seeking behaviour and ensure the policies do not stifle competition and innovation.

The market reform era (1990s-2000s): Efficiency gains, structural gaps

The pendulum then swung towards market-oriented reforms, with many countries dismantling industrial policies in favour of horizontal approaches focused on macroeconomic stability, privatisation and trade liberalisation. While these reforms delivered important benefits, including reduced inflation, improved fiscal discipline and greater trade integration, they often failed to address the deeper structural challenges of productivity growth and economic diversification, while exposing national economies to a sudden wave of international flows that undermine previous industrial efforts.

Countries that relied primarily on market mechanisms found themselves vulnerable to commodity price volatility and struggled to develop the innovation capabilities and high-value activities necessary for sustained growth. The lesson here is that while markets are essential for efficiency, they alone cannot drive the co-ordinated investments in capabilities, infrastructure, productive linkages and institutions required for production transformation and productivity growth.

Hybrid approaches (2010s-present): Sophisticated design, implementation challenges

Learning from both previous experiences, many LAC countries have recently developed more nuanced approaches that attempt to combine market mechanisms with strategic state intervention. Brazil's various industrial policies, Chile's innovation and cluster initiatives, Colombia's competitiveness agendas, Costa Rica's and the Dominican Republic's sectoral investment attraction policies and Mexico's sectoral strategies represent sophisticated attempts to address the limitations of pure state-led and pure market-led approaches.

However, even these more sophisticated policies have struggled with implementation challenges, institutional co-ordination problems, lack of financial resources and insufficient scale to generate transformative change. Countries are doing better at designing these policies, but they have not yet mastered the art of implementing them effectively. The complex evolution of industrial and economic policies in LAC limited the possibilities of structural transformation, constraining the shift of resources towards higher value-added and higher productivity sectors.

A new era for productive development policies in LAC

Building on these lessons, this *Latin American Economic Outlook* proposes a new approach to PDPs that would represent a fundamental evolution in how LAC conceives and implements economic transformation strategies. This comprehensive approach addresses the historical shortcomings identified across decades of policy experimentation through four interconnected innovations:

- The first innovation establishes *governance mechanisms* designed for continuity and deep stakeholder commitment that can transcend the political cycles that have historically undermined long-term productive development efforts. It creates institutional arrangements that maintain strategic coherence even as governments change.
- The second innovation introduces *institutional capability frameworks* that ensure that policies can be implemented in practice. Moving beyond the sophisticated policy design that has characterised recent efforts, it focuses on the technical, operational, political and prospective capabilities necessary to translate plans into results.
- The third innovation embraces *place-based approaches* that leverage territorial assets and competitive advantages while maintaining national coherence. It recognises that production transformation must be rooted in local realities and capabilities rather than imposed through one-size-fits-all national strategies.
- The fourth innovation combines *strategic prioritisation* with *adequate resource mobilisation* to achieve transformative scale. Addressing the chronic problem of spreading limited resources too thinly, it concentrates efforts on carefully selected driving sectors while ensuring that sufficient financial, human and institutional resources are committed to generate meaningful production transformation rather than marginal adjustments to existing productive patterns.

This vision entails several key elements.

Productive development policies as horizontal and vertical efforts to spur production transformation and productivity

It is important to understand PDPs as a set of co-ordinated public interventions that encompass both horizontal policies, i.e. those affecting the entire economy or multiple sectors, such as R&D, public procurement, tax credits and entrepreneurship promotion programmes, and vertical policies that target specific sectors, technologies or activities deemed strategic for development, such as support for renewable energy or advanced manufacturing.

The overarching goal of these policies is to foster comprehensive production transformation as a vehicle not just for productivity growth but also for social inclusion and environmental sustainability. Production transformation involves upgrading, diversifying and generating a positive structural change in the economy. This transformation implies moving towards higher value-added activities, greater diversification, increased technological sophistication, more inclusive employment generation and environmentally responsible production methods (ECLAC, 2007^[3]; Lin and Chang, 2009^[25]; Salazar-Xirinachs, Nubbler and Kozul-Wright, 2014^[7]; ECLAC, 2024^[26]; ECLAC, 2024^[21]). Production transformation is the primary mechanism for achieving sustained productivity growth and more sustainable and inclusive methods of production at the aggregate level. This systemic definition states that gains are not solely the result of firm-level efficiency, but are deeply embedded in the broader economic structure, shaped by social outcomes, environmental sustainability, and the dynamic nature of innovation. It also acknowledges the evolutionary character of economic change and the critical role of technical progress over time – highlighting how innovation drives transformation across the productive ecosystem (Nelson and Winter, 1982^[27]).

While modern PDPs integrate horizontal and vertical elements, the prioritisation of strategic sectors introduces a natural tension (Lin and Chang, 2009^[25]). On the one hand, horizontal policies aim to level

the playing field across sectors; on the other, vertical interventions focus resources on prioritised sectors or areas. In contexts of fiscal constraint and urgent development needs, policymakers are effectively “doomed to prioritise”, raising the question of which approach should take precedence. A clear articulation of the complementarities between these two logics is needed for coherent and effective PDP design.

A broad-based view of productive development policies: Beyond the manufacturing sector

The new vision for PDPs in LAC must adopt a broader perspective, recognising the significant potential for productivity growth and diversification across a wide range of economic activities. Traditional PDPs in the region have often focused on manufacturing, reflecting the legacy of import substitution industrialisation (Prebisch, 1950^[28]). The new approach must expand to include sophisticated exportable services such as software development, information technology-enabled services, artificial intelligence (AI)-based solutions and modern agriculture, which increasingly anchor value creation in global value chains.

At the same time, not all services are equally strategic. Some back-office functions may be vulnerable to automation or lack tradability and should not be the focus of state support. Moreover, non-tradable sectors such as logistics, sustainable construction and health services offer substantial productivity improvement opportunities and can be legitimate targets of PDPs, especially when they address systemic bottlenecks or generate productivity spillovers (ECLAC, 2016^[29]).

This broad-based view builds on the evolving nature of structural change, leapfrog and global trends. It aims to balance “industrial policy in the small” – supporting productivity in proximate sectors – with “industrial policy in the large” – targeting longer jumps towards more sophisticated products and services (Hausmann, Rodrik and Sabel, 2008^[30]; Llinás, 2021^[31]; Cherif and Hasanov, 2019^[32]; Lee, 2019^[33]). It allows each country to tailor its strategy to its development stage, comparative advantages and institutional capabilities.

Governance, not subsidies, up front: Understanding productive development policies as multistakeholder efforts

A critical element of a renewed vision for PDPs in LAC is a fundamental shift in emphasis from reliance on untargeted and poorly designed subsidies and trade protection towards robust governance mechanisms and genuine multistakeholder collaboration (Rodrik, 2004^[34]). While carefully targeted financial and tax-related instruments may play a role in specific, well-justified contexts (e.g. to address specific market failures or incentivise risky but high-potential investments) (Chapter 3), the primary focus should be on establishing effective platforms for dialogue, co-ordination and joint problem-solving among government agencies at all levels; the private sector, including firms of all sizes, industry associations and business support organisations; academia; and civil society organisations. This collaborative approach, typical of cluster-based approaches is essential for i) accurately identifying key bottlenecks hindering productive development; ii) setting realistic and shared strategic priorities and building strategic agendas based on them; iii) designing effective and context-specific interventions; iv) ensuring policy coherence across different levels and sectors; and v) fostering greater accountability and ownership of PDP outcomes. The emphasis on governance up front recognises that successful PDPs are not simply about allocating resources but also about building shared understanding, fostering trust and creating the institutional capacity for continuous learning, adaptation and effective implementation (Evans, 1995^[35]).

This shift reflects several key insights:

- *Distributed knowledge.* In complex modern economies, relevant information about opportunities, constraints, incentives and potential solutions is widely distributed among various actors rather than concentrated in government agencies.

- *Resource complementarities.* Production transformation typically requires combining diverse resources controlled by different stakeholders, including public agencies, private firms, academic institutions and civil society organisations.
- *Implementation capabilities.* Effective implementation often depends on co-ordinated action by multiple actors rather than government action alone.
- *Legitimacy and sustainability.* Policies developed through inclusive processes tend to enjoy greater legitimacy and sustainability across political cycles.
- *Fiscal constraints.* Many LAC countries face significant fiscal limitations that restrict their ability to deploy large-scale financial incentives, making governance-based approaches more feasible.

Governance-centred PDPs emphasise structured mechanisms for dialogue, co-ordination and collaboration among stakeholders. These may include public-private councils, sectoral roundtables, cluster organisations, value-chain committees and other institutional arrangements that bring together relevant actors to identify constraints, develop shared visions, co-ordinate actions and monitor results.

This collaborative approach does not eliminate the need for financial and tax-related instruments, which remain important tools in the PDP toolkit (Chapter 3). Rather, it suggests that such instruments should be deployed strategically within robust governance frameworks and strategic agendas that ensure their effectiveness, transparency and alignment with broader development objectives.

Governance for productive development should be understood as going beyond platforms for collaboration. It should be understood broadly as the mechanisms – namely, the instances for collaboration but also the routines, rules of the game and incentives – that facilitate the articulation of multiple stakeholders, resources and efforts around strategic productive development agendas.

Place-based productive development policies: A territorial approach

A new vision for PDPs must embrace a strong place-based approach, recognising the significant territorial heterogeneity within LAC countries in economic structures, resource endowments, development challenges and institutional capacities (ECLAC, 2010^[36]; OECD et al., 2019^[5]; Salazar-Xirinachs and Llinás, 2023^[22]; ECLAC, 2024^[11]; ECLAC, 2024^[21]). Adopting a place-based approach entails tailoring policies and interventions to the specific needs, assets and challenges of different regions and localities (Barca, McCann and Rodríguez-Pose, 2012^[37]; OECD/UN/UNIDO, 2019^[6]). Tailoring policies and interventions to specific local needs implies i) identifying and leveraging local competitive advantages and unique resources; ii) fostering the development of regional clusters and value chains that build on local strengths; iii) supporting local entrepreneurship and innovation ecosystems; and iv) addressing sector-specific and territorial bottlenecks in areas such as skills development; science, technology and innovation (STI); infrastructure (transport, energy, digital connectivity); and the quality of local institutions. A place-based approach requires empowering subnational actors (regional and municipal governments, local development agencies), fostering effective interjurisdictional co-ordination, and building local institutional capacity for the design, implementation and monitoring of PDPs that are responsive to local contexts and needs (OECD, 2023^[38]; Rodríguez-Pose, 2018^[39]).

A place-based approach to PDPs involves several interconnected elements:

- *Differentiated diagnoses.* Systematically analysing the production structure, capabilities, constraints, available and projected financial resources, and opportunities of different territories to inform targeted interventions.
- *Multilevel governance.* Clearly articulating roles and responsibilities across national, regional and local governments, with appropriate co-ordination mechanisms to ensure policy coherence.
- *Territorial capacity building.* Strengthening the capabilities of subnational governments and local stakeholders to design, implement and evaluate place-based productive development initiatives.

- *Spatial targeting.* Directing specific resources and programmes to address the challenges of different types of territories, including lagging regions, intermediate cities and metropolitan areas.
- *Territorial innovation systems.* Nurturing the local ecosystems of institutions, firms and knowledge flows that support innovation and upgrading in specific places.
- *Urban-rural linkages.* Strengthening the connections between urban and rural areas to create more integrated and inclusive territorial economies.

Productive development remains highly unequal across regions within LAC countries, requiring PDPs that systematically assess and leverage local production assets and capabilities. The assessment of place-based policies can be challenging due to the complexity of territorial dynamics and the difficulty of isolating policy effects from other local factors. However, the persistence of regional disparities demands that PDPs move beyond one-size-fits-all approaches towards a nuanced understanding of local production ecosystems, asset endowments and development constraints. This territorial lens is essential not only for equity considerations but also for maximising the efficiency of public investments by building on existing local strengths rather than attempting to impose external development models (Barca, McCann and Rodríguez-Pose, 2012^[37]).

Addressing bottlenecks on multiple fronts and forging strategic productive development policy agendas

A critical foundation for any effective PDP is the systematic identification and analysis of root causes that constrain sustainable productive development (Hausmann, Rodrik and Sabel, 2008^[30]; Rodrik, 2004^[34]). Rather than addressing symptoms through isolated interventions, successful PDPs must diagnose the fundamental structural, institutional, market and government failures that perpetuate low productivity and limited diversification (Crespi, Fernández-Arias and Stein, 2014^[40]). This requires employing diverse analytical approaches and diagnostic tools in order to understand how different constraints interact with and reinforce each other within specific national, territorial and sectoral contexts. The main issues captured in contemporary PDPs often reflect surface-level problems rather than underlying causes. More rigorous analytical frameworks are needed that can identify leverage points for sustainable transformation (ECLAC, 2024^[11]; ECLAC, 2024^[21]).

Productivity growth and production transformation are often hampered by bottlenecks that span various dimensions of the production ecosystem (Hausmann, Rodrik and Sabel, 2008^[30]). These can include i) inadequate physical infrastructure (transport, energy, information and communications technology [ICT]); ii) limited access to finance, particularly for small and medium-sized enterprises (SMEs) and innovative ventures (Beck and Demirgüç-Kunt, 2006^[41]) (Chapter 3); iii) skills gaps at all levels, from basic education to advanced technical and managerial expertise (Hanushek and Woessmann, 2015^[42]); iv) weak innovation ecosystems characterised by limited R&D investment and weak linkages between academia and industry (Chapter 4); v) burdensome regulatory environments and administrative hurdles (Djankov et al., 2002^[43]); and vi) deficiencies in business support services (e.g. technology extension, market intelligence).

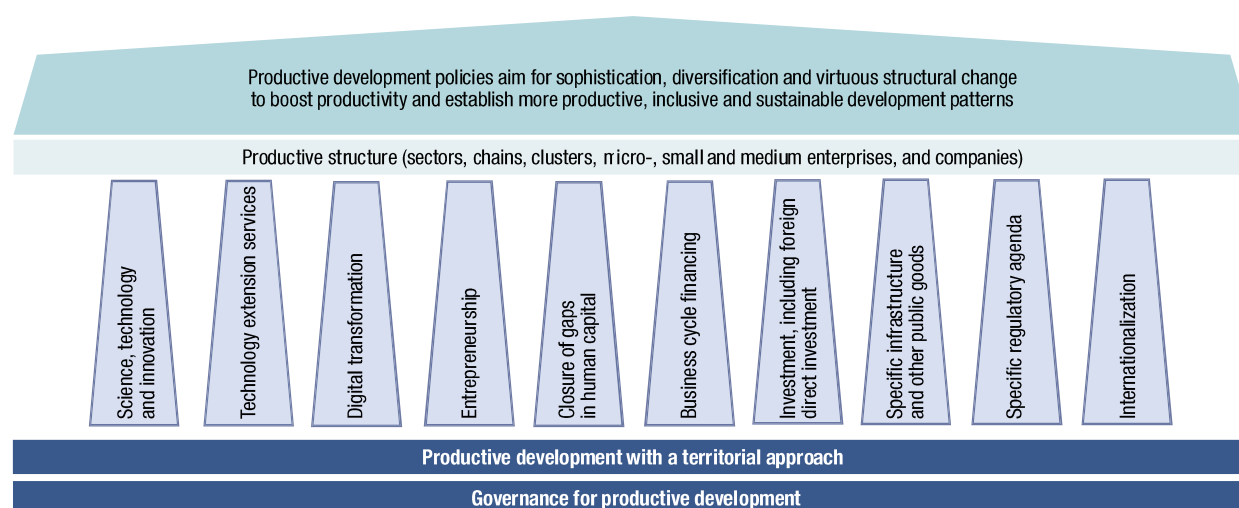
The effectiveness of PDPs depends on their ability to address these multiple dimensions in an integrated and strategic manner, recognising their interdependencies and identifying the specific combinations of constraints that limit sustainable and inclusive productivity growth in particular contexts. This requires moving beyond siloed approaches towards strategic agendas that co-ordinate actions across different policy domains and stakeholder groups.

A renewed vision for PDPs in LAC requires a comprehensive and integrated approach that systematically identifies and addresses these interconnected bottlenecks in a co-ordinated manner. Crucially, bridging skills gaps at all levels – from improving the quality and relevance of basic education to providing specialised vocational training and fostering lifelong learning – must be a central pillar of these

co-ordinated efforts (World Bank, 2019). For example, efforts to promote a particular strategic sector might involve simultaneous investments in R&D infrastructure relevant to that sector, the development of specialised training programmes to meet its skill needs and the simplification of relevant regulations to reduce the cost of doing environmentally and socially responsible business.

The production structure is at the centre of the comprehensive and interconnected approach that underpins modern PDPs. These policies aim to transform the production structure – comprising sectors, value chains, clusters and firms of various sizes – through upgrading, diversification and positive structural change. The production structure encompasses ten key policy domains that serve as the primary areas of intervention (Figure 2.3). These policy dimensions, depicted as pillars, should be addressed and articulated within the PDP framework. The diagram highlights that PDPs are underpinned by cross-cutting support such as governance structures and a territorial approach, recognising the need for policy coherence across levels of government and the role of local actors (ECLAC, 2024^[11]). This systemic vision reflects the understanding that production transformation requires not only targeted incentives but also institutional collaboration, strategic public goods and iterative, evidence-based policymaking.

Figure 2.3. Definition and scope of productive development policies



Source: (ECLAC, 2024^[11]).

Doomed to prioritise: The need to identify and promote strategic driving sectors

Countries and territories are doomed to prioritise, to paraphrase Hausmann and Rodrik (2006). This is especially the case in LAC, conditioned by a context marked by climate urgency, geopolitical tensions, technological bifurcation, widening inequalities and numerous bottlenecks that hinder production transformation. The path to high, sustained and sustainable growth requires identifying and promoting strategic driving sectors that can shift the productive matrix towards higher value-added and more knowledge-intensive activities (ECLAC, 2012^[44]; ECLAC, 2024^[11]; ECLAC, 2024^[21]; ECLAC, 2020^[10]).

Given the constraints of financial, institutional and political resources and the inherent complexity of fostering broad-based structural transformation, LAC countries must make strategic choices. They must prioritise interventions in carefully selected driving sectors or activities with significant potential for productivity growth, diversification, job creation (especially higher-quality jobs) and positive spillover effects, including those related to the environment. The selection of these strategic priorities should be based on i) a rigorous analysis of the country's existing capabilities and comparative advantages (Chapter 1); ii) emerging global trends and market opportunities (e.g. in green technologies or digital services); iii) the potential for sustainable development; iv) a clear understanding of the potential for

intersectoral linkages and knowledge diffusion; and v) the legitimacy that comes from inclusive, multistakeholder engagement (ECLAC, 2024^[11]).

This prioritisation process should be dynamic and subject to periodic review and adjustment based on evolving circumstances, technological advancements and evidence from policy learning. Prioritisation is crucial to avoid spreading limited public resources too thinly across an excessive number of sectors, which can dilute the impact of PDPs and hinder meaningful structural change (Aiginger, 2007^[45]).

While prioritisation should leverage existing capabilities and revealed comparative advantages, it must also create the conditions for building the industries of the future. This requires a balanced approach between what Hausmann, Rodrik and Sabel (2008) describe as “industrial policy in the small” – supporting productivity gains in sectors close to current capabilities – and “industrial policy in the large” – targeting longer jumps toward more distant, knowledge-intensive activities. Recent literature (Cherif, Hasanov and Sarsenbayev, 2024^[46]) suggests a combination of three strategies: “snail crawl” to strengthen existing sectors, “leapfrog” to upgrade mid-range capabilities and “moonshots” to aim for high-impact, transformative sectors (Cherif, Hasanov and Sarsenbayev, 2024^[46]). This strategic mix enables countries to secure quick wins while preparing for future competitiveness. Sector prioritisation must therefore incorporate not only technical feasibility and market potential but also the temporal horizon needed to build capabilities and mobilise collective learning.

Prioritisation should be guided by at least three intertwined axes: sectoral dynamics, territorial articulation and institutional ecosystems. The sectoral dynamics axis involves identifying sectors with scale potential, learning opportunities and systemic linkages. For example, ECLAC’s “big push for sustainability” calls for investing in sectors that are both technologically dynamic and environmentally sustainable, such as renewable energy, electromobility, bioeconomy, sustainable tourism, digital services and advanced manufacturing with circular economy principles. Under territorial articulation, prioritised sectors must be rooted in regional development strategies to reduce territorial disparities, a hallmark of Latin America’s inequality. Through institutional ecosystems, sectoral promotion is co-ordinated across the different dimensions under PDPs. The creation of sectoral councils and productive development agencies is key to orchestrating the complexity of strategic prioritisation.

Box 2.1. How to prioritise and select strategic driving sectors

Prioritisation of strategic sectors is fundamental to modern PDPs. To be effective, sector selection must respond to clear criteria and be grounded in the specifics of each country and territory (UNIDO, 2024^[47]). Several key criteria can guide this process:

- *Existing capabilities and revealed comparative advantages.* Prioritise sectors where domestic firms already exhibit competitive performance and show high economic spillovers, such as agribusiness in Brazil or mining in Chile.
- *Alignment with global megatrends.* Select sectors that are positioned to benefit from the green transition, digitalisation or demographic shifts, such as the Chilean Green Hydrogen Strategy.
- *Sector sophistication and knowledge intensity.* Favour sectors that offer high potential for innovation spillovers, technological learning and productivity diffusion. Knowledge-intensive services, advanced manufacturing and technology-enabled sectors can offer greater development potential than traditional manufacturing. Sophistication should be the key criterion. Sectors like pharmaceutical development or electronics manufacturing demand sustained support due to their complexity and learning requirements.

- *Export and FDI potential.* Support sectors where global demand is strong and where strategic integration into value chains is feasible, such as Colombia's aerospace industry or Costa Rica's medical devices.
- *Environmental and social sustainability.* Consider sectors that promote inclusive and green growth, such as bioeconomy or sustainable tourism, for purposes of environmental and social sustainability.
- *Employment intensity and inclusion, including non-tradable services.* Incorporate sectors that can generate large-scale employment, especially for low- and middle-skilled workers. As emphasised by Rodrik and Stiglitz (2024), promoting productivity in labour-intensive sectors – including non-tradable services such as construction, domestic commerce, care services and hospitality – can play a crucial role in structural transformation, particularly in economies with large informal labour markets and limited fiscal space. These sectors, though often overlooked, offer substantial potential for inclusive growth and inequality reduction when supported by targeted policies that increase productivity and formalisation.

Apart from these strategies, the mission-oriented approach adopts a framework where sectors are "self-selected" based on their potential to address specific societal challenges and missions, such as climate change mitigation, public health crises or digital inclusion. The approach, developed by Mazzucato (2018), focuses on defining clear, measurable and time-bound missions that require cross-sectoral innovation and collaboration. Rather than selecting sectors in isolation, this method identifies which industries and capabilities are needed to solve pressing societal problems, allowing for more integrated and purpose-driven productive development strategies. For example, a mission to achieve carbon neutrality by 2050 would naturally prioritise renewable energy, energy storage, sustainable transportation and green manufacturing sectors, while a mission to improve equitable healthcare access might focus on pharmaceutical production, medical devices and digital health technologies.

Source: Authors' elaboration.

A key consideration for the strategic implementation of PDPs is that different sectors require distinct time frames and tailored approaches (Rodrik, 2004^[34]; ECLAC, 2024^[21]). Some high-tech industries, such as pharmaceuticals or advanced electronics, demand long-term vision and sustained investment over decades, while other sectors may yield results over shorter horizons (Amsden, 1992^[17]; Wade, 1990^[18]). Policymakers must therefore strike a balance between seizing near-term opportunities and laying the groundwork for longer-term transformation. Crucially, the requirements of each sector vary considerably: what is needed to foster pharmaceutical innovation differs significantly from what is required to scale electronics manufacturing. This underscores the need for sector-specific strategies (Warwick, 2013^[48]; ECLAC, 2024^[11]).

Sector prioritisation must not be treated as a purely technocratic exercise. It should be approached as a constructive and collective process, involving meaningful dialogue and co-ordination among key stakeholders, including public institutions, the private sector, academia and civil society (Sabel and Zeitlin, 2010^[49]). This participatory approach enhances legitimacy, ensures better alignment with local realities and fosters the commitment necessary for long-term implementation. These cases illustrate that effective sector selection in LAC must go beyond static notions of comparative advantage. It requires embracing dynamic criteria such as learning potential, innovation capacity and sustainability. The experiences of Brazil, Chile and Mexico highlight that successful production transformation depends not only on identifying promising sectors but also on establishing strong institutional co-ordination among ministries, agencies and private stakeholders, backed by robust multistakeholder governance mechanisms.

Moreover, strategic sector selection must be accompanied by the definition of strategic visions for these sectors that would define the bottlenecks to be addressed through projects and actions related, for

example, to specific infrastructure needs, regulatory aspects, human capital, and science and technology agendas, among other policy domains (Llinás, 2021^[31]). It is thus critical that sector prioritisation leads to the articulation of multiple productive development efforts around the prioritised sectors.

The experimental governance approach

In a rapidly changing global landscape characterised by accelerating technological disruption, evolving market dynamics and global shocks, a rigid, top-down approach to PDPs is unlikely to be effective.

A renewed vision for LAC must embrace an "experimental governance" approach, characterised by flexibility, learning and adaptation (Sabel and Zeitlin, 2010^[49]). This involves designing policies with built-in mechanisms for monitoring, evaluation and feedback, allowing for timely adjustments and course corrections based on evidence of what works and what does not in the specific context of LAC. Examples include Chile's Start-Up Chile programme, which has evolved through multiple iterations based on participant feedback, and Uruguay's ANDE innovation programmes, which incorporate regular evaluation cycles to refine support mechanisms.

The experimental governance approach entails both fostering a culture of experimentation and of risk-taking within policymaking and encouraging the design and implementation of pilot projects and the testing of innovative approaches to address specific development challenges. Effective knowledge sharing and learning across different policy initiatives within a country, and between different countries in the region, are crucial elements of this approach, enabling the diffusion of best practices and the avoidance of past mistakes (Andrews, Pritchett and Woolcock, 2017^[50]).

Proponents of the experimental governance approach argue that many reforms in developing countries fail because they rely on copying institutional models that appear successful elsewhere, leading to superficial changes without real functional improvements. To overcome these "capability traps", effective policy design often requires repeated experimentation, evaluation and refinement rather than predetermined recipes. The experimental governance approach emphasises four main elements:

- *Provisional goal setting.* Establishing clear but revisable objectives that provide direction while allowing for adaptation based on experience and changing conditions.
- *Decentralised implementation.* Enabling diverse actors to develop context-specific approaches to achieve shared goals, drawing on local knowledge and capabilities.
- *Regular reporting and peer review.* Creating structured processes for monitoring progress, sharing experiences and identifying successes and challenges.
- *Goal and method revision.* Periodically revising objectives and approaches based on accumulated learning and emerging insights.

This experimental approach is particularly valuable in LAC contexts characterised by uncertainty, limited information and evolving opportunities. It allows for the creation of tailored solutions to specific productive challenges while generating learning that can inform broader policy development. It also helps to manage risks by enabling incremental progress through smaller-scale experiments before broader implementation.

Implementing experimental governance requires building appropriate institutional capabilities, including i) data collection and analysis systems to track progress and identify patterns; ii) evaluation frameworks that assess both processes and outcomes; iii) knowledge-management mechanisms that capture and disseminate learning; iv) deliberative forums for stakeholder engagement in review and adaptation; and v) flexible administrative systems that accommodate evolving approaches. By incorporating these experimental elements, PDPs can balance the need for strategic direction with the adaptability required to navigate complex and changing productive landscapes. Several cases of public-private collaboration could be cited as best practices, such as Telefónica-FAO and Colombia projects for Smart Agro, as well as the Telefónica, BID and Meta initiative in Peru through Internet Para Todos.

Productive development policies with a focus on internationalisation

For the predominantly small and open economies prevalent in LAC, internationalisation represents a key driver of productivity growth, competitiveness, and access to larger markets and new technologies (Krugman, 1979^[51]) (Chapter 4). Internationalisation is a central organising principle that should guide all PDP efforts. Research and experience across the region consistently demonstrate that internationalisation challenges constitute the key bottleneck for productive development (Crespi, Fernández-Arias and Stein, 2014^[40]; ECLAC, 2010^[52]). The region's persistent productivity gaps, limited diversification and structural dependence on primary commodities are fundamentally rooted in insufficient integration into dynamic segments of the global economy (Ocampo and Ros, 2011^[1]; ECLAC, 2024^[21]).

This reality demands that all PDPs – sectoral, territorial and horizontal – be designed and evaluated through the lens of international competitiveness and market integration (UNCTAD, 2023^[53]). Rather than treating internationalisation as a separate policy domain, successful PDPs in LAC must embed international market requirements, competitive pressures and global value-chain opportunities into every aspect of their design and implementation. This approach recognises that domestic market size alone cannot provide sufficient scale in small, open economies for achieving competitive productivity levels in most sectors (ECLAC, 2024^[21]; Krugman, 1979^[51]).

A critical element of internationalisation-focused PDPs is the use of export performance as an indicator of productivity improvements and as a conditionality mechanism for continued support. As demonstrated in successful East Asian experiences, this “export discipline” approach ensures that supported sectors and firms face the competitive pressures necessary to drive genuine productivity gains rather than becoming permanently dependent on protection or subsidies (Hallak and Schott, 2011^[54]; ECLAC, 2024^[11]). By requiring beneficiaries of PDP support to demonstrate progress towards international competitiveness through export performance, policymakers can maintain market discipline while providing strategic support, ensuring that resources flow to genuinely competitive activities (Rodrik and Stiglitz, 2024^[55]).

To enhance the global competitiveness of domestic firms in LAC and facilitate their integration into the global economy, a renewed vision for PDPs must therefore have a strong internationalisation focus. This includes policies aimed at i) enhancing the export competitiveness of domestic firms, for example through export promotion agencies, trade finance support and assistance with meeting international quality standards; ii) actively attracting FDI in strategic sectors that can bring in new technologies, skills and access to global value chains (ECLAC, 2010^[52]; UNCTAD, 2023^[53]) (Chapter 3); iii) facilitating the integration of local firms into global value chains, for example through supplier development programmes and support for meeting global value chain buyer requirements; iv) promoting technology transfer and international collaboration in R&D; and v) supporting the international expansion of successful local firms. It also involves actively engaging in international trade negotiations and fostering regional economic integration to create larger and more dynamic markets that can provide greater scale and opportunities for domestic producers (Baldwin and Venables, 1995^[56]) (Chapter 4).

Within internationalisation's broad set of strategies, export orientation remains a cornerstone of successful industrial policy, including for larger economies with substantial domestic markets. As emphasised by (Cherif and Hasanov, 2019^[32]), sustained export growth, anchored in productivity gains and global competitiveness, is a key feature of the “Asian Miracles”. A focus on exports disciplines firms through exposure to international competition, fosters innovation and encourages continuous upgrading of capabilities. Without this outward orientation, even large markets risk stagnation and protectionist traps that stifle dynamism. LAC countries should therefore embed export-oriented strategies as a central axis of their PDPs, ensuring that industrial upgrading efforts are tightly linked to global demand, quality standards and innovation frontiers. This export emphasis should complement the broader internationalisation agenda that connects domestic firms to global value chains, technologies and knowledge networks.

An internationalisation approach to PDPs should include multiple dimensions: i) positioning LAC's offerings in international markets; ii) competing effectively with imports; iii) attracting and maximising the impact of FDI; iv) connecting productive sectors with global sources of technology and knowledge, including universities, technology centres, entrepreneurial networks and diaspora communities; v) developing regional productive development agendas; and vi) actively engaging with PDPs of other regions (ECLAC, 2024^[11]). This comprehensive approach recognises that internationalisation is not merely about exports but about strategic integration into global knowledge and production networks (Chapter 4).

The specific mix and emphasis of these elements will vary according to country contexts, existing capabilities and strategic priorities. However, all effective internationalisation strategies require alignment with broader productive development objectives and co-ordination across multiple policy domains and stakeholder groups.

For LAC countries, this internationalisation focus is particularly relevant in the context of ongoing global value chain reconfiguration and of nearshoring and friendshoring opportunities.

Organising productive development policy efforts via cluster and other productive articulation initiatives

The complexity of modern PDPs, which involve multiple policy domains, stakeholder groups and governance levels, creates significant co-ordination challenges. The new vision emphasises productive articulation initiatives (PAIs) as practical mechanisms for organising and implementing PDP efforts at different operational levels. The concept of PAIs refers to various modalities of strategic collaboration between companies and institutions for productive development (Salazar-Xirinachs, 2020^[57]; ECLAC, 2025^[58]). It encompasses cluster initiatives, value-chain initiatives, local productive initiatives, business network promotion initiatives and initiatives aimed at generating and consolidating supplier relationships.

These approaches are particularly effective because they integrate governance structures, sectoral prioritisation, a place-based perspective and an experimentalist approach to policymaking (Salazar-Xirinachs, 2020^[57]). By providing structured frameworks for stakeholder engagement and co-ordinated action, PAIs help to translate the broad principles of modern PDPs into practical initiatives with tangible impacts. They therefore offer several advantages as implementation vehicles for PDPs:

- *Concrete scope.* PAIs provide well-defined targets for intervention with clear boundaries and stakeholder groups, helping to translate broad strategies into actionable initiatives.
- *Co-ordination platforms.* PAIs can serve as structured mechanisms for stakeholder co-ordination, collaborative problem-solving and collective action.
- *Efficiency gains.* Concentrating efforts on co-located and interconnected actors can maximise impact through synergies and spillovers while economising on implementation resources.
- *Context specificity.* PAIs naturally incorporate local context and conditions, facilitating place-based policies tailored to specific territories.
- *Balanced governance.* Well-designed PAIs can create balanced governance arrangements that incorporate public, private, academic and civil society perspectives while maintaining operational agility.

PAIs typically involve dedicated organisations or programmes that promote strategic collaborative development within specific agglomerations through projects and actions related to i) strategic planning and vision development; ii) innovation and technology support; iii) skills development and training; iv) market development and internationalisation; v) infrastructure and shared facilities; vi) policy advocacy and regulatory improvement; and vii) interfirm networking and knowledge exchange (Linás, 2021^[31]).

For LAC countries, cluster and other productive articulation initiatives offer particularly valuable tools for implementing PDPs within the institutional and resource constraints that often characterise the region.

They provide ways to mobilise resources more effectively through better co-ordination, focus limited public resources on strategic priorities with high potential returns and build implementation capabilities through learning-by-doing in specific contexts. Examples include Brazil's automotive cluster in the ABC Region of São Paulo, Chile's wine cluster in regions that have successfully leveraged collective action for international market penetration, Colombia's multiple cluster initiatives sponsored by the chambers of commerce and Costa Rica's medical device cluster supported by PROCOMER (CINDE, 2023^[59]).

A renewed vision for LAC should prioritise the design and implementation of well-structured and effectively governed cluster and other productive articulation initiatives that align with the region's strategic development priorities and leverage local strengths and opportunities (Llinás, 2021^[31]; OECD, 2007^[60]).

Cluster development should embrace a pragmatic, experimental approach rather than waiting for perfect conditions or complete institutional frameworks (Sabel and Zeitlin, 2010^[49]; Andrews, Pritchett and Woolcock, 2017^[50]). The most effective strategy is to begin cluster initiatives based on existing capabilities and learn through implementation, gradually scaling up and strengthening supporting institutions over time (Porter, 1998^[61]). This learning-by-doing approach recognises that cluster formation is an iterative process where initial experiments provide valuable insights for subsequent developments and broader institutional improvements (Llinás, 2021^[31]). Policymakers should first focus on identifying which clusters to prioritise based on strategic potential. They should then commence implementation while maintaining flexibility to adapt and expand based on results and emerging opportunities (Ketels, 2003^[62]; ECLAC, 2024^[11]).

Diagnostic frameworks for root-cause analysis

Effective PDPs require sophisticated diagnostic frameworks that can identify the root causes – the binding constraints – of productive development challenges rather than merely addressing their symptoms (Rodrik, 2004^[34]; Hausmann, Rodrik and Velasco, 2005^[63]). LAC countries have employed various analytical approaches to understand the fundamental constraints limiting production transformation, from growth diagnostics to value-chain analysis, innovation system assessments and territorial competitiveness studies (ECLAC, 2024^[21]; IDB, 2010^[4]). While these different methodologies offer valuable insights, there is a need for integrated approaches that can capture the complex interactions between institutional, structural and market factors.

Root-cause analysis must operate at multiple levels simultaneously, examining how national-level institutional frameworks interact with territorial characteristics, sectoral dynamics and firm-level capabilities (OECD et al., 2019^[5]). This requires diagnostic processes that can systematically identify where constraints are most binding and where policy interventions are likely to generate the greatest impact on sustainable development outcomes.

The ultimate test of diagnostic frameworks is their ability to inform strategic prioritisation and policy design (Andrews, Pritchett and Woolcock, 2017^[50]). Effective root-cause analysis should lead to clear hypotheses about which interventions will address fundamental constraints rather than peripheral issues, enabling policymakers to focus scarce resources on high-impact areas that can unlock broader production transformation.

The OECD together with the UN system provides tailored support through the Production Transformation Policy Review (PTPR) to countries aiming at fostering structural change and reap the benefits of new technological frontiers through a system review of countries potential across several policy dimensions.

Box 2.2. Production Transformation Policy Review Framework (PTPR): An interpretative framework

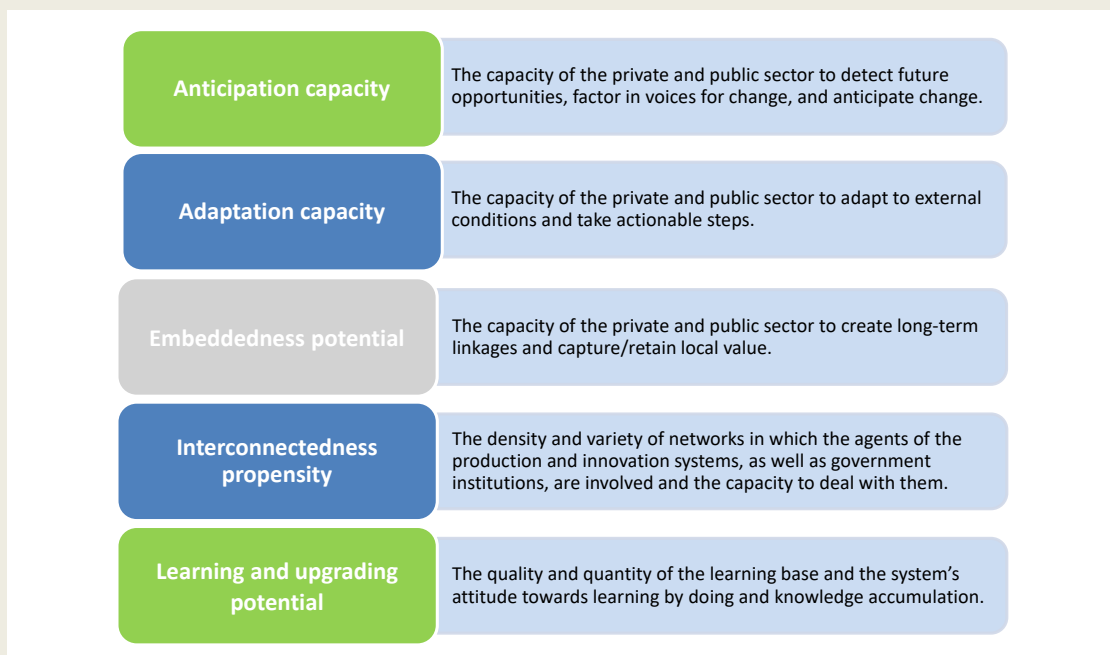
The PTPRs propose an interpretative framework for assessment and recommendation which takes into account the characteristics of the global economic landscape in which countries are embracing production transformation strategies as the starting point of the analysis. The PTPRs focus on assessing countries' capabilities and potential in five domains (Anticipation capacity, Adaptation Capacity, Learning and Upgrading Potential, Interconnectedness Propensity and Embeddedness Potential). These five pillars derive from the recognition that there is no unique model of development. Countries develop and achieve upgrading in a variety of ways. Their performance is determined by a mix of internal and external factors and by the effectiveness of the mix of existing capabilities. The PTPR framework has been implemented in the Latin American and Caribbean region in Chile, Colombia Costa Rica and the Dominican Republic.

In particular, in the current economic landscape, five features have been identified as distinctive in explaining the success of the capacity of economic systems:

- The capacity to be forward-looking
- The capacity to be flexible and react to changing circumstances
- The capacity to activate learning dynamics and to engender self-discovery processes
- The capacity to deal with increasingly complex networks
- The capacity to create resilient linkages and create/retain value.

Based on the features identified above, the PTPRs focus on assessing countries' readiness and potential for transformative change taking into account countries' specificities and international benchmarking. Figure 2.4 illustrates the five-pillar based framework for the PTPR that is used in this review.

Figure 2.4. Definition of the five pillars of the PTPR



Source: (OECD/UN, 2018^[2]; OECD/UN/UNIDO, 2019^[6]; OECD/UNCTAD/ECLAC, 2020^[64]; OECD, 2023^[38]).

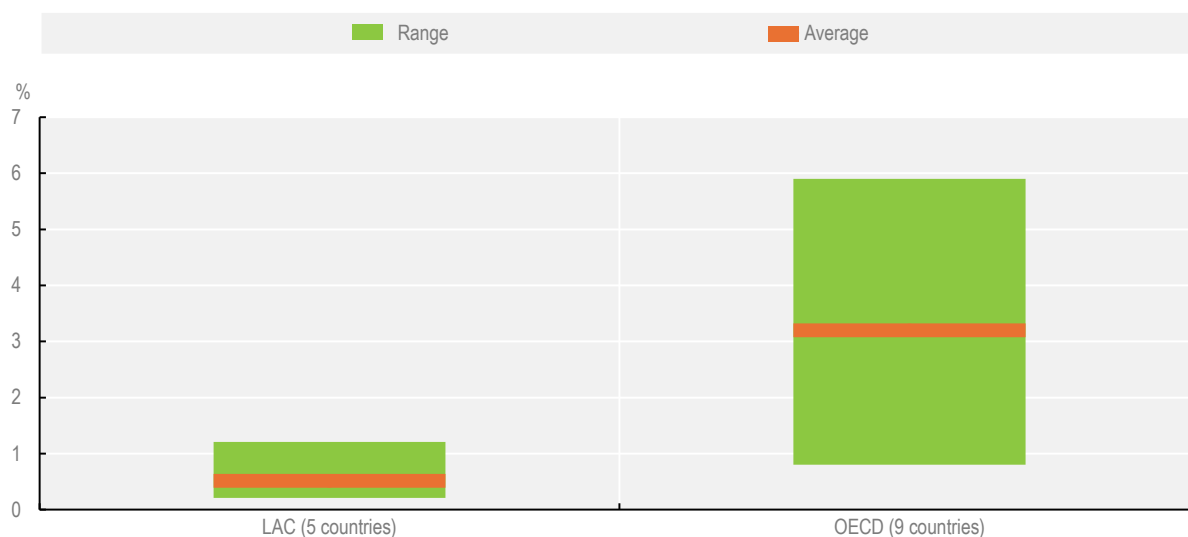
LAC's efforts in terms of productive development policies

The landscape of PDPs in LAC exhibits considerable diversity, reflecting differences in country size, economic structure, institutional capacity, political orientation and historical development patterns (ECLAC, 2014^[65]; ECLAC, 2024^[11]). While the region's history includes periods of state-led industrialisation with a strong emphasis on import substitution, the latter decades of the 20th century saw a general shift towards more market-oriented policies and a reduction in direct state intervention in the economy (Williamson, 1990^[66]). However, there has been a discernible resurgence of more active and targeted PDPs across the region in recent years, influenced by global trends and in response to the challenges outlined in this chapter's Introduction.

LAC's fiscal efforts in terms of productive development policies

The fiscal resources allocated to PDPs in LAC have typically been modest compared to international benchmarks, particularly those of East Asian and advanced economies. According to ECLAC estimates, LAC countries dedicate less than 0.5% of gross domestic product (GDP) to explicit PDPs, excluding infrastructure investments and general education spending (Figure 2.5). This contrasts with figures of more than 3% in many OECD countries and with even higher levels in countries like South Korea during their intensive industrialisation phases (Lane, 2025^[67]).

Figure 2.5. Productive development policy investment in LAC and OECD, 2021-2022 (% of GDP)



Note: The figures for Latin America and the Caribbean refer to the 2021–2022 average. For the OECD to 2021 (excluding the agricultural sector).
Source: Authors' elaboration based on (ECLAC, 2024^[11]).

StatLink  <https://stat.link/ulstvj>

The composition of this spending also reveals important patterns. A significant portion of PDP expenditure in the LAC region goes to horizontal policies and general business support, with more limited resources allocated to strategic vertical initiatives. Within horizontal spending, the largest share typically finances business services, general SME support and entrepreneurship programmes, while innovation financing, advanced technology adoption and supplier development programmes tend to receive more modest allocations despite their potential strategic importance (ECLAC, 2022).

The distribution of fiscal resources across different types of instruments also shows distinctive patterns. Direct subsidies and tax incentives often absorb substantial resources, but they frequently lack robust evaluation mechanisms to assess their effectiveness. Public procurement, which has been used strategically for productive development in many successful cases internationally, remains underutilised as a PDP instrument in most LAC countries. Under this new vision for PDPs, the role of development banks should go beyond traditional lending to include a market intelligence function that helps identify bottlenecks hindering the production transformation of economies (Fernández-Arias, Hausmann and Panizza, 2019^[68]).

An important characteristic of PDP financing in the region is its volatility. Funding levels often fluctuate significantly with political cycles and macroeconomic conditions, undermining the long-term perspective required for successful production transformation. This volatility affects not only the overall resource envelope but also the relative priorities within PDP budgets, with strategic long-term initiatives frequently sacrificed during fiscal adjustment periods.

The COVID-19 pandemic influenced PDP financing patterns across the region, with initial emergency support for businesses gradually giving way to more strategic recovery initiatives in many countries. However, the fiscal pressures intensified by the pandemic have generally constrained the resources available for ambitious new PDP programmes, with notable exceptions in larger economies like Brazil and Mexico (Chapter 3).

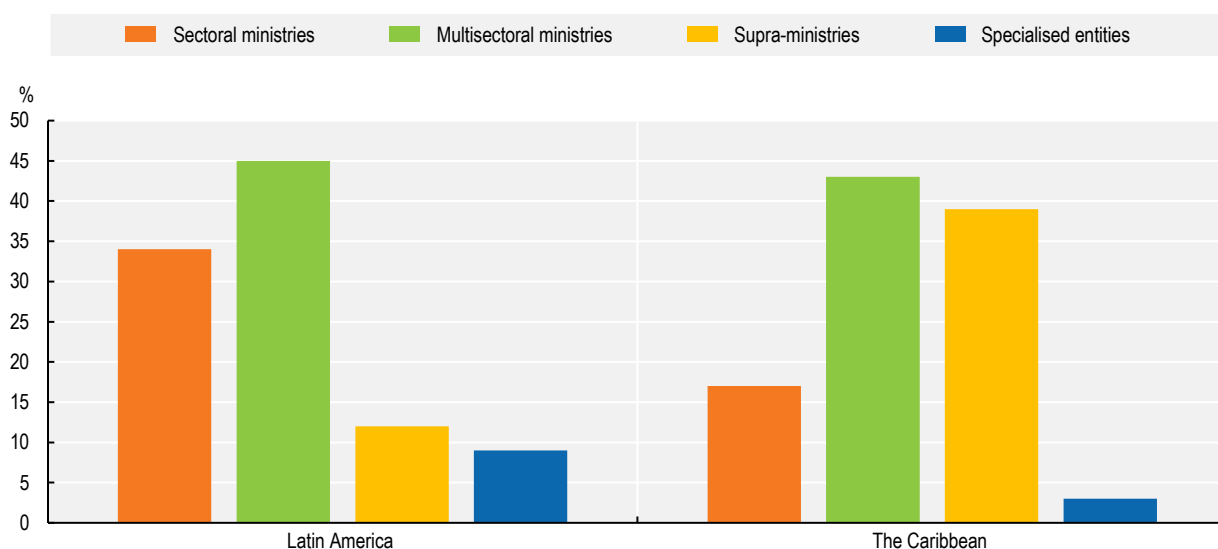
Governance for productive development policies in LAC

The governance arrangements for PDPs in LAC display significant variation across countries, reflecting different institutional traditions, administrative structures, policy approaches and institutional capacities. Nevertheless, several common challenges and emerging patterns can be identified.

At the national level, responsibility for PDPs is typically distributed across multiple ministries and agencies: i) ministries of the economy, industry or production; ii) agencies for STI; iii) organisations for export promotion and investment attraction; iv) development banks and financial institutions; v) specialised sectoral agencies, e.g. for agriculture, tourism or mining; and vi) education and labour ministries involved in skills development. In Chile, for instance, CORFO works alongside the Ministry of Economy, InvestChile and various sectoral agencies. In Colombia, the Ministry of Commerce, Industry and Tourism co-ordinates with entities like Bancóldex, ProColombia and Innpulsa. In Mexico, the Ministry of Economy co-ordinates with Nacional Financiera, ProMéxico (until 2019) and state-level development agencies.

Across 33 countries in the region, there are 197 ministerial entities involved in PDPs, covering the following areas of activity: agriculture; fishing; tourism; industry; micro-, small and medium-sized enterprises; foreign trade; STI; ICT; and employment. About two-thirds of these countries have five or six different ministries engaged in PDPs. While multisectoral ministries are the most common, their presence does not automatically result in coherent co-ordination mechanisms or a unified strategic direction (Figure 2.6).

Figure 2.6. Types of government bodies overseeing productive development policies in LAC (%)



Note: The graph illustrates the fragmentation of government agencies responsible for overseeing PDPs in LAC. Institutions intervening in PDPs are divided into four categories, depending on their level of specialisation: i) Sectoral ministries: Ministries dedicated exclusively to a specific sector or function related to productive development (e.g. tourism or employment). ii) Multisectoral ministries: Ministries that operate across multiple areas connected to productive development (e.g. a ministry responsible for both tourism and agriculture). iii) Supra-ministries: Ministries that, in addition to managing at least one area of productive development, also perform broader functions that extend beyond this sphere, such as addressing social, macroeconomic, or other cross-cutting issues. iv) Specialised bodies: Technical institutions (such as agencies, services, or institutes) focused on specific aspects of PDPs.

Source: Authors' elaboration based on (ECLAC, 2024^[11]).

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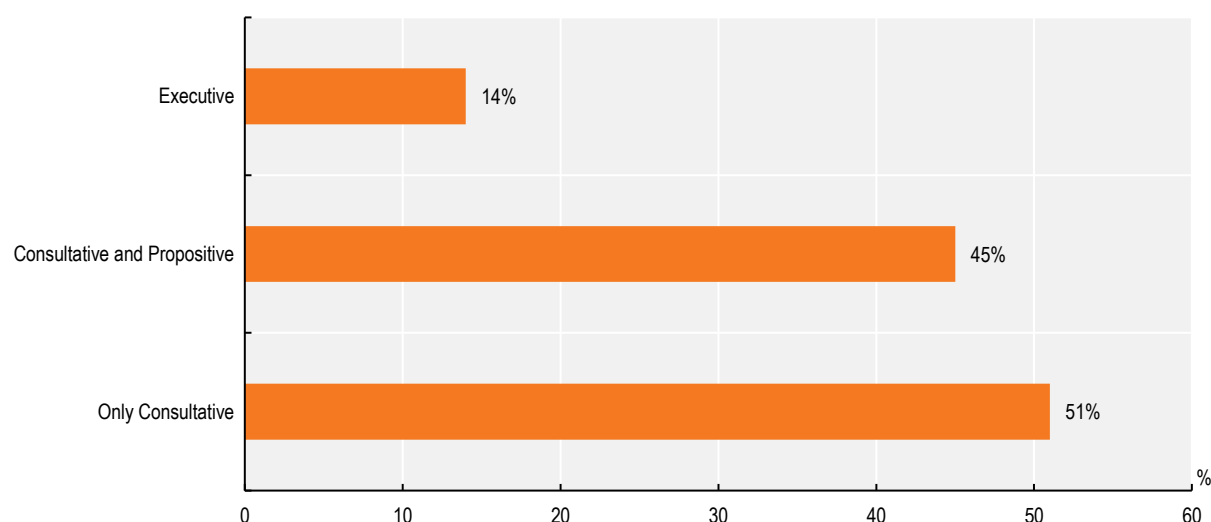
This dispersion across different entities manifests in several critical ways. The first is misalignment between instruments and priorities: many PDP instruments are not clearly linked to strategic goals or to identified driving sectors, weakening their transformative potential. The second is fragmented public spending: resources are spread across numerous programmes and institutions, which dilutes their impact and increases administrative burdens (OECD/UNCTAD/ECLAC, 2020^[64]). The third is weak governance frameworks: among the 74 co-ordination bodies identified in 15 countries, most are consultative in nature, lacking executive or deliberative powers, while only 28% have multilevel operations, limiting territorial and subnational engagement (ECLAC, 2024^[11]). The final way dispersion manifests is in lack of self-identification: many public agencies do not identify themselves as part of the PDP ecosystem, hindering collective action and joint planning.

This institutional fragmentation creates co-ordination challenges that many countries have attempted to address through mechanisms including interministerial committees, specialised productive development councils or designated co-ordinating agencies. The effectiveness of these co-ordination mechanisms varies considerably, with stronger arrangements typically featuring clear mandates, dedicated technical capabilities, appropriate stakeholder representation and direct connections to centres of political authority.

The current landscape of co-ordination in LAC also reveals structural limitations. Across 15 countries, 74 co-ordination bodies were identified. While this shows a growing institutional awareness of the need for co-ordination, challenges remain. First, most co-ordination bodies are consultative (95%). 41% of these platforms primarily offer advice or recommendations, and only few possess executive or deliberative authority (14%): they cannot directly enforce or allocate resources, which limits their effectiveness (Figure 2.7). Second, there is limited multilevel co-ordination. Only 28% of the co-ordination bodies operate across different levels of government, reflecting a deficit in territorial governance that impedes the

articulation between national and subnational efforts and weakens place-based policy approaches. Third, while public-private collaboration is emerging, it is fragile. Around 57% of the co-ordination bodies include private-sector representatives, but their influence is often restricted to advisory roles, and structured dialogue mechanisms remain underdeveloped (ECLAC, 2024^[11]). Fourth, there is a lack of continuity and stability. Many co-ordination bodies are vulnerable to changes in political leadership or institutional restructuring, which undermines policy continuity and the accumulation of institutional learning.

Figure 2.7. Characteristics of institutional co-ordination mechanisms in selected LAC countries (%)



Note: The information is based on data from 15 LAC countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay Peru, and Uruguay.

Source: Authors' elaboration based on (ECLAC, 2024^[11]).

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An institutional option worth considering – especially in contexts of persistent fragmentation and weak policy alignment – is the establishment of a leading agency for productive development, with a strong political mandate, clear co-ordination authority and operational capabilities. Drawing inspiration from successful experiences with institutions such as Japan's Ministry of International Trade and Industry, Korea's Ministry of Trade, Industry and Energy or Malaysia's Performance Management and Delivery Unit (PEMANDU), such leading agencies can serve as central nodes in the PDP ecosystem. PEMANDU illustrates how a delivery-focused agency closely tied to the executive branch can co-ordinate complex reforms, monitor implementation and foster accountability across sectors. The function of a leading agency is not to substitute for existing institutions but to align and orchestrate the strategic direction, resource allocation and performance monitoring of PDPs across sectors and levels of government. Although the institutional form must be adapted to each country's political and administrative context, key success factors include insulation from political volatility, technical excellence, interministerial authority and strong links to the executive branch. Some LAC countries could benefit from piloting such models, particularly in the context of national production transformation strategies.

Public-private dialogue mechanisms constitute an important element of PDP governance in the region. Many countries have established formal councils or forums bringing together government officials, business representatives and other stakeholders to inform policy design and implementation. These range from high-level advisory bodies with broad mandates to technical working groups focused on specific sectors or issues. The effectiveness of these mechanisms depends on factors such as breadth of

representation, technical capacity, operational continuity and influence on decision making processes. Private institutions such as the *Consejos Privados de Competitividad* play a crucial role as well.

An emerging trend in several LAC countries is the development of more collaborative and distributed governance arrangements that go beyond traditional hierarchical models. These approaches, aligned with the experimental governance principles discussed above, involve networks of public, social, private and academic actors engaged in ongoing processes of goalsetting, implementation, evaluation and adaptation.

Despite these positive developments, significant governance challenges persist in many LAC countries. They include vulnerability to political cycles and discontinuity, limited technical and analytical capabilities within key agencies, insufficient monitoring and evaluation mechanisms, co-ordination difficulties across government levels and agencies, and challenges in ensuring balanced stakeholder representation that avoids capture by powerful interests.

Productive development policy efforts at the subnational level in LAC

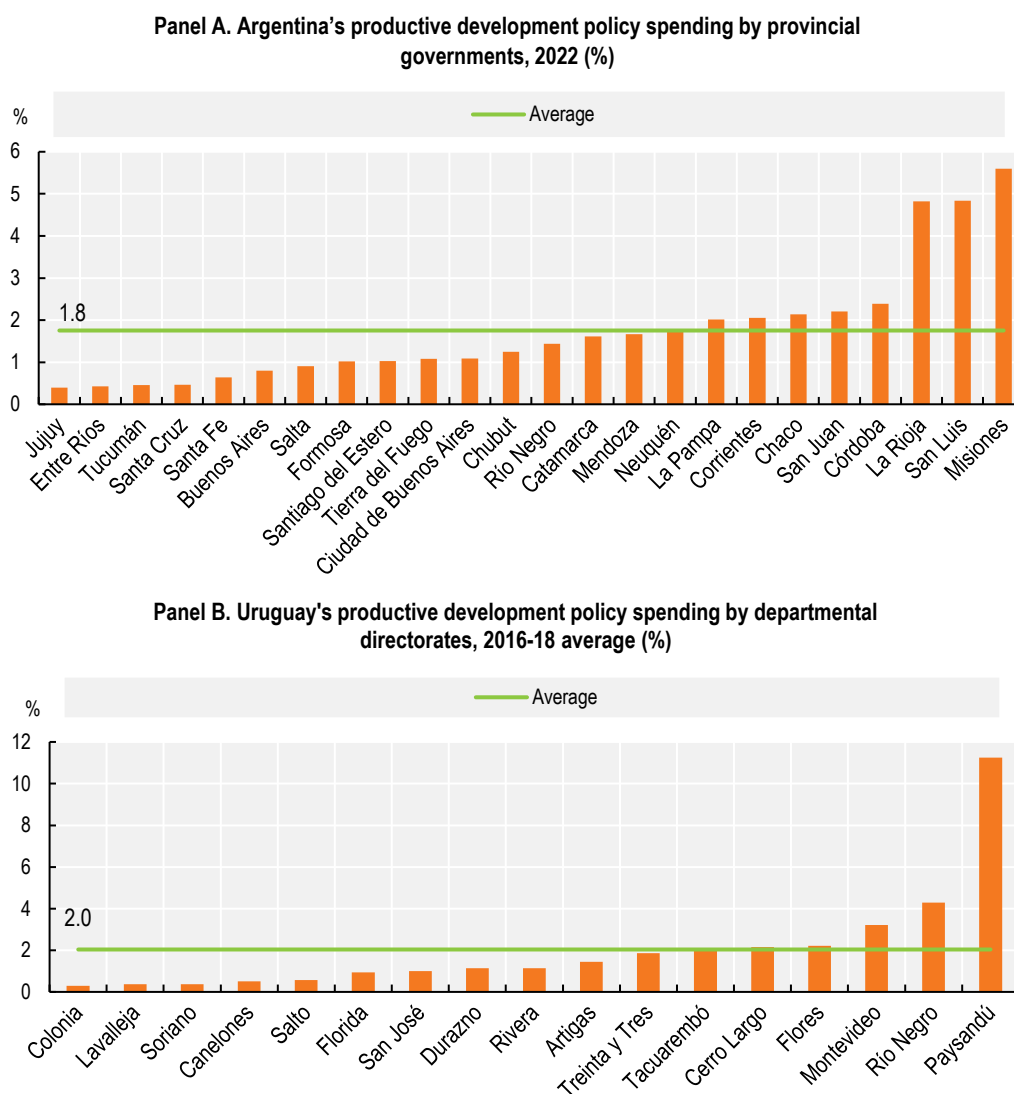
The territorial dimension of PDPs has gained increasing attention in LAC, with growing recognition of the important role that subnational governments and local stakeholders play in productive development processes. This shift reflects both the decentralisation processes that have occurred across much of the region and the increasing awareness of place-based factors in productive development (Salazar-Xirinachs and Llinás, 2023^[22]).

Subnational PDP efforts in LAC comprise i) regional development plans with productivity and competitiveness components; ii) state or provincial innovation systems and technology policies; iii) local economic development initiatives led by municipalities or departmental governments; iv) territorial cluster programmes focusing on specific local specialisations; v) regional skills development strategies aligned with local production structures; and vi) subnational investment promotion and business attraction efforts. Notable examples of advanced subnational PDP approaches in the region include i) the state innovation systems in Brazil, particularly São Paulo's FAPESP system, Minas Gerais's innovation networks and Santa Catarina's technology parks; ii) provincial cluster initiatives in Argentina, such as Córdoba's automotive and aeronautical clusters; iii) regional competitiveness commissions in Colombia, including Antioquia's innovation ecosystem and Valle del Cauca's biotechnology initiatives; and iv) state-level strategic projects in Mexico, such as Jalisco's digital creative city programme and Nuevo León's aerospace cluster development.

The scale and effectiveness of these subnational initiatives vary considerably across the region and within countries, influenced by factors such as decentralisation frameworks, fiscal and technical capacities, and co-ordination mechanisms.

There are significant differences in the level of effort dedicated to PDPs within countries. In Argentina, for example, provincial governments allocated an average of 1.8% of their budgets to productive development in 2022, but this figure ranged from less than 0.5% in some provinces to more than 4% in others (Figure 2.8, Panel A). Similarly, in Uruguay, the departmental development offices accounted for an average of 2% of intermediate government spending across 17 of 19 departments, reflecting a level of effort comparable to that of Argentina's provinces (Figure 2.8, Panel B). These disparities highlight the importance of considering subnational dynamics when designing and implementing productive development strategies.

Figure 2.8. Argentina's and Uruguay's productive development policy spending (%)



Note: The information for Argentina refers to the year 2022 while for Uruguay it's a simple average between 2016 and 2018.

Source: Authors' elaboration based on (ECLAC, 2024^[11]).

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The legal distribution of responsibilities and resources across government levels shapes the scope for subnational PDP action in the cases of decentralised administrations. Federal countries like Argentina, Brazil and Mexico typically provide greater formal autonomy to subnational governments, while subnational PDP roles are often more constrained in more centralised countries.

Table 2.1 illustrates how different PDP responsibilities are distributed in LAC across three levels of government: national, intermediate and local. The table shows a clear pattern of specialisation and overlapping responsibilities. The national government has the broadest mandate, covering all 16 policy areas listed, from international relations to entrepreneurship. The intermediate government is involved in 11 policy areas, focusing more on territorial aspects like clusters, SMEs, education and agriculture. The local government has the most specialised role, participating in 8 policy areas that are closest to local economic development: technical education, technological capabilities, agriculture, tourism, microenterprises and entrepreneurship.

Table 2.1. Specialisation of functions in productive development policies in LAC, by level of government

Category	National government	Intermediate government	Local government
International relations	X		
Major infrastructure	X		
Internationalisation	X		
Regulations and standards	X		
Science technology and innovation	X		
Foreign direct investment attraction	X	X	
Prioritised sectors	X	X	
Clusters	X	X	
Small and medium enterprises	X	X	X
Technical education	X	X	X
Labour training	X	X	X
Agriculture	X	X	X
Tourism	X	X	X
Microenterprises	X	X	X
Formalisation	X	X	X
Entrepreneurship	X	X	X

Source: Authors' elaboration based on (ECLAC, 2024^[11]).

This table illustrates a key point about decentralisation frameworks in PDPs. The distribution of responsibilities across government levels shapes the scope for subnational PDP action. The table shows how federal countries might allocate responsibilities, providing greater formal autonomy to subnational governments while maintaining certain exclusive domains for the national government.

The specialisation pattern also reveals a principle of subsidiarity: functions like international relations and major infrastructure remain at the national level, while implementation of more localised economic development initiatives can be managed at intermediate and local levels. This multilevel governance approach allows for co-ordination of national strategies and for adaptation to local contexts and needs.

This pattern helps explain why the effectiveness of subnational PDPs varies significantly depending on a country's decentralisation framework and the specific distribution, in addition to responsibilities, of resources and decision-making authority across government levels.

With regard to fiscal and technical capacities, subnational governments' ability to finance PDP initiatives depends on their revenue sources, transfer systems and borrowing capabilities, which differ markedly across the region. Larger and wealthier subnational units generally have greater fiscal capacity for PDP investments. Moreover, the effectiveness of subnational PDPs is strongly influenced by the technical and administrative capabilities of subnational governments and local stakeholders. These capabilities tend to be concentrated in more developed regions, potentially reinforcing territorial inequalities without appropriate capacity-building efforts.

The story of how intermediate governments in Latin America pursue productive development reveals both shared patterns and striking divergences. An analysis of Argentina, Mexico and Uruguay in 2023 uncovered a nuanced landscape where historical trajectories, institutional capacities and development visions shape widely different approaches at the subnational level (ECLAC, 2024^[11]).

Across the region, subsidies emerge as the universal language of PDP, embraced by nearly all intermediate governments (98% in Argentina, 100% in Mexico and 95% in Uruguay) (Table 2.2). This widespread reliance on direct financial support reflects a common understanding of the need to address

market failures and stimulate economic activity through immediate interventions. However, beyond this shared foundation, the architecture of the PDPs varies considerably across national contexts.

Notably absent across all three countries are regulatory bodies at the intermediate government level. Their total absence reveals a pan-regional institutional gap in the governance architecture for productive development. It also raises important questions about the national-local co-ordination of quality standards, certification processes and other regulatory functions essential for upgrading production structures.

These findings take on deeper significance when viewed against the backdrop of territorial inequality. This research indicates that, paradoxically, territories with lower per capita GDP often dedicate proportionally more of their budgets to PDPs. However, these relative efforts translate into insufficient absolute investments to close productivity gaps with wealthier territories. This creates a development trap where the territories most in need of production transformation are precisely those with the fewest resources to implement comprehensive PDP strategies (Chapter 3).

The diversity of PDP instruments suggests significant opportunities for cross-learning among Latin American territories. By understanding different approaches, intermediate governments can potentially expand their policy toolkits and develop more comprehensive strategies tailored to their specific contexts and challenges.

Table 2.2. Subnational government use of productive development policy instruments, by type (%)

Argentina, Mexico, Uruguay, 2024

Instrument type	Argentina	Mexico	Uruguay
Subsidies	98	100	95
Infrastructure programmes	n.d.	69	100
Technical schools	100	100	26
Specialised agencies	63	100	0
Training institutions	100	100	0
Development credit programmes	42	94	47
Public universities	38	100	37
Research/innovation centres	4	100	32
Local public procurement programmes	83	0	37
Tax exemption programmes	83	0	37
Public enterprises	100	0	0
Guarantee funds	38	0	5
Public banks	42	0	0
Regulatory bodies	0	0	0

Source: Authors' elaboration based on (ECLAC, 2024^[11]).

Finally, the impact of subnational PDPs depends significantly on effective co-ordination, both horizontally, across local stakeholders, and vertically, with national policies and programmes. A particular challenge for subnational PDPs is the pronounced heterogeneity in capabilities and resources across territories within countries in LAC. Metropolitan regions and more developed states or provinces typically have greater capacity to design and implement sophisticated PDP initiatives, while less developed regions often lack the basic capabilities and resources required. This creates the risk that decentralised approaches to PDPs may exacerbate rather than reduce territorial inequalities without appropriate support mechanisms and capacity-building efforts.

Strategic pillars for production transformation in LAC

In the context of a renewed vision for PDPs in LAC, certain strategic pillars have emerged as critical levers for fostering structural transformation, productivity growth and long-term competitiveness. These pillars are digital transformation, STI, skills development and productive articulation initiatives, such as clusters. These dimensions converge around the need to build robust ecosystems that support technological upgrading, sectoral diversification and territorial cohesion. This subsection outlines the core components of each of these pillars and highlights their contribution to an integrated, inclusive and sustainable productive development agenda across the region.

Digital transformation efforts under productive development policies

Digital transformation of the production sector has become a strategic priority for countries seeking to enhance competitiveness, innovation and sustainable development. In LAC, where structural challenges such as low productivity, limited innovation and economic concentration persist (Chapter 1), productive digitalisation – the systematic integration of advanced digital technologies into productive processes – represents a critical opportunity to drive production transformation and close historical development gaps. This concerns both basic digital technologies, such as enterprise resource planning systems, customer relationship management platforms, e-commerce websites or digital payment systems, and more advanced digital solutions, such as artificial intelligence, big data, the Internet of Things, robotics and cloud computing. At present, there is a significant gap between the adoption of basic digital technologies and more advanced ones. Around 50% of LAC companies have access to high-speed broadband, while only about 10% use AI solutions. Furthermore, the benefits of digitalisation are not automatic. They require deliberate public policies that ensure inclusiveness, mitigate regional disparities and strengthen productive capacities (OECD/UNCTAD/ECLAC, 2020^[64]).

The range of policies and initiatives developed by countries in the region to promote productive digitalisation can be grouped into the following areas:

- *Access to financing.* Direct funding programmes and grants are widely used to support the adoption of digital technologies, particularly by micro-, small and medium-sized enterprises. An example is Uruguay's co-financing mechanisms provided by the National Development Agency through its digital transformation programme, Modo Digital (Chapter 3).
- *Skills development and human capital formation.* Specialised training programmes aim to strengthen digital skills within the workforce, focusing on advanced technical competencies. Initiatives such as Chile's Digitaliza tu Pyme seek to enhance business-level and territorial capacities. Inclusiveness including as regards to gender imbalances is important in this domain.
- *Technical assistance and advisory services.* Countries offer structured technical advisory services to guide companies through their digitalisation processes. In Colombia's Digital Ecosystems initiatives, led by the Ministry of Information and Communications Technologies, expert advice, mentoring and support for productive linkages are key components.
- *Tax and financial incentives for innovation.* Some policies provide fiscal incentives to encourage investment in digital technologies and innovation, reducing the costs associated with technological adoption for firms.
- *Business networking and ecosystem development.* Efforts to foster collaborative innovation ecosystems, such as business clusters and digital platforms, are gaining ground. These mechanisms aim to create synergies among companies, universities, research centres and public institutions.
- *Sector-specific digitalisation strategies.* Beyond horizontal measures, countries are promoting digitalisation in strategic sectors such as agriculture, manufacturing, mining and energy to modernise production chains and increase value added (ECLAC, 2025^[69]).

Despite notable progress, significant challenges remain in consolidating a coherent and impactful approach to productive digitalisation. The effectiveness of current efforts is constrained by i) fragmented institutional arrangements; ii) lack of a proper regulatory framework; iii) lack of comprehensive roadmaps with clear targets and dedicated resources; iv) limited private-sector participation in policymaking; v) weak digital infrastructure in non-urban areas; and vi) persistent gaps in advanced digital skills. Strengthening productive digital transformation policies requires adopting integrated national strategies, reinforcing multilevel governance and intersectoral co-ordination, promoting public-private partnerships and focusing on sectors with high potential for digital value creation. Only through a more systemic and inclusive approach can LAC leverage digitalisation to achieve sustainable and equitable productive development.

Science, technology and innovation for productive development in LAC

Science, technology and innovation (STI) are widely acknowledged as the fundamental engines of long-term productivity growth, structural transformation and sustainable development (Freeman, 1995^[70]). Recognising this, many LAC countries have implemented policies and established institutions aimed at strengthening their national STI ecosystems. These efforts can be broadly grouped into five key areas (ECLAC, 2025 forthcoming^[71]):

- *Research and development.* LAC governments have increased public investment in R&D through support for national research institutions, universities and public-private collaborative projects. National science and technology councils, along with dedicated funding agencies, play a central role in financing and co-ordinating these efforts,
- *Innovation.* To stimulate innovation in the private sector, various countries have introduced financial incentives, primarily in the form of grants for innovation projects and in a few cases through R&D tax incentives. These initiatives aim to encourage firms to develop new products, processes and services and to adopt emerging technologies to improve competitiveness.
- *Talent development.* Recognising the importance of human capital, policies have also focused on strengthening the supply of highly skilled researchers, engineers and technical professionals. This includes investment in postgraduate education, training in science, technology, engineering and mathematics, and programmes to retain and attract talent.
- *Knowledge and technology transfer.* Countries are promoting stronger links among academia, industry and government through mechanisms that support technology transfer and commercialisation. These mechanisms include research collaboration platforms, intellectual property frameworks, science parks and incubators that help translate scientific discoveries into market-ready innovations.
- *Entrepreneurship.* Some governments have supported entrepreneurship by fostering the creation and growth of innovative start-ups. This includes initiatives such as seed funding, accelerators, mentoring networks and innovation hubs, particularly for early-stage, technology-based ventures.

Despite these efforts, overall investment in STI, both public and private, generally remains low as a percentage of GDP in LAC compared to more developed economies and some Asian countries (ECLAC, 2024^[26]).

In addition, while countries in the region have generally made progress in their STI policies, there is also considerable heterogeneity, with some systems being very mature and others lacking capacity for policy design and implementation. For example, regarding the institutional architecture of STI policies in the region, only 21% of countries have specialised structures for both governance and implementation; 12% have a dedicated STI authority but no separate implementing agencies; another 21% combine governing bodies with shared responsibilities and technical implementing agencies; and the remaining 46%, mostly Caribbean Islands states, have less specialised structures with limited capacity. In addition, the budget allocations of leading STI institutions show a trend of stagnation or relative decline in funding. While the

impact of STI policies is not determined solely by the volume of resources, this funding gap limits their effectiveness, particularly in terms of supporting productive development (ECLAC, 2025^[58]).

Furthermore, the impact of STI policies is often limited by weaknesses in the broader innovation ecosystem, such as a shortage of highly skilled researchers and technicians, limited collaboration and knowledge sharing between different actors, challenges in accessing venture capital and other forms of risk finance, and difficulties in translating research findings into marketable products and services. Strengthening the STI ecosystem and fostering a vibrant culture of innovation are critical prerequisites for enhancing the effectiveness of PDPs in driving long-term productive development in LAC.

Skills development for productive development policies

Bridging skills gaps across all levels is a crucial and cross-cutting element for the success of a renewed vision for PDPs in LAC. Many countries in the region are implementing skills development programmes aimed at addressing the evolving needs of the labour market, supporting structural transformation and enhancing the employability of their populations (ILO, 2020^[72]). These initiatives often include:

- Strengthening foundational skills in areas such as literacy, numeracy and digital literacy, as these form the basis for acquiring more advanced skills (UNESCO, 2022^[73]).
- Providing high-quality technical and vocational education and training programmes that are aligned with the current and future skills demands of key industries and emerging sectors, often in collaboration with the private sector in curriculum development and delivery (OIT-CINTERFOR, 2017^[74]).
- Supporting workers to adapt to technological changes, acquire new skills needed for evolving job roles and transition to new sectors through adult education and training programmes (OECD, 2019^[75]).
- Ensuring that curricula are relevant to industry needs through linkages between education and training providers and the private sector, using mechanisms such as internships, apprenticeships and employer involvement in curriculum design, and ensuring that graduates possess the skills and competencies demanded by employers (IDB, 2018^[76]).
- Enhancing the capacity of the education and training system to deliver high-quality and up-to-date programmes through investments in teacher training, modernisation of infrastructure for skills development and relevant learning technologies (ECLAC, 2020^[10]).
- Developing national qualifications frameworks by establishing clear standards for skills and competencies across different occupations and sectors to improve the recognition and portability of skills and facilitate labour mobility (ILO, 2016^[77]).

Addressing the persistent and multifaceted skills gaps in LAC requires a comprehensive, co-ordinated and demand-driven approach involving close collaboration among education and training institutions, employers, labour organisations and government agencies. PDPs must integrate skills development as a central and strategic component, ensuring that the workforce has the necessary skills to support productive upgrading, diversification and the adoption of new technologies. If approached in an inclusive manner, this can also have spillover effects in inequality reduction through higher value employment.

Cluster and other productive articulation initiatives in LAC

Clusters and other productive articulation initiatives are widespread across LAC and represent a powerful tool for subnational governments to promote productive development within their territories (ECLAC, 2024^[21]). These initiatives aim to foster collaboration in the networking of knowledge sharing among firms, research institutions, government agencies and other related stakeholders within geographically concentrated areas or around specific value chains. As of 2023, the virtual Productive Articulation Initiatives Platform developed

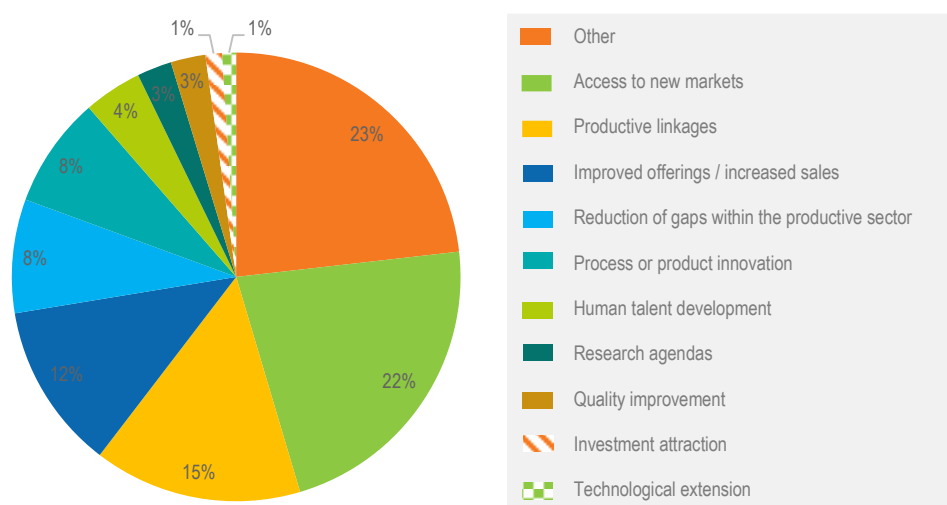
by ECLAC had identified nearly 400 PAIs operating in 16 countries across the region (ECLAC, 2023^[78]). The platform's information is complemented by ECLAC's ad hoc data collection efforts in Brazil, the Caribbean and Mexico, bringing the total number of identified PAIs to 712.¹ These initiatives are primarily concentrated in the sectors of agriculture (34.8%), manufacturing (26.4%), tourism (9.8%), ICT (7.2%) and trade (6.6%). Notable examples include Argentina's knowledge economy clusters in Cordoba, Brazil's Aerospace and Defence Cluster in São Paulo, Chile's tourism cluster initiatives in various regions, Colombia's digital cluster initiatives in various departments, Costa Rica's medical device cluster in the Central Valley and Mexico's automotive clusters in Queretaro and northern states.

The primary objectives of cluster initiatives include:

- *Enhancing innovation and technology adoption* by facilitating knowledge spillovers, collaborative R&D projects, and the diffusion of new technologies and best practices among cluster members (Porter, 1998^[61]).
- *Improving access to specialised inputs, services and infrastructure* by fostering the development of local supplier networks, specialised business support organisations and shared infrastructure that benefits cluster firms (Schmitz, 1995^[79]).
- *Strengthening market access and export promotion* by promoting joint marketing efforts, facilitating the formation of export consortia and enhancing the collective visibility and reputation of the cluster in domestic and international markets (Ketels, 2003^[62]).
- *Developing specialised skills and talent* by supporting the creation of training programmes and educational offerings that are tailored to the specific skill needs of the cluster industries, often in collaboration with local educational institutions.
- *Improving the business environment* by advocating policies, regulations and public investments that support the growth and competitiveness of the cluster and address common challenges faced by its members.

The PAIs identified in LAC primarily aim, on average, to gain access to new markets (22%), strengthen productive linkages (15%), improve commercial offerings (12%), reduce gaps within the productive sector (8%), and foster process or product innovation (8%) (Figure 2.9).

Figure 2.9. Strategic focus of productive articulation initiatives identified in LAC, 2025



Note: Data from 16 LAC countries and 497 productive articulation initiatives for which this variable is available.

Source: Authors' elaboration based on (ECLAC, 2023^[78]) and on ad hoc research conducted in Brazil, the Caribbean and Mexico.

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Given the significant number of PAIs in the region, encompassing more than 50 000 companies, these initiatives hold strong potential to drive the formulation and implementation of concrete strategic agendas aligned with territorial productive priorities. They can serve as key mechanisms to articulate, operationalise and materialise national and subnational PDPs, while also scaling up the adoption of strategies aligned with a more inclusive and sustainable development model (ECLAC, 2024^[11]).

Competition policy and market development for productive development policies

Competition policy represents a crucial but often overlooked pillar of effective productive development strategies in LAC (Rodrik, 2004^[34]; ECLAC, 2024^[21]). The relationship between competition, diversification, innovation and productivity growth is fundamental to successful production transformation. It requires policies that foster competitive dynamics at the domestic and international levels. The following aspects must be considered:

- *Domestic competition as a driver of innovation.* While export markets provide essential competitive pressure through global competition, robust domestic competition is equally important for driving innovation and efficiency improvements (Porter, 1998^[61]) (Nelson and Winter, 1982^[27]). Local competitive dynamics force firms to continuously improve their products, processes and services, creating the foundation for later success in international markets. PDPs must therefore include measures to strengthen competition policy, reduce entry barriers and prevent the emergence of protected domestic monopolies that stifle innovation (ECLAC, 2024^[11]).
- *Industry-wide versus firm-specific approaches.* Effective PDPs recognise that governments cannot and should not attempt to pick individual winning firms within sectors (Rodrik, 2004^[34]; Evans, 1995^[35]). Instead, policies should focus on strengthening entire industries and value chains, allowing competitive market forces to determine which firms succeed (Porter, 1998^[61]; Warwick, 2013^[48]). This approach reduces the risk of government capture while ensuring that support reaches the most efficient and innovative firms within supported sectors (ECLAC, 2014^[65]).
- *Avoidance of past mistakes.* The region's experience with import substitution industrialisation demonstrates the risks of protecting domestic industries from competitive pressure for extended periods (Prebisch, 1950^[28]; Prebisch, 1959^[80]; Williamson, 1990^[66]). Modern PDPs must incorporate competitive discipline from the outset, ensuring that supported sectors face appropriate market pressures and performance requirements to avoid creating permanently dependent industries (Lin and Chang, 2009^[25]; ECLAC, 2024^[11]).

This competitive dimension must be integrated into all aspects of PDP, from sector selection and firm support to performance evaluation and policy adjustment mechanisms.

Current productive development policies in LAC: Strategies, approaches and agendas

LAC countries face common structural challenges in their productive development: middle-income traps, commodity dependence, limited participation in higher value-added segments of global value chains, productivity gaps and persistent inequality. However, in terms of their strategic responses to these challenges, there is significant divergence in policy approaches, institutional frameworks and development visions.

A comparative analysis of PDPs in selected LAC countries provides valuable insights into these diverse approaches and the challenges and successes encountered. Table 2.3 presents a comparison of PDPs across seven representative countries of the region. This diverse policy landscape reflects not only different ideological orientations and national contexts but also lessons learned from past experience and adaptations to a rapidly transforming global environment.

Table 2.3. Comparison of productive development policies across selected LAC countries

Factor	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Uruguay	Argentina ¹
Main current strategies	Nova Industria Brasil policy (2023-2026)	National Green Hydrogen Strategy	National Development Plan (2022-2026)	National Development and Public Investment Plan (2023-2026)	National Development Strategy 2030	Strategic Plan Uruguay 2050	Economic Liberalisation Plan (2023-present)
	Brasil Mais Produtivo programme	National Lithium Strategy	Reindustrialisation Policy (2023)	National Decarbonisation Plan	National Competitiveness Plan	National Innovation Strategy	Shock Stabilisation Programme
	Growth Acceleration Program (PAC 3)	Chile Sustainability and Climate Change Strategy	STI Mission-Oriented Policy	Strategy Costa Rica: Creative and Cultural	National Export Strategy	Production Transformation with Equity Plan	Regulatory Simplification Initiative
	Productive Development Policy	Productivity, Innovation and Growth Agenda	Colombia Bio Programme-Modern Industries Programme	National Policy on Productive Entrepreneurship			Omnibus Law Reform
Primary objective/vision	Neo-industrialisation; global green powerhouse	Resolution of market failures; improvement of productivity; increase in technological content; value chain upgrading	Sustainable development; competitiveness; production transformation; climate action	Inclusive and decarbonised economic development (3D economy); green growth; poverty reduction, inequality, unemployment; modernisation of the state; economic reactivation; closure of territorial gaps; strengthening of competitiveness; drive for innovation	Sustainability; inclusivity; competitiveness; regional supply chain strengthening; reduced external dependency; targeted investment attraction	Production diversification; productive matrix deepening; productivity gains; competitiveness; inclusive and sustainable growth; quality employment	Large-scale investment attraction; deregulation; fiscal deficit reduction
PDP orientation	Strong state-led approach with sectoral focus through Nova Industria Brasil policy (2023-2026) and New Industrial Policy (2023)	Market-oriented with selective intervention through Productivity, Innovation and Growth Agenda	Reindustrialisation approach with active state role in the New Industrialisation Policy, focusing on import substitution, diversification, domestic production capacity, SMEs, grassroots development, industrial resilience	High-tech FDI attraction focus with transition from light manufacturing to knowledge-intensive sectors	Transition from free zones to more integrated economic approach with sector-specific incentives	Selective knowledge-intensive approach with emphasis on innovation and sustainability	Radical market liberalisation with elimination of industrial subsidies, deregulation, reduction of trade barriers and minimal state intervention in productive sectors
Sectoral focus	Green economy (critical minerals, batteries, bio-hybrid electric vehicles, sustainable aviation fuels, wind manufacturing, low-carbon steel,	Mining, services, non-traditional agriculture, renewable energy (lithium value chain and green hydrogen)	Clean/ sustainable technologies (low carbon, biofuels, renewables), industrial innovation/high-value manufacturing (automotive,	Modern services, manufacturing and high-tech industry (medical devices, electronics, semiconductors), agriculture (pineapples, bananas, coffee), renewable energy,	Tourism, free-trade zone manufacturing (pharmaceuticals, electronics, textiles), mining, construction, light manufacturing, logistics, assembly,	Agri-tech, ICT services, logistics, forestry, sustainable agriculture, traceable meat	Industrial forestry, tourism, infrastructure, mining, technology, steel, energy, oil and gas

	green fertilisers), defence industry (satellites, radar), agroindustry, automotive, healthcare and pharmaceuticals, digital transformation, aerospace, construction		packaging, petrochemicals, metals), agriculture (indigenous crops, value chains), digital transformation, infrastructure (railroad)	life sciences, agri-food, digital technologies, light manufacturing, retail, logistics, film industry	outsourcing, tech, agriculture, renewable energy, petrochemicals, medical tourism		
Innovation systems	Well-developed but fragmented with FINEP funding and EMBRAPÍ research institutes	Well-designed but limited-scale initiatives like Start-Up Chile and CORFO innovation programmes	Improvements but funding limitations through Innpulsa and Ruta N Medellín	Well-developed for country size with MICITT co-ordination and strong university-industry linkages	Underdeveloped but growing, with MESCYT co-ordination and new innovation centres	Strong institutional framework with ANII co-ordination and Plan Ceibal digital innovation	Shift to market-driven approach with reduced public research funding, science sector restructuring and private innovation emphasis
Human capital development	Emphasis on technical education through SENAI vocational training and Science Without Borders	Quality focus but inequality challenges addressed by Becas Chile and technical training centres	Skills gaps and quality challenges addressed by SENA vocational training and Colombia Científica	Strong educational system with INA vocational training and dual education approaches	Skills gaps and quality issues addressed through INFOTEP technical training and scholarship programmes	Highest education levels in the region with emphasis on digital skills through Plan Ceibal	Strong tertiary education but skills mismatches addressed through technical education programmes and programming training
Infrastructure development	Major investment programmes but implementation gaps with Growth Acceleration Programme	High-quality but centralised with National Infrastructure Plan and Digital Agenda	Major investment programme with 4G/5G Infrastructure Programme and Digital Connectivity	Investment gaps but improving through National Transportation Plan and digital infrastructure	Improved logistics platform with National Infrastructure Plan and special economic zones	Well-developed infrastructure relative to the region with National Infrastructure Plan and digital connectivity	Investment challenges and regional gaps addressed by Federal Infrastructure Plan
FDI policies	Selective approach with local content requirements through Investment Partnerships Programme	Open regime with minimal restrictions supported by InvestChile agency and international agreements	Proactive attraction strategy with ProColombia investment promotion and free trade zones	Strong investment attraction through PROCOMER agency, free trade zones and targeted high-value sectors	Strong FDI attraction through ProDominicana, free zones and tourism incentives	Uruguay XXI investment promotion with free zones and investment protection	Comprehensive liberalisation with elimination of capital controls, reduced restrictions, streamlined processes and equal treatment of foreign investors
SME support	Comprehensive programmes through SEBRAE support agency and Simples tax regime	Growing focus with SERCOTEC and Digitaliza tu Pyme	Growing programmatic support via iNNpulsa entrepreneurship programme and Fábricas de Productividad	PROPYME fund and linkage programmes with multinationals through development banking	PROMIPYME support programme and formalisation initiatives with limited effectiveness	ANDE development agency with territorial focus and innovation funds	Strong emphasis but implementation challenges with SEPYME programmes and FONDCE entrepreneurship fund
Export promotion	Active promotion with financing through APEX-Brazil and BNDES export financing	Diversification efforts through ProChile and export diversification programmes	Diversification beyond traditional exports with ProColombia export promotion and Regional Export Plans	PROCOMER export promotion with strong diversification strategy and linkage programmes	CEI-RD export promotion with diversification strategy beyond traditional sectors	Uruguay XXI export promotion with service exports emphasis and market diversification	Fluctuating policies with Argentina Exporta and export financing schemes
Financial system development	Strong development bank role with BNDES development	Developed financial system but concentrated with FOGAPE	Improved access for productive sectors through Bancóldex and National	Development Banking System with growing green financing and SME credit access	Limited access for productive sectors with Banca Solidaria and BANDEX	BROU development bank with investment facilitation and SME financing	Market-based credit allocation with reduced role for public development

	financing	guarantees and CORFO financing lines	Guarantee Fund and Grupo Bicentenario		export bank	programmes	banks, liberalisation of financial markets and focus on macroeconomic stabilisation
Regional development	Policies for lagging regions like SUDENE (Northeast) and Zona Franca de Manaus	Centralisation challenges addressed by Regional Productive Development Agencies	Decentralisation efforts through Regional Competitiveness Commissions	Regional development agencies with territorial approach to reduce GAM concentration	Tourist zones development with border development programme and special frontier zones	Relatively balanced territorial development with interior development programmes	Strong regional disparities addressed by Regional Development Councils and Norte Grande Plan
Environmental sustainability	Growing emphasis but implementation challenges with Amazon Fund and Low-Carbon Agriculture Plan	Strong policy emphasis with Green Hydrogen Strategy and Climate Change Law	Bioeconomy emphasis through Green Growth Policy and Bioeconomy Strategy	Decarbonisation Plan leadership with renewable energy and ecosystem services valuation	Emerging focus with climate resilience strategy and sustainable tourism initiatives	Renewable energy leadership with sustainability plan and circular economy initiatives	Growing policy framework with National Climate Change Plan and Hydrogen Roadmap
International co-operation	MERCOSUR member with diversified partnerships	Multiple FTAs with strategic Asian partnerships	Pacific Alliance member with active FTA strategy	OECD Member with diversified trade agreements	DR-CAFTA, EU EPA, diversification of partnerships	MERCOSUR member with diversified partnerships	MERCOSUR member with selective international engagement
Digital transformation	E-Digital Strategy 2022-2026 aligns with other national strategies, such as the Brazilian Strategy for Artificial Intelligence, with uneven adoption	Digital Transformation Strategy 2035	National Digital Strategy 2023-2026	Digital Transformation Strategy 2022-27, National Plan for Science, Technology and Innovation, National Telecommunications Development Plan	Digital Agenda 2030	Uruguay Digital Agenda 2025	Digital Agenda Argentina with implementation challenges
Recent policy innovations	Productive development credits linked to environmental, social and governance metrics; Brasil Mais Productivity programme	Green hydrogen strategy, astro-economy initiative	New Industrialisation Policy with strategic tariffs, national production incentives, "Buy Colombian" procurement policies	Circular economy roadmap, bioeconomy strategy, innovation corridors	Special zones for frontier development, nearshoring strategy, film industry	Digital nomad visa programme, audiovisual sector incentives, pharma hub	"Chainsaw Plan" for deregulation, dollarisation exploration, elimination of export taxes, privatisation agenda for state enterprises

Note:

1. Argentina's approach, focusing on market liberalisation rather than active productive development intervention, represents a departure from what are considered productive development policies. It is included for comparative purposes to illustrate the full spectrum of economic policy approaches in the region.

Source: Authors' elaboration based on official information (March 2025).

Productive development approaches in LAC

In the mosaic of strategies across the region, several patterns emerge that characterise the various national approaches. These are not pure models but predominant tendencies that coexist with elements from other approaches.

The state-led model with sectoral focus

The most emblematic example of this approach is Brazil, where the state plays a leading role in defining and promoting strategic sectors. Through its Nova Indústria Brasil policy (2023-2026) and the Brasil Mais Produtivo programme, the country has sought to revitalise its industrial base with a combination of instruments, including preferential financing through the Brazilian Development Bank (BNDES), comprehensive SME support programmes via the Support Service for Micro and Small Enterprises (SEBRAE) and a simplified tax regime (Simples). Brazil's approach is distinguished by the integration of the country's Ecological Transition Plan, co-ordinated by the Ministry of Finance. This represents a paradigmatic shift towards mainstreaming environmental considerations within the country's broader economic and productive development strategy (Ministry of Finance, Brazil, 2023). Brazil's new industrial policy, more sophisticated than previous versions, incorporates environmental sustainability criteria by linking productive development credits to environmental, social and governance metrics. The Ecological Transition Plan establishes concrete mechanisms for aligning fiscal policy, public investment and productive development incentives with climate and environmental objectives, creating synergies between decarbonisation goals and industrial competitiveness that extend beyond traditional sectoral approaches. This distinctive element represents a significant innovation in the region. It seeks to harmonise competitiveness objectives with sustainability through an integrated governance framework that positions environmental transition as a driver of production transformation, rather than a constraint.

Colombia has also shifted towards a more active state role with its Reindustrialisation Policy (2023). The policy aims to increase the generation of added value in the production of goods and services in the economic sectors that make up the productive base of the Colombian economy, in order to transition from an economy dependent on extractive activities to a knowledge-based, productive, sustainable and inclusive economy that contributes to territorial development and the closing of productivity gaps. Unlike past import substitution experiences, this new approach includes modern elements such as “Buy Colombian” procurement policies, national production incentives and strategic use of trade instruments to support domestic manufacturing. Parallel to this industrial policy, Colombia has implemented an ambitious STI Mission-Oriented Policy, co-ordinated by the Ministry of Science, Technology and Innovation (Minciencias), that seeks to address major societal challenges through targeted research and innovation programmes. While both policies represent sophisticated approaches to state intervention, they operate largely independently, with limited co-ordination mechanisms between the productive development agenda and the mission-oriented innovation strategy. This highlights a challenge in policy integration that affects many LAC countries.

The trade and foreign investment-oriented model

Mexico exemplifies a strategy centred on trade integration and FDI attraction. Its current productive strategy is strongly anchored in leveraging the United States-Mexico-Canada Agreement (USMCA) and the nearshoring phenomenon as development engines. The Plan México (2025) and the USMCA Integration Strategy seek to maximise the benefits of North American production-chain relocation, consolidating Mexico as a manufacturing hub. The approach is characterised by a strong orientation towards external markets, especially the United States, with priority sectors aligned with North American value chains. Under Plan México, the government has identified eight strategic priority sectors: automotive, aerospace, electronics, agro-industry, semiconductors, electromobility, pharmaceuticals and textiles. This expanded sectoral focus reflects Mexico's strategy to capitalise on nearshoring opportunities while diversifying beyond traditional manufacturing sectors, particularly emphasising emerging industries such as semiconductors and electromobility that align with North American supply-chain reconfiguration and the green transition.

The Dominican Republic follows a similar pattern on a smaller scale. The country is transitioning from a free-zone-based model towards a more integrated economy, while maintaining a strong emphasis on FDI attraction, especially in tourism, manufacturing and, more recently, the film industry as an emerging sector.

Costa Rica has refined this model with particular success, evolving from light manufacturing towards knowledge-intensive sectors such as medical devices, information technology services and advanced manufacturing. Its Digital Transformation Strategy 2022-27 complements these efforts with notable technology adoption.

The market-oriented model with selective intervention

Chile represents the paradigm of a market-oriented economy that has incorporated strategic interventions in specific sectors. Its National Green Hydrogen Strategy and National Lithium Strategy exemplify this approach: the state establishes regulatory and strategic frameworks but relies on the private sector and market mechanisms for implementation. Chile's Productivity, Innovation, and Growth Agenda articulates selective interventions through agencies like the Production Development Corporation (CORFO) and programmes like Start-Up Chile, while maintaining a general pro-market regime. This model has allowed Chile to develop capabilities in services, world-class mining and, increasingly, renewable energy. Its recent 4e Program reflects an attempt to diversify towards high-technology sectors.

Uruguay follows a similar path with a knowledge-intensive approach and emphasis on innovation and sustainability. Its Strategic Plan Uruguay 2050 and National Innovation Strategy articulate a knowledge-based development vision, with selective interventions in sectors such as agri-tech, ICT services and sustainable agriculture.

The radical liberalisation model

Argentina represents a particular case with its Economic Liberalisation Plan (2023-present) and the so-called Chainsaw Plan for deregulation. This approach seeks to minimise state intervention in productive sectors, eliminate industrial subsidies, reduce trade barriers and privatise state enterprises. It prioritises macroeconomic stabilisation over sectoral intervention, with distinctive elements such as an exploration of dollarisation and the elimination of export taxes.

The nature and objectives of this strategy – focused primarily on fiscal adjustment, market liberalisation and the withdrawal of the state from productive affairs – make it difficult to classify it as a PDP in the traditional sense. Nonetheless, while recognising that the case of Argentina represents an alternative development philosophy rather than a PDP variant, it is included for analytical completeness in order to illustrate the full spectrum of policy approaches being pursued in the region. Moreover, this model faces significant challenges in implementation, especially in light of Argentina's long-standing industrial base and accumulated productive capabilities, which risk being undermined rather than leveraged under the current trajectory.

Sectoral focus of productive development policies in LAC

PDPs in LAC are increasingly tailored to national contexts, reflecting diverse economic structures, political priorities and resource endowments. However, there is a clear regional trend towards fostering green industries, accelerating digital transformation and promoting advanced manufacturing. This is integral to diversifying economies, enhancing competitiveness and moving beyond traditional commodity dependence.

Countries in the region are strategically leveraging their natural resource endowments to become players in emerging green value chains, as exemplified by Brazil's ambition to be a global green powerhouse and Chile's targeted investments in lithium value-added processes and green hydrogen. Costa Rica and Uruguay are also making significant strides in renewable energy and green growth initiatives. Digitalisation

is recognised not merely as a sector in itself but as a foundational enabler for modernising and enhancing productivity across all industries, from traditional manufacturing to services. Advanced manufacturing, often linked with nearshoring opportunities, is a key driver for creating high-value jobs and strengthening domestic content in global production networks. This is particularly evident in Mexico's strategic Plan México and in the focus of Costa Rica and the Dominican Republic on high-tech manufacturing and free trade zones. Colombia has adopted a strong circular economy approach in developing its production policies, through initiatives such as the Zero Waste programme, the implementation of Eco-Industrial Parks and collaboration with international co-operation agencies – for example, the German Institute of Metrology (PTB) – to analyse the plastics value chain.

In the LAC context, the greening of production must be a central axis of any strategic prioritisation process. The region's wealth in natural resources positions it to lead in global green value chains – but only if PDPs are designed to ensure innovation, environmental safeguards and equitable benefit sharing. Moreover, regional co-ordination of sectoral PDPs will be critical to avoid zero-sum competition and promote synergies. As illustrated in the automotive value chains of Argentina and Brazil, well-structured co-operation can foster regional complementarities and create economies of scale, while initiatives that are not co-ordinated risk duplication or conflict.

Implementation of instruments and mechanisms for productive development policies in LAC

Beyond general orientations, the comparative analysis presented in Table 2.3 reveals patterns in the instruments employed by countries to implement their productive development strategies.

Innovation systems

The institutional architecture for STI varies significantly among countries, reflecting differences in institutional capacity, governance and strategic alignment with productive development priorities. According to the classification presented in ECLAC (ECLAC, 2025^[58]), three levels of maturity can be identified in the region's innovation policies:

- *Advanced maturity.* Countries with stable institutional structures, specialised agencies and relatively consistent STI strategies. Brazil and Chile, for example, have the most developed innovation policy systems of the region, with key actors and robust specialised institutions such as the Brazilian Innovation Agency (FINEP) and the Chilean Economic Development Agency (CORFO). However, they still face co-ordination challenges among multiple agencies and research institutes.
- *Intermediate maturity.* Countries with certain institutional capacities and, in many cases, national STI strategies, but facing difficulties in inter-institutional co-ordination, sustaining efforts and fostering public-private linkages. Colombia illustrates this profile, showing important advances with iNNpulsa, its entrepreneurship and innovation agency, and initiatives such as Ruta N Medellín, yet still faces budgetary constraints. Uruguay has built a coherent architecture for digital innovation with co-ordination by the National Agency for Investigation and Innovation (ANII) and the Ceibal Plan, although it could be scaled up. Some challenges include strengthening the alignment with production transformation processes and ensuring sustainable funding to maximise impact.
- *Incipient maturity.* Countries lacking specific national innovation strategies or dedicated institutions responsible for innovation, as well as formal co-ordination mechanisms. These systems display prevailing weaknesses in governance, financing and capacities. This is the case for several Caribbean islands, which require sustained efforts to build and consolidate innovation policies.

The variation in innovation systems across LAC demonstrates that institutional sophistication does not automatically translate into transformative impact. While countries have developed increasingly sophisticated innovation architectures, most systems suffer from a fundamental scale-impact disconnect:

they possess the institutional frameworks to support innovation but lack the critical mass of resources, co-ordination mechanisms and strategic focus necessary to drive systemic production transformation. Effective innovation systems require not just well-designed institutions but also sufficient scale, institutional co-ordination and alignment with broader productive development priorities and related transformative investments – a combination that even the most advanced LAC countries have struggled to achieve, limiting innovation's role as a driver of structural economic change and competitiveness.

Human capital development

Approaches to talent formation reflect both sectoral priorities and structural challenges.

- *Specialised technical training.* Approaches centred on technical skills for manufacturing have been adopted by Brazil, with the National Service for Industrial Training (SENAI), and by Mexico, with its dual education programmes.
- *Vocational training with broad coverage.* Colombia has built a national professional training system with emphasis on employability with its National Training Service (SENA).
- *Dual education and linkages with multinationals.* Costa Rica has developed successful training schemes in collaboration with international companies.
- *Emphasis on digital skills.* Uruguay leads the region in digital education from early ages with its Ceibal Plan.

Although the region's countries recognise skills development as fundamental to production transformation, most human capital development systems in LAC remain misaligned with the demands of modern, knowledge-intensive economies. A critical bottleneck for regional competitiveness is created by the gap between traditional vocational training focused on manufacturing skills, on the one hand, and the requirements of green and digital transformation, global value-chain integration and innovation-driven growth, on the other. Success increasingly depends on countries' ability to anticipate future skills demands, foster private-sector engagement in curriculum design and build adaptive learning systems that can continuously evolve. Few LAC countries have fully developed these institutional capabilities, limiting their potential to leverage human capital as a driver of inclusive and sustainable productive development.

Policies for attracting and leveraging foreign direct investment

Strategies to capitalise on foreign investment vary substantially across the region. They include:

- *Selective regimes with local content requirements.* Brazil seeks to maximise knowledge spillovers through its Investment Partnerships Programme (PPI).
- *Open regimes with special economic zones.* Generous incentives with limited integration requirements are offered by Mexico, with its IMMEX import duty deferral programme, and the Dominican Republic, with its free zones.
- *Attraction focused on high-value sectors.* Costa Rica has developed an outstanding capacity to attract investment in specific high-technology sectors through its Trade and Investment Promotion Agency (PROCOMER).
- *Comprehensive liberalisation.* Argentina is advancing towards eliminating capital controls, reducing restrictions and simplifying processes for foreign investors.

The diversity of FDI strategies across LAC reflects a fundamental tension between attracting investment flows and maximising developmental impact. Countries face a strategic choice between offering generous incentives with minimal requirements (risking enclave development) and imposing selective conditions that enhance local linkages but may deter investment. Incentivising quality investments with high standards and aligned to public policy objectives can contribute to close developmental gaps. The most successful approaches, exemplified by Costa Rica's targeted high-tech strategy, demonstrate that effective FDI

policies require sophisticated institutional capabilities to identify strategic sectors, assess investor quality and balance attraction with upgrading requirements. Many LAC countries have yet to develop these capabilities, leading to suboptimal outcomes where investment flows fail to generate transformative productive development impacts.

Support for small and medium-sized enterprises and entrepreneurship

Support mechanisms for small and medium-sized enterprises in LAC have differing levels of sophistication:

- *Comprehensive systems with specialised agencies.* Brazil has developed a robust support infrastructure with broad territorial coverage via its Support Services for Micro and Small Enterprises (SEBRAE).
- *Linkage programmes with multinationals.* Costa Rica has successfully implemented its Small and Medium Enterprise Support Programme (PROPYME) and linkage programmes with international companies.
- *Agencies with territorial focus.* Uruguay has adopted a decentralised approach with a focus on territorial development through its National Development Agency (ANDE).
- *SME digitalisation initiatives.* Digital transformation of small and medium-sized businesses is being prioritised by Chile, with Digitaliza tu Pyme, and Colombia, with Fábricas de Productividad.

The success of policies to support SMEs and entrepreneurship increasingly depends on the sophistication of institutional architectures that can adapt global competitiveness requirements to local contexts and capabilities. And indeed, in LAC, support mechanisms are evolving from traditional protective approaches towards integration-focused strategies that prepare SMEs for participation in global value chains. However, this transformation demands new institutional capabilities that can simultaneously deliver digital transformation, facilitate multinational linkages and maintain territorial reach. Most countries in the region have yet to resolve this complex co-ordination challenge.

Emerging trends in productive development policies across LAC

Despite divergences in general approaches to PDPs, several common elements are emerging in the regional landscape:

Environmental sustainability as a transversal axis

The environmental dimension is gaining centrality in productive strategies:

- *Green hydrogen strategies.* Chile leads with its National Green Hydrogen Strategy, but Argentina, Brazil, Colombia and Uruguay have also developed roadmaps in this area.
- *Circular economy.* Costa Rica is a pioneer with its circular economy roadmap, and similar initiatives are emerging in Uruguay and Colombia.
- *Ecosystem services valuation.* Costa Rica has been a pioneer in this area as well, incorporating environmental services valuation into its production model.
- *Productive decarbonisation.* Decarbonisation is gaining ground, with Costa Rica at the forefront through its National Decarbonisation Plan, and with similar initiatives in Chile and Uruguay.
- *Sustainable tourism.* Costa Rica and several countries in the Caribbean have successfully integrated sustainability into their tourism strategies, demonstrating that it is possible to combine economic growth with environmental preservation and community development. These experiences highlight the significant potential for other countries in LAC to adopt and scale up sustainable tourism as a key component of their production transformation strategies.

This trend towards environmental sustainability reflects both international market pressures and strategic opportunities linked to the region's abundant natural and renewable energy resources. More significantly, it represents a paradigm shift where environmental sustainability moves from being a regulatory constraint to becoming a driver of competitive advantage and innovation. This transformation creates unprecedented opportunities for LAC to leverage its renewable energy potential and biodiversity strategically, developing value-added environmental goods and services rather than merely extracting raw materials. However, it also presents challenges, including the need for workforce retraining as traditional industries decline, new institutional capabilities for green technology assessment and the assurance that the high costs of environmental transition do not exacerbate regional inequalities.

Digital transformation as a competitive imperative

Digitalisation is permeating productive strategies with different levels of depth:

- *Comprehensive digital strategies.* Chile, with its Advanced Digital Agenda, and Uruguay, with its Digital Agenda, stand out for their integral approaches and high connectivity.
- *Industry 4.0.* Mexico and Brazil have developed strategies for adopting 4.0 technologies in their manufacturing sectors, although with uneven adoption.
- *Digital government.* Uruguay leads in this area with its advanced information technology infrastructure and digital government approach.
- *AI strategies.* LAC countries have recently begun incorporating AI into national strategies, with a focus on responsible adoption, digital talent development and ethical governance. Brazil, Chile and Uruguay have led these efforts, with AI roadmaps integrated into their broader digital agendas (ILIA, 2024^[81]).

A critical challenge identified across the region is the frequent disconnect between digital transformation strategies and PDPs. Many countries have developed sophisticated digital agendas that operate in parallel to their PDPs, missing opportunities for synergistic effects. For example, while countries may have comprehensive Industry 4.0 strategies, these often lack integration with sectoral productive development initiatives, resulting in fragmented approaches that limit their transformative potential. Successful digital transformation for productive development requires co-ordination mechanisms between digital policy agencies and productive development institutions, ensuring that digitalisation efforts directly support strategic productive objectives, rather than operating as separate policy domains.

Knowledge-based productive diversification

Despite different approaches across the region, there is a shared trend towards diversification into higher value-added activities in knowledge-intensive sectors:

- *Knowledge-intensive services.* Argentina and Uruguay have prioritised the development of knowledge-based services as strategic exports.
- *Bioeconomy.* Colombia, with its Bioeconomy Strategy, is articulating a model for sustainable use of its biodiversity. Brazil's National Bioeconomy Strategy, launched during its G20 presidency, aims to make the bioeconomy a key driver for a sustainable, inclusive, and innovative economic transformation. Similar approaches are emerging in Costa Rica.
- *Pharmaceutical hub.* Uruguay is developing initiatives to position itself as a regional pharmaceutical hub.
- *Creative industries.* Colombia and Costa Rica have developed strategies to boost creative and cultural industries.

This movement towards knowledge-intensive sectors reflects the search for growth sources less vulnerable to the volatility of traditional commodities, but its implications extend far beyond economic

diversification. The shift represents a fundamental transformation in how LAC countries conceptualise their role in the global economy: they are moving from being peripheral suppliers of raw materials towards becoming active participants in knowledge creation and innovation networks.

Shared challenges but diverging approaches to productive development policies in LAC

The analysis of productive development strategies in LAC reveals both common challenges and diverging approaches on how to address them. Countries in the region face the shared imperative of raising productivity, reducing structural gaps and improving their positioning in global value chains. However, responses to these challenges reflect different visions regarding the role of the state, market mechanisms and international insertion strategies. Comparative analysis reveals the limitations of adhering to pure models. The most promising approaches blend elements across paradigms: state co-ordination and good governance in strategic sectors, market mechanisms for efficiency, institutional quality for implementation and strategic international integration.

The region's productive development future likely lies not in convergence towards a single model but in more sophisticated policy mixing based on national circumstances, institutional capabilities and global positioning opportunities. What distinguishes the most promising approaches is their adaptation to specific constraints, capability-building orientation and institutional excellence for implementation effectiveness.

As LAC countries advance their productive development agendas, the key challenge is not choosing between state and market but instead building the institutional foundations for long-term transformation while maintaining the flexibility needed to adapt to rapidly changing global production contexts. The most successful strategies will likely be those that combine pragmatic approaches to immediate constraints with consistent investment in institutional and productive capabilities needed for future production transformation.

A critical dimension that deserves greater attention is the alignment between PDPs and broader National Development Plans. In several cases, the productive development agenda is only partially reflected in the overarching national strategy, hindering coherence and resource mobilisation. A systematic analysis of references to PDPs in recent National Development Plans across the region could shed light on this co-ordination gap. Moreover, cases such as Uruguay's Strategic Plan vs. sectoral PDPs show the potential for full alignment, while others reflect fragmentation. Strengthening this nexus would enhance policy effectiveness, accountability and long-term continuity.

Policy recommendations

This chapter has presented a renewed vision for PDPs in LAC, emphasising the urgent need for a paradigm shifts towards a modern, proactive, sustainable and inclusive approach. Given LAC's persistent reliance on commodities and the region's significant productivity gaps, a concerted and strategic effort is needed to diversify economies, enhance technological capabilities and foster higher value-added activities across a broader range of sectors.

There is a renewed global recognition of the strategic role of governments in shaping production structures, driven by concerns about national security, climate change, geopolitical shifts and the pursuit of inclusive and sustainable growth. In LAC, a modern approach must be broad in scope (beyond manufacturing), prioritise effective governance and genuine multistakeholder collaboration, adopt a strong place-based perspective, address interconnected bottlenecks strategically, prioritise interventions in key driving sectors, embrace experimental governance and continuous learning, have a strong internationalisation focus and leverage the potential of cluster initiatives and other forms of productive articulation.

The chapter provides the foundation for targeted policy interventions based on country case studies, stakeholder consultations and empirical evidence, highlight systemic issues affecting how PDPs are designed, implemented and evaluated throughout the region (ECLAC, 2024^[11]):

- **Implementation gap:** many LAC countries have developed relatively sophisticated PDP frameworks and strategies but face significant challenges in translating them into effective implementation. This gap reflects limitations in institutional capabilities, resource constraints co-ordination difficulties and political economic factors.
- **Institutional fragility:** the effectiveness of PDPs in the region is undermined by institutional weaknesses, fragmentation across agencies, limited technical capabilities and insufficient monitoring and evaluation mechanisms.
- **Policy volatility:** PDPs in LAC tend to suffer from volatility and discontinuity across political administrations, undermining their long-term prospects and the consistent efforts required for successful production transformation.
- **Governance deficit:** many PDP initiatives in the region lack robust governance arrangements that would enable effective stakeholder co-ordination, balanced representation, adaptive learning and strategic coherence over time.
- **Resource inadequacy:** the fiscal and human resources dedicated to PDPs in most LAC countries are insufficient relative to the scale and complexity of their production transformation challenges, limiting the potential impact of these policies.
- **Co-ordination challenge:** the effectiveness of PDPs is constrained by insufficient co-ordination across policy domains, government levels and stakeholder groups, resulting in fragmented efforts with limited synergies.
- **Territorial inequality:** PDP capabilities and resources are unevenly distributed across territories within countries, with more developed regions better positioned to design and implement effective initiatives, potentially reinforcing existing spatial disparities.
- **Lack of strategic focus:** many PDPs in the region suffer from insufficient prioritisation and strategic focus, spreading limited resources across too many objectives and beneficiaries rather than concentrating on key constraints and opportunities.
- **Marginal efforts:** the productive development initiatives in many LAC countries remain marginal in scale and scope, failing to achieve the critical mass necessary to generate transformative change in production structures.
- **Poor articulation and co-ordination among actors and efforts:** there is insufficient articulation and co-ordination among stakeholders and initiatives, leading to duplicated efforts and missed opportunities for collaborative advantage.
- **Lack of continuity between government periods:** the absence of continuity between successive administrations undermines long-term initiatives and institutional learning, with new governments often discarding previous efforts regardless of their merit.
- **Top-down approach with limited territorial involvement:** many PDPs follow a top-down approach with minimal involvement from territories, ignoring local knowledge and reducing ownership of development initiatives at the regional and local levels.
- **Limited evaluation:** PDP initiatives are rarely subjected to rigorous evaluation, limiting learning opportunities and evidence-based policy adjustments.
- **Misalignment with new visions:** many existing PDPs are not aligned with emerging development visions, including sustainability, inclusive growth and digital transformation.
- **Reduced impact:** despite decades of implementation, many PDPs in the region have had limited impact in terms of productivity growth, export diversification and structural transformation.

- Constraints on fiscal sustainability and implementation capacity: many PDP initiatives in LAC face challenges related to fiscal sustainability and limited implementation capacity at both the national and subnational levels. This can limit their impact and result in misalignment with local realities and societal needs. Effective PDP implementation demands multiannual investment planning and alignment with medium-term fiscal frameworks and institutional mechanisms to ensure cross-government co-ordination. Without such elements, PDPs risk remaining aspirational documents that fail to achieve transformative impact.

Crucial steps for strengthening PDPs in LAC include scaling up PDPs, strengthening multistakeholder and multilevel governance, enhancing institutional capabilities (technical, operational, political and prospective), fostering effective cluster initiatives, boosting stakeholder commitment (especially from the private sector), deepening place-based approaches and adopting a strategic line of internationalisation that includes export discipline, regional co-ordination and international PDP partnerships.

Box 2.3. Key policy recommendations

Scale up investment in productive development policies

- Increase budgetary allocations to key areas that underpin productive development, including STI, and sustainable infrastructure (addressing critical bottlenecks in connectivity, energy and transportation), high-quality skills development programmes aligned with labour market needs, and targeted support for strategically selected sectors with high growth potential and significant positive spillover effects across the economy.
- Create a more attractive and predictable investment climate for private resource mobilisation, providing carefully designed and targeted incentives and fostering effective public-private partnerships. This includes reducing regulatory burdens and improving the ease of doing business while building regional and global investment partnerships, such as the one proposed by the European Union-LAC Global Gateway, to mobilise quality investment around common strategic policy goals.
- Invest in the human and technical resources of government agencies, development banks and other institutions involved in the design, implementation and monitoring of PDPs. This includes attracting and retaining skilled personnel, providing ongoing training in policy analysis and evaluation, and fostering a culture of evidence-based policymaking.
- Enhance the availability, quality and granularity of data related to productivity, innovation, trade, skills and sectoral performance to inform policy design, monitor progress and rigorously evaluate the impact of PDP interventions. Governments should invest in strengthening national statistical systems, developing territorial data capabilities and promoting greater data sharing and accessibility across government levels and with research institutions and private-sector partners.

Strengthen multistakeholder and multilevel governance

- Create formal and informal mechanisms for regular and meaningful engagement across governments at all levels, the private sector, including firms of all sizes and industry associations, academia, labour organisations, and civil society in all stages of the PDP cycle, from the identification of priorities to design, implementation, monitoring and evaluation.
- Establish clear mandates, responsibilities and accountability mechanisms for different government entities involved in PDPs at all levels. Implementing effective co-ordination mechanisms, such as interministerial committees with clear terms of reference and joint working groups, will help to ensure policy coherence and avoid duplication of efforts.

- Provide subnational governments with the necessary financial and technical resources, capacity building and autonomy to design and implement PDPs that are tailored to their specific territorial contexts, needs and competitive advantages. Simultaneously, it is crucial to establish clear frameworks for ensuring alignment and complementarity between national and subnational PDP strategies to maximise impact and avoid fragmentation.
- Establish clear goals, measurable indicators and rigorous evaluation frameworks for all PDP interventions. Ensure public access to information on policy objectives, implementation plans, beneficiaries and outcomes to promote transparency and accountability.

Strengthen institutional capabilities

- Strengthen technical capabilities to design effective policies that align broader macroeconomic policies, trade strategies and social and environmental objectives by incorporating strategic planning with medium- and long-term horizons, generating integrated cross-cutting approaches, managing comprehensive information systems, evaluating policy impacts, aligning mandates with institutional capacities, enhancing accountability mechanisms and fostering continuous learning cultures that enable evidence-based policymaking and adaptive management of development initiatives.
- Strengthen operational capabilities to implement effective policies by assessing productivity and ensuring efficient service delivery, strengthened human resource policies, digital government interfaces for citizen interaction and quality service provision, effective interagency co-ordination systems, meaningful private-sector engagement, transparent resource management accountability and citizen satisfaction measurement.
- Strengthen political capabilities to gather the needed legitimacy, social support and coalitions for reforms by creating spaces for social dialogue among key development actors, leadership that builds trust and enhances collaboration across sectors, co-ordination between different government levels, peer-to-peer networks at local through international levels and mechanisms for achieving shared visions among diverse stakeholders.
- Strengthen prospective capabilities to anticipate and analyse global megatrends by applying participatory approaches to constructing desirable future scenarios, supporting long-term state policies that transcend administrative cycles, developing rapid response mechanisms for crises and disruptions, and cultivating dialogue cultures that anticipate potential conflicts.

Create and strengthen cluster initiatives in line with production priorities

- Develop a national strategy for cluster development by identifying priority sectors and regions where cluster initiatives can have the greatest strategic impact, based on existing strengths, potential for growth and alignment with national development objectives.
- Provide tailored and sustained support for cluster formation and development by offering financial and technical assistance for the establishment and operation of cluster organisations, the development of shared infrastructure and services, the facilitation of networking and collaboration among cluster members and the implementation of joint projects in areas like R&D, market development and skills upgrading. Support should be contingent on clear performance targets and effective governance within the cluster.
- Foster strong leadership and effective governance within clusters by *promoting* clear strategic visions, strong leadership capable of mobilising stakeholders and effective mechanisms for decision making and accountability.
- Promote inter-cluster collaboration and knowledge sharing by facilitating networking and learning exchanges among different cluster initiatives within the country and internationally to

disseminate best practices, identify potential synergies and foster new opportunities for collaboration and market access.

- *Integrate cluster initiatives into broader PDP strategies* by aligning and co-ordinating with other policy interventions in areas such as STI, skills development, infrastructure investment and internationalisation.

Boost the commitment of all stakeholders, particularly from the private sector

- Governments should engage throughout the policy cycle in open, inclusive and ongoing dialogue with the private sector (including large firms, SMEs, start-ups and industry associations), labour organisations and other stakeholders to build a shared understanding of national development priorities and the role of PDPs in achieving them.
- Ensure that PDP interventions are well informed by the challenges and opportunities faced by firms, are easy to access and navigate, and effectively address key bottlenecks to productivity and competitiveness.
- Provide well-designed and stable incentives that encourage firms to invest in innovation, technology adoption, skills upgrading, export activities and the development of higher value-added products and services. Ensure that these incentives are transparent, predictable and aligned with national development goals.
- Support the creation and growth of new firms, foster a risk-taking mentality, reduce entry barriers for innovative businesses and provide access to early-stage financing, mentorship and business development services.
- Recognise and support the role of industry associations and business support organisations in representing the interests of their members, disseminating information about PDPs, facilitating networking and collaboration and providing valuable services to firms.

Deepen a place-based approach to productive development policies

- Invest in data collection and analysis at the subnational level to identify specific regional strengths, competitive advantages, existing industrial structures, innovation ecosystems, skills bases, infrastructure gaps and development challenges.
- Provide greater autonomy, adequate financial resources and the necessary technical capacity to subnational governments to design, implement and monitor PDPs that are tailored to their specific territorial contexts and priorities. Fostering local ownership and participation in the design and implementation process is crucial for success.
- Promote co-ordination and co-operation among different levels of government (national, regional, local) and across administrative boundaries to address shared challenges, leverage regional complementarities and support the development of interregional value chains and clusters.
- Foster stronger linkages and collaboration among local firms, research institutions, universities, vocational training centres and other actors within regional innovation systems to promote knowledge sharing, technology transfer and the development of localised solutions to regional challenges.
- Address critical infrastructure gaps (transport, energy, water, sanitation) and improve digital connectivity, particularly in underserved regions, to enhance their attractiveness for investment, improve business productivity and facilitate access to markets and information.

Adopt a strategic line of internationalisation

- Provide targeted support to firms, particularly SMEs, to improve their export capabilities, allowing them to access to market intelligence, to adapt products and services to international standards

and consumer preferences, and to participate in international trade fairs and missions. Promoting diversification towards higher value-added exports and new markets is crucial.

- Develop targeted investment promotion strategies that focus on attracting quality FDI in sectors aligned with national development priorities and that have the potential for technology transfer, skills upgrading, decent job creation and integration into global value chains. Creating a stable, transparent and predictable investment climate is essential.
- Help domestic firms, especially SMEs, upgrade their capabilities, meet the quality and logistical requirements of leading global value chain firms and forge stronger linkages with international buyers. This can include supplier development programmes and support for adopting international standards.
- Encourage partnerships and collaboration between domestic research institutions and firms with international counterparts to access new knowledge, technologies and research networks. Facilitating the mobility of researchers and technical personnel can play a key role.
- Streamline customs procedures, improve logistics infrastructure, reduce non-tariff barriers to trade and actively participate in regional and multilateral trade agreements to enhance market access and reduce the costs of international trade.
- Adopt the export performance as both an indicator of productivity improvements and a conditionality mechanism for continued PDP support, ensuring that beneficiaries face the competitive pressures necessary to drive genuine productivity gains rather than becoming permanently dependent on protection or subsidies.
- Establish mechanisms for co-ordinating sectoral strategies across LAC countries to avoid zero-sum competition and promote regional value-chain development. This includes creating platforms for dialogue among national PDP agencies, identifying opportunities for regional industrial complementarity and developing joint approaches to emerging sectors such as green hydrogen, lithium processing and digital services where regional co-ordination can enhance global competitiveness.
- Seek partnerships and learning exchanges with advanced economies' industrial policies, particularly those focused on fair green transition and digital transformation. This includes establishing formal dialogue mechanisms with initiatives such as the European Digital Compass and Green Deal's industrial components, the U.S. CHIPS Act, and Asian advanced manufacturing strategies (Mazzucato, 2021^[82]; European Commission, 2020^[12]; United States Congress, 2022^[15]).

Notes

¹ Data were collected to map and promote PAIs, not for statistical purposes, and are based on voluntary self-reporting with validation efforts limited to cases with evident inconsistencies or missing data.

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3

Financing production transformation

Transforming production in Latin America and the Caribbean requires closing significant financing gaps in key sectors – especially those prioritised by countries under their productive development policies – through enhanced mobilisation of public and private resources. This chapter outlines a multipronged strategy to address these challenges. It highlights the importance of domestic resource mobilisation, including tax system reforms and the catalytic role of national development finance institutions. The chapter also explores capital market deepening, particularly through corporate and sustainable finance instruments, and the expansion of venture capital ecosystems. Finally, it analyses how foreign direct investment can contribute to production transformation by supporting diversification, technology transfer and green growth. Together, these measures provide a comprehensive framework for financing the region’s production transformation.

Introduction

Improved mobilisation of public and private resources is essential to finance investment in production transformation in Latin America and the Caribbean (LAC). Overall investment remains very low, with the private sector providing the bulk of financing. On the public side, limited fiscal space makes it crucial to ensure that expenditure is efficient and effective, maximising its impact. Closing large financing gaps in key production sectors – particularly those prioritised by LAC countries and their territories’ productive development policies – and reversing the persistent trend of underinvestment requires a multifaceted approach, combining complementary instruments to channel both domestic resources and international investment.

Domestic resource mobilisation will be essential. Limited tax revenues in several LAC countries constrain the ability of governments to expand and improve public services and to strengthen institutions. This entails rebalancing tax systems to increase equity, efficiency and simplicity; analysing corporate effective tax rates; and reviewing the design of tax incentives to ensure that they support targeted investments effectively without causing undue revenue losses. Strengthening tax morale will also be necessary in order to improve compliance and foster a fairer tax culture, allowing well-designed tax policies and reforms to become permanent and resistant to political backlash.

National development finance institutions (DFIs) working closely with multilateral development banks (MDBs) and bilateral DFIs can play a catalytic role in promoting investment aligned with productive development policies. Heterogeneity is high among national DFIs in terms of institutional and financial capacity. Accordingly, each national DFI, within its own capacity, continues to play a central role in advancing production transformation efforts in the region. However, more needs to be done to better harmonise mandates and financing strategies with productive priorities defined at the national and territorial levels. MDBs and bilateral DFIs can support these efforts by providing cheaper loans to reduce borrowing costs. In their role as knowledge hubs, they can also facilitate co-ordination among national DFIs to align with their productive development policy strategies, offer technical expertise and help scale up investments by supporting the development of sector-specific project pipelines.

Capital market deepening, particularly in corporate bonds and sustainable finance instruments such as green, social, sustainability, sustainability-linked and blue (GSSSB) bonds, is another important avenue. Capital markets in the region remain small, heterogeneous and concentrated. In 2024, equity market capitalisation reached 37.4% of gross domestic product (GDP), below the OECD level of 64.4%, while in 2023, the outstanding amount of corporate bonds in LAC represented around 2% of the global total. Expanding these markets can provide long-term financing for production sectors with high impact potential; doing so requires stronger institutional investor participation, more robust sustainable finance frameworks with stronger supervisory and monitoring mechanisms, greater financial literacy and deeper regional integration. In parallel, strengthening the venture capital ecosystem is essential to support early-stage and innovative enterprises.

Quality foreign direct investment (FDI) can also be channelled towards the objectives of production transformation. Attracting FDI to sectors such as renewable energy, digital infrastructure and medium- to high-tech industries has the potential to enhance production capacities, diversify the export basket and support technology transfer. It can also contribute to the creation of quality jobs and the greening of energy systems across the region.

This chapter will begin by addressing the financing gap in key production transformation sectors, followed by an analysis of domestic resource mobilisation through an examination of tax system structure, including corporate effective tax rates, tax incentive design and tax morale, and the role of national DFIs in scaling up investment. It will then explore avenues to attract international investment, including developing capital markets and promoting FDI.

LAC faces a large financing gap in key production sectors

LAC shows a persistent trend of low investment in key production sectors such as infrastructure, the digital economy and agriculture, resulting in significant financing gaps that constrain development. In 2024, overall investment in the region – public and private – averaged 19.5% of GDP, below the level in advanced economies (22.3%) and significantly lower than in emerging Asia (37.5%) and the Middle East and Central Asia (26.1%) (IMF, 2025^[1]). Furthermore, the LAC region faces an average annual financing gap of approximately USD 99 billion until 2030,¹ reflecting the average shortfall across six Sustainable Development Goal (SDG) priority areas, all linked to one or more production sectors: social protection and decent jobs; education transformation; food systems; climate change, biodiversity loss and pollution; energy transition; and inclusive digitalisation (OECD et al., 2024^[2]; UNCTAD, 2023^[3]).

Underinvestment has left LAC with ageing and insufficient infrastructure

The infrastructure gap in LAC is significant when measured against targets such as achieving a specific economic growth rate, reaching certain coverage levels and matching the infrastructure stock of another country or group of countries (Serebrisky et al., 2015^[4]). Over the past decade, infrastructure investment in the region has averaged 1.8% of GDP (Brichetti et al., 2021^[5]; OECD et al., 2024^[2]). However, to adequately support production transformation and meet minimum infrastructure needs – including new projects, maintenance, asset replacement and investment in the four key sectors (water and sanitation, electricity, transportation, and telecommunications) – an annual investment of 3.12% of GDP will be required until 2030. This indicates that the region underinvests in infrastructure by about 1.3% of GDP annually. In comparative terms, LAC's required annual investment of 3.12% of GDP is higher than the 2.68% in the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand and Viet Nam) and the 2.97% global average but slightly lower than the 3.30% in G7 economies (Brichetti et al., 2021^[5]).

Infrastructure shortfalls have a serious negative impact on the production sectors of the economy. Poor transport systems increase logistics costs; unreliable electricity and water supplies hinder industrial and agricultural production; and irregular telecommunications and connectivity inhibit economic growth. Failing to address the infrastructure gap can reduce annual GDP growth in the region by up to 1 percentage point – equivalent to around 15 percentage points of lost growth over a decade. This foregone output, approximately USD 900 billion, directly affects growth and living standards, especially for low-income populations. Vulnerable households depend more heavily on public infrastructure and pay more for lower-quality services, devoting an average of 16% of their income to these services compared to 13.5% for higher-income households (Cavallo and Powell, 2019^[6]). These inequalities not only reduce overall economic resilience but also limit the capacity of broad segments of the population to participate in and benefit from production transformation, particularly in sectors where improved infrastructure is essential for competitiveness and innovation. The payoff from eliminating the infrastructure gap in LAC would be substantial, as an increase of infrastructure investment to OECD levels would boost productivity growth in the region by 75% above its recent average, potentially doubling per capita income within a generation (Cavallo and Powell, 2019^[6]).

The financing gaps in the digital and agricultural sectors limit transformation efforts in LAC

Underinvestment in the digital economy continues to constrain production capacity and transformation efforts in LAC. In the digital economy, the region faces widespread shortfalls in broadband quality and coverage, particularly in low-income and rural communities. Closing the inclusive digitalisation gap would require USD 221 billion annually² – the largest financing gap among the six SDG priority areas (OECD et al., 2024^[2]). An additional USD 68.5 billion would be needed to reach OECD-level connectivity (Antonio

García Zaballos, 2023^[7]); this would help advance productivity and support a modern, knowledge-based transformation of production.

At the same time, persistent financing gaps in agriculture investment in LAC are impeding rural development and productivity growth. Smallholder farmers, who are the backbone of rural livelihoods, continue to face limited access to formal credit and essential inputs. Closing an estimated annual financing gap of USD 98 billion is needed to transform the food system in LAC, with the majority needed in South America (USD 73 billion) and Central America (USD 23 billion) (OECD et al., 2024^[2]; UNCTAD, 2023^[8]). This aligns with estimates of a global USD 170 billion agri-finance gap for smallholder farmers, to which LAC contributes significantly. Investment in agricultural research and development (R&D) in the region is also notably low, at just 0.4% of agricultural GDP, far below the 2-3% benchmark in advanced economies (Alejandro Nin-Pratt, 2018^[9]).

Ongoing fiscal deficits in these two sectors severely limit the region's ability to boost productivity, foster innovation and drive a more inclusive and sustainable production transformation.

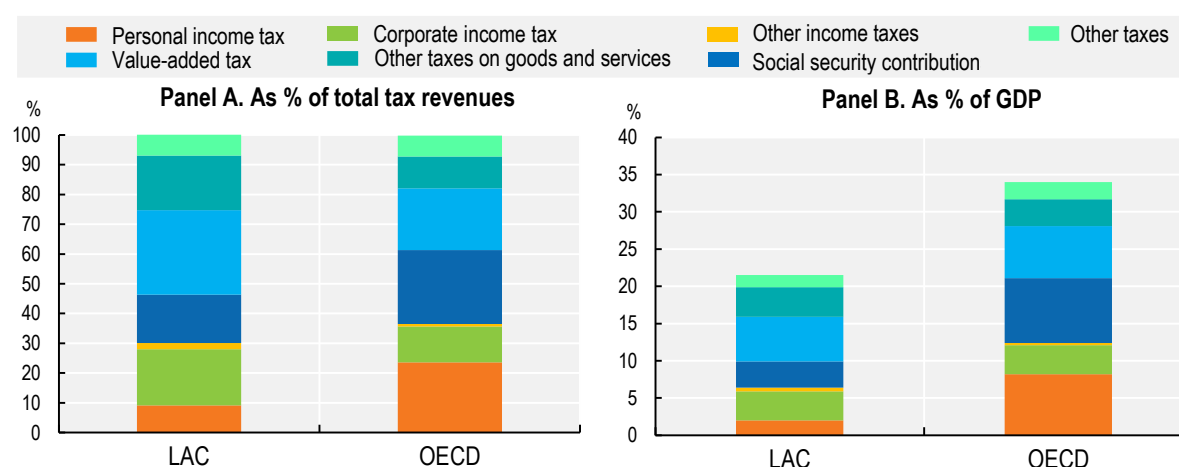
Improving the taxation system is essential to finance production transformation

Given the region's diversity, enhancing tax collection through a rebalanced tax structure, improved incentive design and stronger tax morale will require country-specific policy mixes tailored to each national context. Corporate income tax (CIT) is not the only important source of revenue in LAC – personal income tax, social security contributions and value-added tax also play major roles. This section focuses on CIT, given its specific impact on production investment in the region.

Tax revenues in LAC are too low to support long-term production transformation

Expanding tax collection and rebalancing the tax structure are essential to support efficient public spending and long-term production transformation in several countries in the region. Enhancing the design of the tax system to promote more equitable growth, while integrating social, environmental and digitalisation considerations, can support the development of a resilient, inclusive and sustainability-oriented production base and help finance the green and digital transitions (OECD et al., 2024^[2]). Despite high heterogeneity, tax revenues remain low in LAC, averaging 21.3% of GDP in 2023, far below the OECD average of 34% (OECD et al., 2025^[10]). The tax structure is overly reliant on consumption taxes and corporate income taxes, limiting its redistributive impact. In 2023, personal income tax and social security contributions made up just 26.1% of total tax revenues (5.6% of GDP) in LAC, compared to 48.4% (16.9% of GDP) in OECD countries (Figure 3.1). Conversely, CIT contributed more to LAC (18.7% of total tax revenues) than to the OECD (12%). Taxes on goods and services accounted for 47% of tax revenues (10% of GDP), with value-added tax alone contributing 28.5% of tax revenues (6% of GDP) (OECD et al., 2025^[10]). Rebalancing the tax structure can enhance equity and ensure stable, sufficient resources for investment in key sectors such as sustainable infrastructure (OECD et al., 2025^[10]).

Figure 3.1. Average tax structure in LAC and the OECD, 2023



Note: The LAC average excludes Venezuela due to data issues. Ecuador is excluded from the LAC average for personal income tax and corporate income tax revenues due to data quality issues. The OECD average corresponds to the 2022 average and represents the unweighted average of the 38 OECD Member countries, including Chile, Colombia, Costa Rica and Mexico.

Source: (OECD et al., 2025^[10]).

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Environmentally related taxes, such as energy taxes and pollution levies, as well as other carbon pricing instruments, offer revenue potential and a strategic lever to reshape production systems (OECD et al., 2024^[2]; 2025^[10]). By internalising environmental costs, these taxes can directly influence business decisions, pushing firms to adopt cleaner technologies, invest in energy efficiency and transition towards circular and low-carbon business models. This is essential for aligning fiscal policy with the long-term goals of sustainable productivity. For instance, higher fossil fuel taxes in LAC countries could help to create a level playing field and increase the competitiveness of hydrogen energy solutions (Cordonnier and Saygin, 2022^[11]). In parallel, rationalising and gradually phasing out fossil fuel subsidies can free up public resources for more productive and sustainable uses. However, to ensure an inclusive transition to cleaner energy, these reforms must be accompanied by targeted measures that shield vulnerable populations from fuel price volatility. Additionally, streamlining inefficient corporate income tax incentives and ensuring coherence with environmental objectives can help to avoid distortions and promote greener forms of growth (OECD et al., 2023^[12]).

To unlock the fiscal space needed to boost production transformation, LAC countries must strengthen the progressivity and efficiency of their tax systems (OECD et al., 2024^[2]). This involves increasing the share of direct taxes like personal income tax in several LAC countries, eliminating regressive and inefficient tax expenditures and broadening the tax base. In parallel, countries should redesign value-added taxes to minimise regressivity, for instance, by refining exemptions and enhancing targeted tax relief for low-income households (OECD et al., 2024^[2]). To foster efficiency, it is also essential to advance digitalisation, strengthening data governance, enhancing oversight and improving taxpayer services.

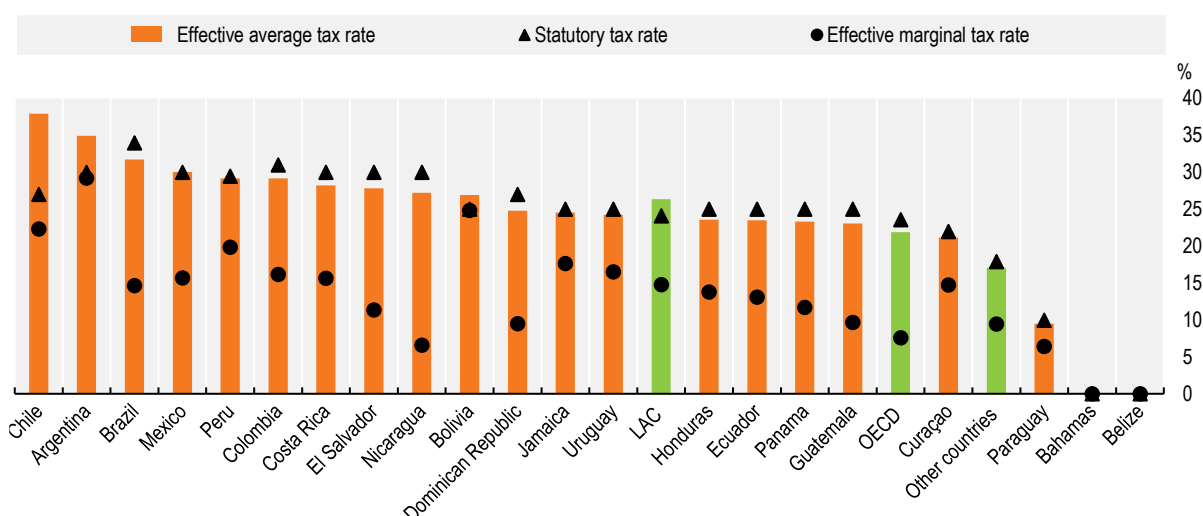
High effective corporate tax rates in LAC could dampen incentives to invest in the region

Relatively high tax rates on corporate profits in the LAC region could deter competitiveness and investments in key production sectors for some firms. In 2023, average statutory CIT rates in LAC were 21.1%, close to the OECD average of 23.7% (OECD, 2024^[13]). However, revenue levels and statutory tax rates do not show differences across jurisdictions regarding several important features. These tax provisions include allowances for fiscal depreciation, deductions for interest payments and equity

financing. Because these provisions can significantly affect tax liabilities, their level of generosity is vital for the correct measurement of effective taxation across tax systems (Hanappi et al., 2023^[14]).

LAC countries have relatively high forward-looking effective average tax rates (EATRs) and effective marginal tax rates (EMTRs).³ EMTRs are a useful tool for best gauging the effective tax burdens on investment projects. This methodology is based on assumptions about the financial returns of hypothetical investment projects, to which existing tax provisions are applied to determine the amount of tax owed and that do not require information from tax returns. A study analysing 21 LAC countries found that the EATR for a given investment project in 2021 averaged 23.9%, compared to 21.9% in OECD countries and 17.1% in the remaining countries in the sample, which included data from countries in Emerging Europe, the Middle East and Central Asia, Emerging Asia, and sub-Saharan Africa (Hanappi et al., 2023^[14]). At the country level, Chile, Brazil and Argentina had the highest EATRs (Figure 3.2). In the case of EMTRs, the average rate was 13.8% in the LAC region, almost double the average in OECD countries (7.6%) and the remaining countries (7.8%); Argentina, Bolivia, Chile, Jamaica and Peru were in the top ten.

Figure 3.2. Effective average tax rates, statutory tax rates and effective marginal tax rates in LAC countries, 2021



Note: The LAC average includes only countries with a positive corporate income tax statutory tax rate. Therefore, The Bahamas and Belize are not included. The “Other countries” includes data from Emerging Europe, the Middle East and Central Asia, Emerging Asia, and sub-Saharan Africa. Source: (Hanappi et al., 2023^[14]).

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Corporate income tax incentives need better design to help mobilise domestic and foreign investment

CIT are widely used across LAC, but they can entail significant costs and risks. Evidence shows little indication that they play a decisive role in investment location decisions, suggesting they are often redundant – that is, investment would have occurred even without them (IMF et al., 2015^[15]). Other elements of the investment climate are often more influential in shaping investment choices. Furthermore, CIT incentives can generate substantial fiscal and economic costs, including foregone revenue, windfall gains and economic distortions, may be of limited effectiveness and can increase the risks of tax avoidance (OECD, forthcoming^[16]). They may favour certain sectors, activities or regions over others, leading to inefficient resource allocation and crowding out more productive investment (James, 2020^[17]). In addition, they can undermine tax equity by disproportionately benefitting larger, well-connected corporations that

are better able to exploit complex incentive regimes, while disadvantaging smaller firms (Zolt and Schill, 2015^[18]). Moreover, CIT incentives often increase administrative and compliance burdens for both tax authorities and businesses, straining institutional capacity and reducing overall transparency (OECD, forthcoming^[16]). For these reasons, careful cost-benefit analyses are essential before granting tax incentives, which should be considered within broader investment promotion and facilitation frameworks (World Bank Group, 2020^[19]; IMF et al., 2015^[15])

CIT incentives in LAC have resulted in significant foregone revenue, much of it due to tax exemptions. Tax expenditures accounted for 4.0% of GDP on average in foregone revenue across 18 LAC countries, with CIT incentives representing 0.9% of GDP, second only to tax expenditures on goods and services, which amounted to 2.2% of GDP (Table 3.1). Of total tax expenditures, 72% were due to tax exemptions (CIAT, 2025^[20]).

Table 3.1. Total tax expenditures by tax type as a percentage of GDP in selected LAC countries

Country	Year	General consumption taxes	Personal income taxes	Corporate income taxes	Excise taxes	Trade taxes	Other	Total
Argentina	2023	1.4%	0.2%	0.3%	0.3%	0.1%	0.2%	2.5%
Bolivia	2023	0.5%		0.0%	0.0%	0.0%	0.0%	0.6%
Brazil	2023	1.3%	0.9%	1.1%	0.2%	0.1%	1.0%	4.8%
Chile	2023	1.0%	0.9%	1.2%	0.0%	0.0%	0.0%	3.2%
Colombia	2021	5.7%	0.6%	1.3%	0.1%	0.0%	0.0%	7.7%
Costa Rica	2022	2.2%	0.6%	1.6%	0.1%	0.1%	0.0%	4.6%
Dominican Republic	2023	2.5%	0.1%	0.6%	0.5%	0.3%	0.7%	4.6%
Ecuador	2022	2.6%	0.6%	1.1%	0.1%	0.2%	0.1%	4.7%
El Salvador	2020	2.1%	1.3%	1.0%	0.0%	0.0%	0.0%	4.4%
Guatemala	2022	1.7%	0.1%	0.8%	0.0%	0.1%	0.0%	2.7%
Honduras	2023	3.9%	0.6%	1.7%	0.4%	0.1%	0.0%	6.7%
Jamaica	2022	1.1%	0.0%	0.1%	0.2%	1.4%	0.1%	2.9%
Mexico	2021	1.4%	1.1%	0.5%	0.0%	0.0%	0.3%	3.3%
Nicaragua	2022	3.4%		1.4%	0.0%	0.1%	0.0%	5.0%
Panama	2021	2.5%	0.1%	1.1%	0.0%	0.0%	0.0%	3.6%
Paraguay	2023	1.0%	0.0%	0.3%	0.0%	0.3%	0.0%	1.6%
Peru	2023	1.4%	0.2%	0.2%	0.2%	0.0%	0.0%	2.0%
Uruguay	2023	3.0%	0.6%	1.7%	0.1%	0.0%	1.5%	6.8%
Average		2.2%	0.5%	0.9%	0.1%	0.2%	0.2%	4.0%

Source: (CIAT, 2025^[20]).

Corporate income tax incentives have the potential to increase domestic and foreign investment if they are well designed and implemented in a favourable investment climate. CIT incentives or investment incentives are targeted tax provisions that deviate from the standard tax treatment in a country, resulting in reduced or postponed tax liability, with the objective of promoting investment (Celani, Dressler and Wermelinger, 2022^[21]). By offering such incentives, countries provide measurable economic advantages to specific enterprises or groups of enterprises in the aim of steering investment into priority sectors or regions (James, 2020^[17]). Incentives can work more effectively for certain types of investments, in specific situations and in particular sectors. However, incentive design is crucial in the effective achievement of policy objectives and in their costs. Existing policy guidance prioritises expenditure-based tools (e.g. accelerations, allowances, credits) over income-based tools (e.g. CIT exemptions, reduced CIT rates), as expenditure-based tools have been shown to encourage investment with lower revenue losses

(OECD, forthcoming^[16]). A strong investment climate – including sound governance, transparency and clear standards – can significantly enhance the impact of CIT incentives on FDI, with effects up to eight times greater in favourable environments (James, 2020^[17]).

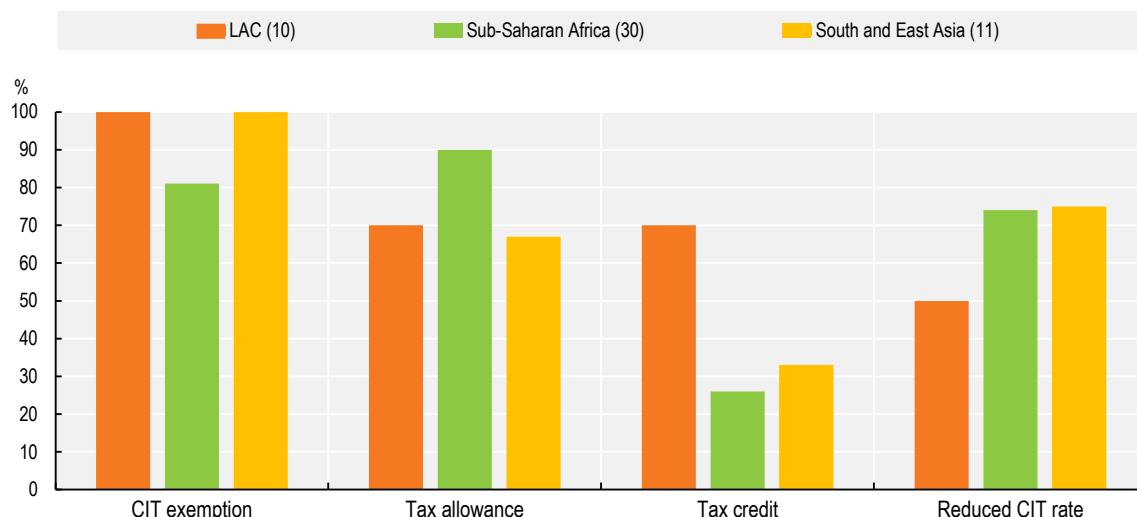
CIT incentives in LAC countries are often used to attract FDI that aims to support job creation, technology transfer and export promotion (Agostini and Jorrat, 2013^[22]; ECLAC/OXFAM International, 2020^[23]; James, 2020^[17]; Artana and Templado, 2015^[24]). The fact that FDI can promote employment generation prompts many governments to link tax incentives to job creation targets or to focus the incentives on regions with high unemployment or informality. FDI can also facilitate technology transfer, with governments encouraging high-tech investments by offering incentives for R&D, advanced equipment acquisition and sector-specific innovation. Export-oriented FDI, due to its mobility and growth potential, often receives targeted incentives as countries compete to attract such investments (Zolt and Schill, 2015^[18]). Increasingly, CIT incentives are also being aligned with sustainability goals, for instance, by rewarding investments that contribute to green transitions or include measurable environmental targets (Gascon et al., forthcoming^[25]).

Analysing the design of CIT incentives and their impact on effective taxation is necessary to understand their effectiveness in achieving policy objectives and the associated costs. A useful first step is to map the many different designs of CIT incentives available across countries and calculate their effect on corporate effective tax rates. A recent study⁴ that investigated CIT incentives in ten LAC countries will be used to build the core of the following sections (Gascon et al., forthcoming^[25]). The analysis includes data for Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Paraguay, Peru and Uruguay. It relies on a methodology, developed through the OECD Investment Tax Incentives Database (ITID), that compiles quantitative and qualitative information on the design and targeting of investment tax incentives available across economies, using a consistent data collection methodology (OECD, 2025^[26]). It also relies on the OECD's forward-looking effective tax rates model incorporating investment tax incentives (Celani, Dressler and Wermelinger, 2022^[21]). Such an analysis is particularly important in view of new international agreements on the global minimum effective corporate tax rate (GMT). The GMT can have a significant impact on the effectiveness of certain tax incentives and may require a careful reconsideration of the design and implementation of tax incentives in the region (OECD, 2022^[27]).

The design of corporate tax income incentives varies widely across LAC countries

Income-based incentives such as tax exemptions are common in LAC. CIT exemptions are present in all ten LAC countries analysed, a pattern that is also observable in other regions (Figure 3.3). Additionally, 50% of LAC countries analysed have at least one reduced CIT rate, compared to 74% in sub-Saharan Africa and 75% in the South and East Asian countries included in the OECD ITID. Regarding expenditure-based CIT incentives such as tax credits and allowances, the LAC region significantly surpasses others, with 70% of LAC countries analysed having at least one tax credit in place, compared to only 26% in sub-Saharan Africa and 33% in the South and East Asia countries covered in the database. As for tax allowances, LAC also shows high adoption, with 70% of the countries offering them, compared to 90% in sub-Saharan Africa and 67% in South and East Asia (Gascon et al., forthcoming^[25]).

Figure 3.3. Share of economies with at least one corporate income tax incentive in LAC, sub-Saharan Africa and East Asia, by instrument and region, 2024



Note: CIT = corporate income tax. The figure includes information from ten LAC countries: Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Paraguay, Peru and Uruguay. Tax allowances are deductions from taxable income for current or capital expenditure, which can either increase the amount deducted (enhancement) or accelerate capital asset depreciation (acceleration). Source: (Gascon et al., forthcoming^[25]).

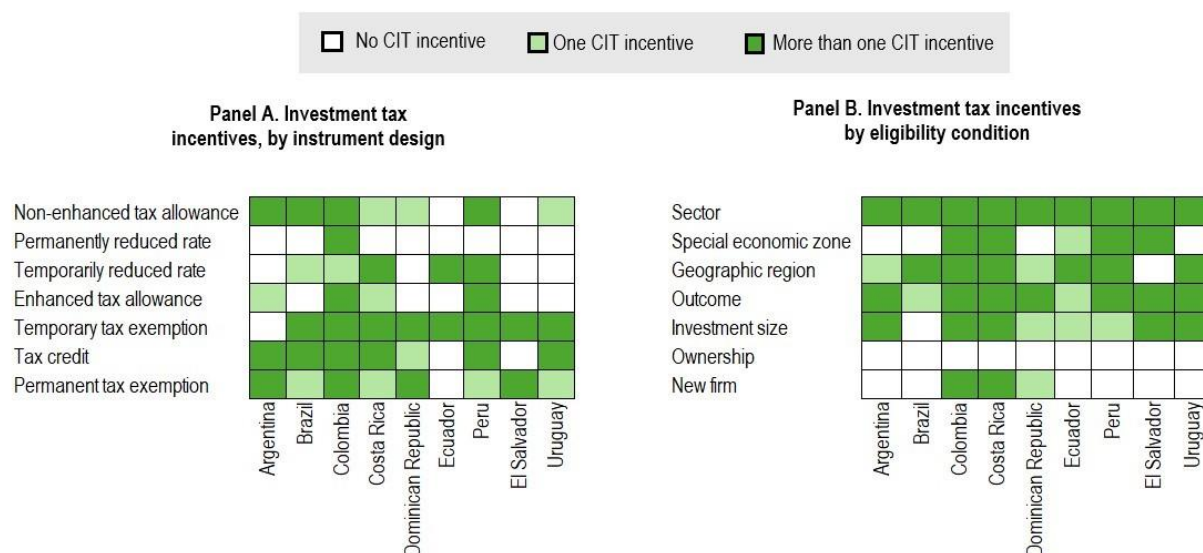
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Tax exemptions are the most widely used instrument across LAC countries (Figure 3.4, Panel A). Argentina, Colombia, the Dominican Republic and El Salvador offer more than one permanent CIT tax exemption, while the other countries in the study, except Argentina, provide more than one temporary CIT exemption. Tax credits are also widely used, with Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, Peru and Uruguay applying them at least once as of the end of 2024. Allowances that accelerate cost recovery compared to standard fiscal depreciation schedules (within 100% of capital expenditures) are also used across various countries. Argentina, Brazil, Colombia and Peru apply more than one such allowance, while Costa Rica, the Dominican Republic and Uruguay each use one. Enhanced allowances are less common, with Colombia and Peru offering more than one, and Argentina and Costa Rica applying at least one. Although less frequently applied, temporary and permanent reduced CIT rates are also used in several countries, with Colombia applying more than one permanent reduction and Brazil, Colombia, Costa Rica, Ecuador and Peru offering at least one temporary reduction (Gascon et al., forthcoming^[25]).

Sector conditions are the most widely used eligibility criteria for CIT incentives in LAC (Figure 3.4, Panel B). Investment tax incentives typically include specific eligibility criteria based on business and project characteristics. Eligibility criteria for tax incentives can vary and may be based on factors such as the economic sector, the project's location (e.g. special economic zone or less developed region), outcome conditions like job creation or export growth, or minimum investment thresholds. Incentives may also depend on ownership structure or whether the business is newly established, with expansions often excluded (OECD, 2025^[26]). All ten LAC countries analysed apply more than one CIT incentive with sector-specific conditions. Outcome conditions are also widely used across LAC, with CIT incentives often linked to factors such as job creation, environmental impact, use of clean technologies and contributions to social inclusion. Location-based conditions are widely used as well, with all countries analysed except El Salvador applying them to at least one CIT incentive. Colombia, Costa Rica, Ecuador, El Salvador and Peru also provide CIT incentives to companies located in special economic zones (SEZs). Investment size requirements are common as well, with thresholds varying across the region: 33% of LAC's CIT incentives

set the threshold below EUR 200 000, 25% between EUR 200 000 and EUR 1 million and 33% between EUR 1 million and EUR 10 million; only 9% require investments exceeding EUR 10 million. Only Colombia, Costa Rica and the Dominican Republic impose eligibility criteria limiting CIT incentives to newly established firms, while none of the countries analysed applies ownership structure as a condition for eligibility (Gascon et al., forthcoming^[25]).

Figure 3.4. Tax incentives by instrument design and eligibility in selected LAC countries, 2024



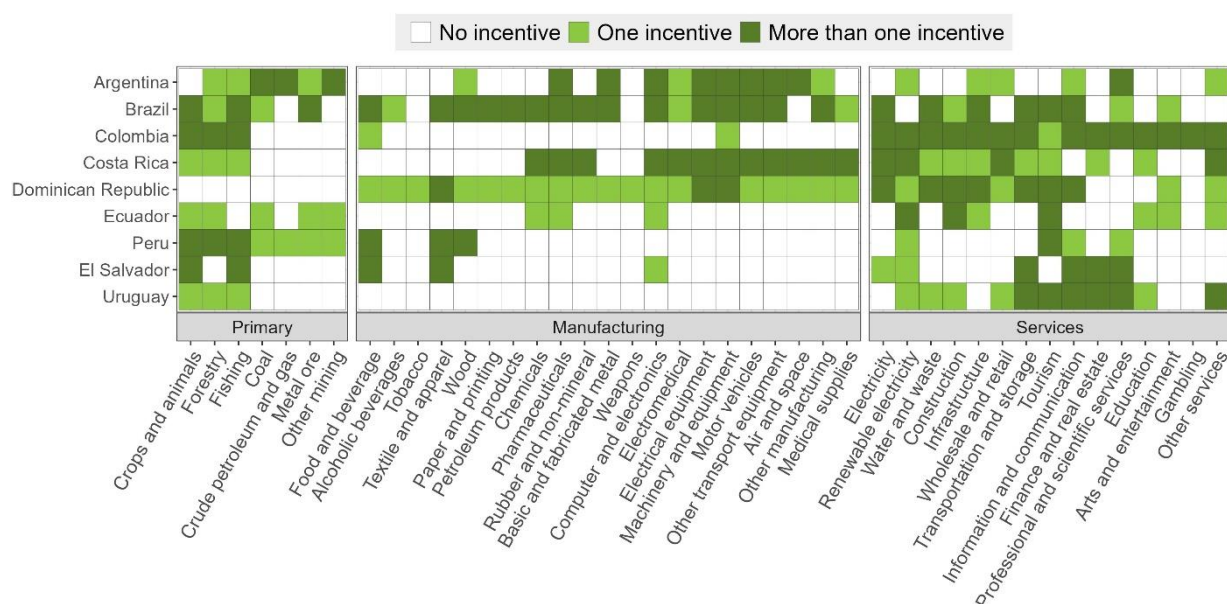
Note: CIT = corporate income tax. The figure includes information from nine LAC countries: Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, Peru, El Salvador and Uruguay. Paraguay is not included, as CIT incentives are outside of scope. Tax allowances are deductions from taxable income for current or capital expenditure, which can either increase the amount deducted (enhancement) or accelerate capital asset depreciation (acceleration).

Source: (Gascon et al., forthcoming^[25]).

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Sector targeting of CIT incentives in LAC varies by country, and several countries target the same sector with multiple incentives (Figure 3.5). The availability of sector-targeted incentives varies significantly, but 80% of all incentives have a sector condition. Manufacturing benefits from strong support in Argentina, Brazil, Costa Rica and the Dominican Republic, while primary sectors receive numerous incentives in Argentina, Ecuador and Peru. Services benefit from targeted incentives in Colombia, Costa Rica and Uruguay. Renewables, tourism, and information and communications technology (ICT) receive support across nearly all countries. Overlapping sector targeting suggests that countries could benefit from streamlining their incentive policies (Gascon et al., forthcoming^[25]).

Figure 3.5. Sectors targeted by corporate income tax incentives in LAC, 2024



Note: The figure only includes incentives that have a sector condition. The figure uses the ISIC classification from the United Nations.

Source: (Gascon et al., forthcoming^[25]).

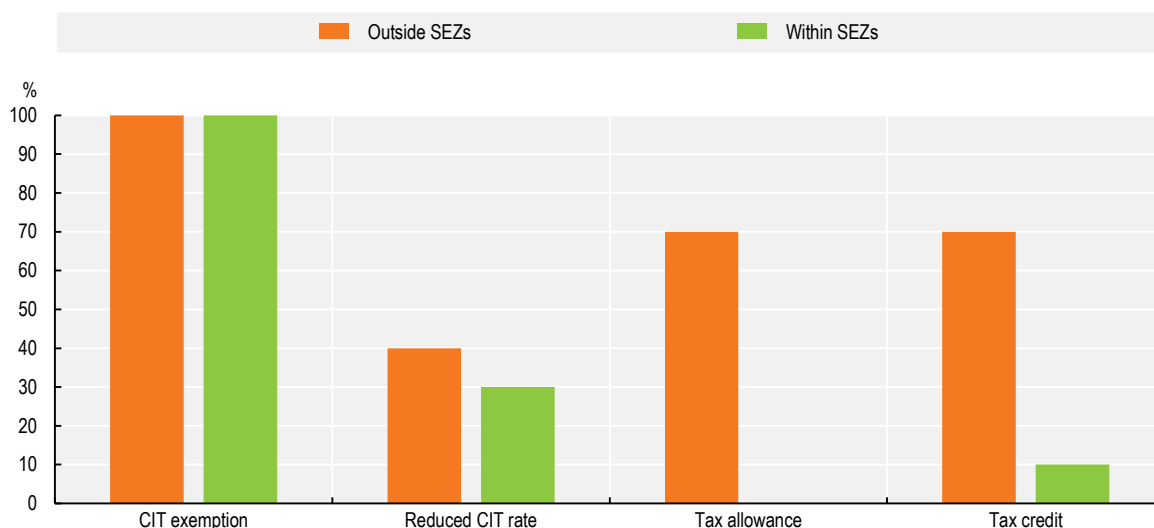
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Activity-specific incentives, such as those for R&D, are also used in LAC, though less frequently. Governments use the tax system to provide financial incentives for companies to invest in R&D, aiming to boost business R&D performance and drive innovation, economic growth and social well-being (OECD, 2025^[28]). R&D incentives, primarily in the form of expenditure-based tax benefits, are available in six of the ten countries analysed. Argentina, Colombia, El Salvador and Uruguay offer multiple such incentives, while Brazil and Peru each provide one. In Colombia, companies can access a 30% investment tax credit for eligible science, technology and innovation projects that involve collaboration between large firms and micro, small and medium-sized enterprises (MSMEs) and that consider environmental impact and demonstrate strong execution. Brazil allows companies to deduct 60-100% of R&D expenses from net profit, with additional deductions for projects that result in registered patents or cultivars, alongside benefits such as accelerated depreciation and reduced taxes on equipment and remittances. Peru offers a tax allowance of up to 240% for R&D spending, depending on whether the project is conducted by the taxpayer, a resident or a non-resident research centre, with slightly reduced rates for larger companies. R&D incentives must be carefully designed to meet policy objectives and should be complemented by direct public funding. While tax incentives are well suited to supporting experimental development, direct funding is generally more effective in advancing basic and applied research (OECD, 2025^[28]).

SEZs often apply income-based CIT incentives, particularly benefiting the manufacturing and services sectors. SEZ-related tax incentives are widely used across the ten economies analysed, accounting for more than a quarter (28%) of all 139 identified incentives. These incentives primarily target the promotion of manufacturing industries, including supply chain companies, infrastructure megaprojects and service centres or innovation hubs. Within SEZs, tax exemptions are used in all ten countries, reduced CIT rates are used in 30% of them, tax credits are used in 10% and tax allowances are not used at all (Figure 3.6). Most SEZ-related exemptions are highly generous, typically offering 100% exemptions over extended durations, with some covering a broad range of sectors. Outside SEZs, the use of different tax incentive instruments tends to be more evenly balanced (Gascon et al., forthcoming^[25]).

Figure 3.6. Share of selected LAC countries with at least one corporate income tax incentive related to special economic zones, 2024

Outside or within SEZs, by instrument



Note: SEZ = special economic zone. The figure includes information from ten LAC countries: Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Paraguay, Peru and Uruguay and 128 CIT incentive entries. Tax allowances are deductions from taxable income for current or capital expenditure, which can either increase the amount deducted (enhancement) or accelerate capital asset depreciation (acceleration).

Source: (Gascon et al., forthcoming^[25]).

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The governance of CIT incentives in LAC is highly fragmented. In most economies, CIT incentives are regulated through multiple and often inconsistent legal instruments – such as investment laws, SEZ laws and repeated amendments – rather than being consolidated in the tax law, which complicates compliance and monitoring. Overlapping responsibilities among ministries of finance, investment promotion agencies, and SEZ authorities further increase complexity, although co-ordination can provide benefits if clearly defined roles and objectives are established. In addition, legal frameworks rarely embed mechanisms for robust monitoring of compliance or ex-ante or ex-post evaluations, thus limiting policymakers' ability to assess whether incentives achieve their intended goals. Uruguay stands out as a positive example where both monitoring and ex-ante and ex-post evaluation processes are embedded in the legal framework (Article 17 of Decree 268, established in 2020), helping to assess whether tax incentives align with their intended objectives and deliver measurable impact. While Uruguay's system offers strong safeguards against misuse, it may pose administrative challenges, as tracking firm-level compliance with the matrix of indicators requires substantial oversight, monitoring and evaluation efforts. Nevertheless, more unified governance frameworks in LAC could improve transparency, reduce redundancies and ensure that incentives are more effectively designed and implemented.

Corporate income tax incentives can have a significant impact on effective corporate tax rates in LAC

Forward-looking effective tax rates are useful for evaluating the size of the tax relief provided by tax incentives for hypothetical projects and for informing tax incentive policy decisions. The EATR provides insights into investors' decisions when evaluating mutually exclusive projects, e.g. in different locations or

sectors, that earn positive rent over their lifetime (extensive margin decisions). Forward-looking EATRs can be calculated across countries with different standard tax systems, holding all other project characteristics equal. They are therefore useful for comparing tax treatment across countries and incentive design (Gascon et al., forthcoming^[25]). This section focuses on the tax incentives and their impact on EATRs for three specific cases: tourism, renewable energies and SEZs.

The tax relief provided by tourism tax incentives in LAC varies widely across countries and designs, with income-based incentives being, on average, more generous than expenditure-based incentives. Several countries offer incentives to encourage investments in tourism, using different instruments and targeting strategies. Six countries – Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador and Uruguay – use either income- or expenditure-based tax incentives. Among the income-based incentives are three exemptions and one reduced rate, and among the expenditure-based instruments are two instances of accelerated depreciation and one tax credit. The targeting strategies involve different types of eligibility conditions. While one country targets hotel services or tourism activities relatively broadly (Uruguay), others apply additional eligibility criteria linked to the location or size of an investment (Colombia and Ecuador), and another applies both approaches (the Dominican Republic). Costa Rica includes transport activities for tourists (air or water) next to hotel services, while El Salvador focuses on the restoration of historical buildings. On average, the incentives granted for tourism provide a reduction in EATRs of 47%, or 12.5 percentage points (pp), compared to the country-specific standard tax treatment (Figure 3.7, Panel A). Income-based instruments provide a 77% (20.9 percentage points) reduction in EATRs, while expenditure-based ones granted a 5% (1.2 percentage points) reduction on average (Gascon et al., forthcoming^[25]).

The effectiveness of tax incentives in generating tourism investment will not depend on the amount of tax relief granted but rather on context and incentive design. Policymakers should be cautious, as income-based incentives can have a high fiscal cost and provide little real benefit, since they often go to investors who would have carried out their projects even without the support. In contrast, incentives tied to actual spending – such as tax credits or accelerated depreciation – are generally seen as achieving more additional investment per revenue foregone, as they are directly tied to new investment. This is particularly relevant in sectors like tourism or natural resources, where location-specific factors such as beaches or mineral deposits are the main draw for investors. In such cases, tax incentives tend to produce limited behavioural change, resulting instead in foregone public revenue (Gascon et al., forthcoming^[25]). While some evidence, for example from Antigua and Barbuda, suggests that tax incentives can influence tourism investment decisions in small open economies, a better approach in most cases is to strengthen the broader investment climate by improving infrastructure, legal certainty and support for local development (Van Parys, 2012^[29]; Gascon et al., forthcoming^[25]).

The impact of tax incentives for the renewable sector on EATRs varies widely across countries and instruments used. Many countries in LAC offer tax incentives to boost investment in renewable energy, with some applying multiple measures simultaneously. These include tax exemptions (Colombia, Ecuador), tax credits (Argentina, the Dominican Republic), accelerated depreciation (Colombia), enhanced deductions (Colombia) and reduced tax rates (Costa Rica). Compared to other sectors, renewable energy incentives in the region are more often expenditure-based. Most schemes have been introduced recently and are relatively simple in terms of eligibility, typically requiring only that the investment or output relates to renewable or non-conventional energy sources. Only Argentina includes an eligibility condition: a local content requirement. Renewable energies in LAC obtain an average tax reduction of 55% (14.8 percentage points) relative to baseline EATRs. Income-based incentives are, on average, more generous than expenditure-based ones, with reductions of 21.8 percentage points (79%) and 6.4 percentage points (24%), respectively (Figure 3.7, Panel B). Expenditure-based incentives vary widely in generosity, bringing their EATRs relatively close to the results achieved by income-based incentives (Gascon et al., forthcoming^[25]).

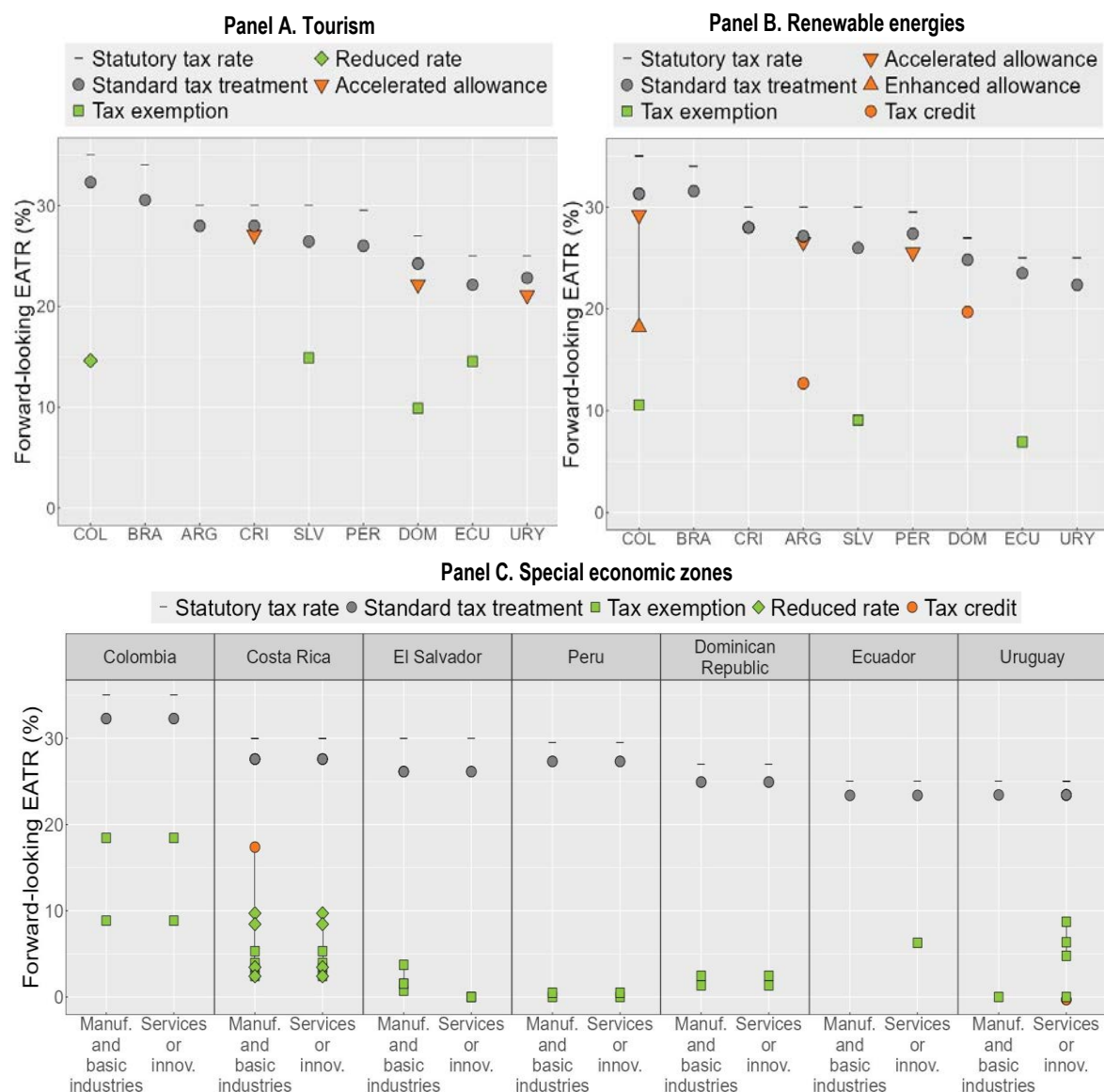
Tax incentives for clean energy must be evaluated as part of a country's broader climate policy mix in order to understand their real benefits and costs and to ensure policy coherence. Tax incentives can either complement or substitute for other climate measures, like carbon pricing, regulation or direct subsidies, depending on national contexts, capacities and political realities. When used as a complement, tax incentives can help to address barriers to clean investments – such as reducing financing constraints or promoting technology adoption spillovers like learning-by-doing. They thereby reinforce the impact of carbon pricing and other climate policies. When countries with incomplete carbon pricing use tax incentives, the tax measures can only act as an imperfect substitute. This is due to the fact that they do not provide continuous incentives to cut emissions and also due to the general risks and costs involved in their use. International evidence underscores the importance of removing tax incentives in favour of fossil fuels, as well as the major challenge of determining when tax incentives add value in addressing barriers to clean investments without duplicating existing measures. Where tax incentives are used, their policy rationale, interaction with other policies, and merits and costs compared to alternative policies should be clearly defined (Gascon et al., forthcoming^[25]). CIT incentives could be integrated into wider green productive development policies to reinforce structural transformation and accelerate the shift to sustainable production models. Green productive development policies combine environmental sustainability goals with sectoral strategies and industrial policies aimed at increasing competitiveness, innovation and job creation in climate-aligned sectors (see Chapter 2) (Martinez et al., 2025^[30]).

Tax incentives offered in SEZs are typically highly generous, often reducing a firm's effective tax rate to zero or near-zero levels (Figure 3.7, Panel C). On average, EATRs are lowered by 22.5 percentage points compared to the baseline, representing an 85% reduction. These incentives frequently apply broadly across the firm's entire taxable income rather than being limited to income linked to new investments or specific activities, thereby amplifying the risk of windfall gains without creating additional investments. In addition to income tax incentives, firms in SEZs often benefit from other advantages, such as preferential value-added tax or customs regimes and streamlined regulatory procedures. While these additional financial and non-financial benefits are not captured in the current analysis, they are essential for a full evaluation of the overall costs and benefits of SEZ policies (Gascon et al., forthcoming^[25]).

While some countries target their SEZ incentives to specific activities, like manufacturing or services, most do not differentiate but make SEZ incentives widely available. EATRs are presented for companies operating in manufacturing and basic industries, services, and other relatively innovative sectors. Ecuador stands out by targeting its SEZ incentives to touristic services, logistics, technology transfer and disaggregation, and industrial diversification operations (excluding manufacturing and basic industrial activities). El Salvador provides more generous treatment to international service parks and centres than to manufacturing, agriculture, fishing and aquaculture, and the production of food or animal feed. In contrast, Colombia, the Dominican Republic and Peru do not differentiate generosity in treatment based on activities within their SEZs (Gascon et al., forthcoming^[25]).

Figure 3.7. Effective average tax rates in LAC including tax incentives for tourism, renewable energies and special economic zones, 2024

Forward-looking effective average tax rates (%), by instrument



Note: The calculations are based on a weighted average between equity and debt financing (respectively, 65% and 35%) and a fixed macroeconomic scenario (inflation at 1%, real interest rate of 3%). All three panels use baseline tax-system parameters from the OECD Corporate Tax Statistics database for the year 2023. The figures show only countries that provide incentives in the relevant sectors. Paraguay is excluded, as these incentives are out of scope. Effective average tax rates (EATRs) evaluate investment decisions at the extensive margin. They summarise the effect of taxation on the decision to invest in comparable but mutually exclusive projects, assuming that investment projects earn economic rents over their lifetime. Panel A shows EATRs for an investment in non-residential structure assets (buildings); Panel B shows EATRs for an investment in industrial machinery assets; Panel C shows EATRs for an investment in tangible assets. The EATR for tangible assets is the simple average of the EATRs for the following asset classes: air, rail and water transport; computer hardware; equipment; industrial machinery; and road transport vehicles.

Source: (Gascon et al., forthcoming^[25]). Tax incentives data collection methodology follows the *OECD Investment Tax Incentives Database* (OECD, 2025^[26]). EATR calculations follow (Celani, Dressler and Wermelinger, 2022^[21]).

Reforming corporate income tax incentive design can make incentives more efficient and effective, with the potential to enhance their impact on development

Tax incentives have important shortcomings, and their costs must be weighed against the potential benefits of increased investment. Evidence and policy guidance suggest that tax incentives, when well-designed, can increase investment effectively and create positive spillovers. However, they are not always the most efficient policy tools. Investment responds to taxation, but tax incentives also involve costs, including foregone revenue, tax-system complexity, reduced transparency and administrative and compliance burdens. Without a strong rationale to favour targeted investment, incentives also risk a misallocation of resources and may not effectively support production transformation in the region. Finally, incentives often result in windfall gains for projects that would have occurred anyway, without creating additional investment.

LAC countries need to improve the design of tax incentives by adopting best practices throughout the entire policy cycle. Due to the costs and risks of tax incentives, policy guidance cautions against the use of certain incentive designs. Some strategic design and implementation principles could be considered across LAC countries to ensure that tax incentives are more efficient and effective, while phasing out those that result in significant revenue losses without commensurate benefits (Box 3.1). The OECD's new guide to tax incentive policymaking offers practical guidance to improve the design and implementation of investment tax incentives at each step of the incentive lifecycle (OECD, forthcoming^[16]). Enhancing the design of tax incentives must be accompanied by strengthened measures to combat tax evasion and profit shifting, including real-time customs tracking and increased transparency in ownership structures (Gascon et al., forthcoming^[25]).

Box 3.1. Key policy recommendations for improving corporate income tax incentive design in LAC

Conception stage

- Tax incentives should be grounded in a clear rationale and well-defined policy objective at the outset, including why tax incentives are the appropriate policy tool.
- Ex-ante assessment of expected benefits, costs and unintended consequences across policy options is helpful and can support alignment with broader national priorities.

Instrument design

- Expenditure-based incentives (e.g. accelerated or enhanced deductions, tax credits) are expected to deliver more additional investment per unit of revenue foregone than income-based incentives (e.g. reduced rates, tax exemptions or holidays). Expenditure-based incentives targeted to payroll or tangible assets will also be less affected by the global minimum tax.
- Design features such as carry-over of unused tax incentive benefits, as well as refundability, transferability and marketability of credits, could be appropriate to support smaller or riskier investors, but such features can increase complexity, compliance and monitoring costs.
- Temporary incentives or sunset clauses can limit fiscal costs and prompt evaluation, though frequent or unclear changes may increase investor uncertainty.

Targeting strategy

- Eligibility criteria should be clear, measurable and stable to improve certainty, limit discretion and avoid misuse or disputes.

- Narrow targeting may limit revenue foregone and promote alignment with social and environmental standards to reach sustainable policy goals, but it can raise administrative burdens and economic distortions.
- Broad targeting supports neutrality and simplicity of the tax system, but it can be costly for the government and less focused on specific policy goals.

Evaluation

- Incentives should be regularly monitored and evaluated to ensure they are fit for purpose.
- Associated tax expenditures should be quantified and published regularly.
- Enacting legal requirements for tax incentive evaluation and reporting can ensure regular and systematic review.

Legislation and implementation

- Tax incentives should be subject to ministry of finance review and opinion and be ratified by the law-making body or parliament.
- Tax incentives should be consolidated in the core tax legislation and made publicly available.
- Effective interagency co-ordination is essential, with clear mandates and a central role for the ministry of finance and the revenue authority.
- Too many actors and laws increase complexity, reduce transparency and raise risks of abuse.

Source: (Gascon et al., forthcoming^[25]; OECD, forthcoming^[16]).

Citizen support will be crucial for phasing out inefficient and ineffective incentives. Building public understanding and trust is essential to making such reforms politically feasible (see below on tax morale). This requires clear, transparent and accessible tax expenditure reports, which are regularly shared with the public, showing how much these incentives cost, which sectors benefit and whether the outcomes justify the expense. Investment tax incentives are generally perceived positively in LAC, with 62% of citizens considering it appropriate to grant such incentives to multinational companies, while 14% believe it is inappropriate (IFAC/ACCA, 2024^[31]). However, this perception comes with the caveat that most citizens are not informed about the specifics of tax incentive design or effectiveness.

Strengthening tax morale can improve compliance and foster a fairer tax culture

Low public trust in government institutions represents a major governance challenge facing the financing agenda in LAC, among other important governance matters. As a foundational pillar of the fiscal contract, trust underpins citizens' willingness to contribute through taxes in exchange for essential public goods and services. When trust in institutions erodes, tax compliance tends to decline as well, weakening the state's fiscal capacity. This in turn undermines the government's ability to implement sound public policies and finance critical enablers of production transformation, such as infrastructure, education, health and care policies (OECD et al., 2024^[2]).

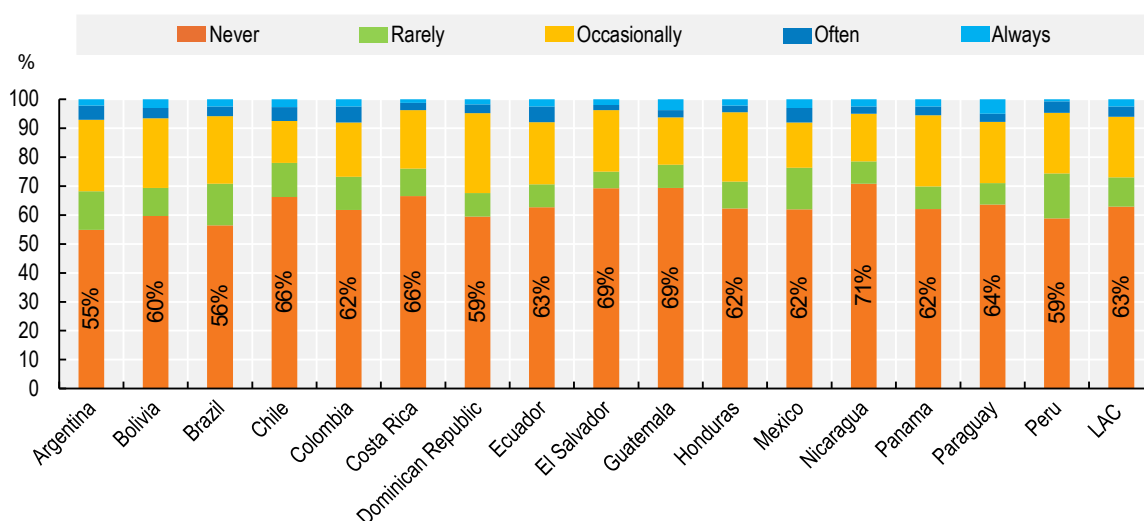
Gaining a deeper understanding of trust and tax morale is essential for enhancing both the effectiveness of tax collection and the overall level of revenue mobilisation. Tax morale refers to individuals' intrinsic willingness to comply with tax obligations (Torgler, 2005^[32]; OECD, 2019^[33]). It is typically assessed through perception-based surveys, which often ask whether individuals believe tax evasion is ever justified. Understanding tax morale through the correlation between individuals' characteristics and attitudes can help governments identify how citizens perceive tax systems and how to reform these systems to foster tax morale. Socio-demographic and economic factors play a significant role, with characteristics such as age, gender, income level and education level affecting trust and tax morale. Individuals with higher levels

of education, as well as older adults, women and those with stronger religious affiliations, tend to show a greater willingness to comply with tax obligations (OECD, 2019^[33]). As for attitudes, perceptions of fairness and equity serve as useful indicators for understanding how legitimate and effective the fiscal contract is perceived to be. Taxpayers' perceptions of the tax system, and of the respective roles of governments and citizens within it, shape the context in which any reform efforts must be pursued and are therefore crucial (IFAC/ACCA, 2024^[31]).

Even though a large share of LAC citizens condemn tax evasion, this share has declined steadily since 2011. In 2024, 63% of respondents in selected LAC countries said they would never cheat on taxes. In most of the countries surveyed in the region, more than 60% of citizens condemned tax evasion. However, in Argentina and Brazil, the share was 55% and 56%, respectively (Figure 3.8).

Figure 3.8. Perception of tax evasion in LAC selected countries, 2024

Responses to the question “Do you justify cheating on taxes if you have the chance?”

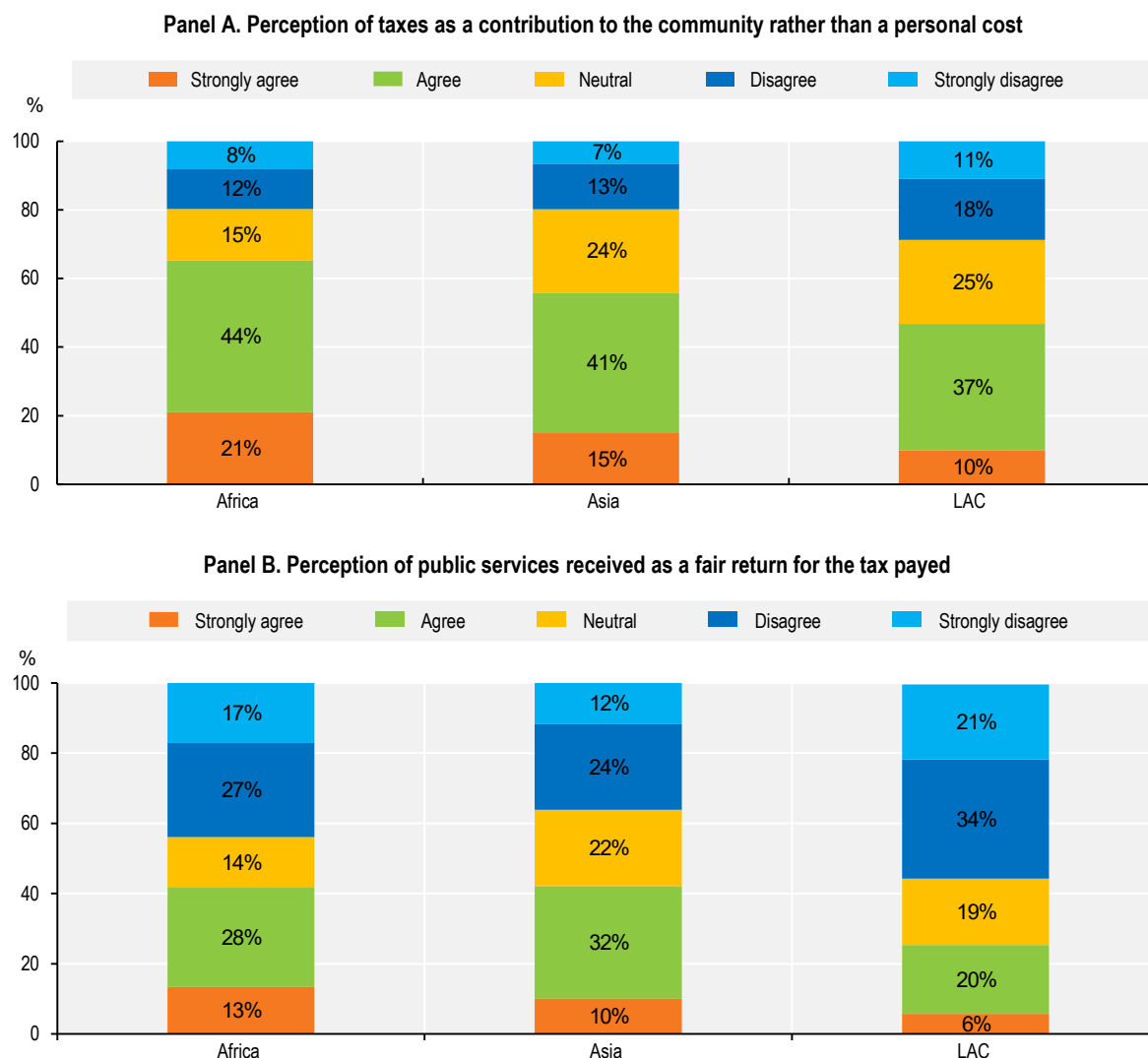


Source: Authors' elaboration based on (IFAC/ACCA, 2024^[31]).

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While a large share of citizens in developing countries view taxation and the fiscal pact positively, few believe that tax revenues are properly invested, indicating room to strengthen tax morale. Survey data from developing countries suggest broad theoretical support for the idea of a fiscal contract: an average of 52% of respondents see their tax payments as a way to support their community (IFAC/ACCA, 2024^[31]). In LAC, with 47% expressing support and 29% expressing disagreement, agreement is slightly lower than in Africa and Asia (Figure 3.9, Panel A). While citizens in developing countries generally perceive their tax contributions as supporting the community, only 32% believe that the public services they receive are a fair return for what they pay. Once again, Latin America reported the lowest level of satisfaction, with only 25.4% agreeing and 55.7% disagreeing (Figure 3.9, Panel B). The gap between the more theoretical perception of tax payments as community support and the experiential perception of receiving a fair return indicates a fracture in the fiscal contract. To reduce this gap and strengthen tax morale, governments should pay particular attention to citizens' perceptions of the quality and efficiency of public goods and services, as well as to the evolution of corruption perception indexes.

Figure 3.9. Perceptions of taxes and the fairness of public service return in Africa, Asia and LAC, 2024



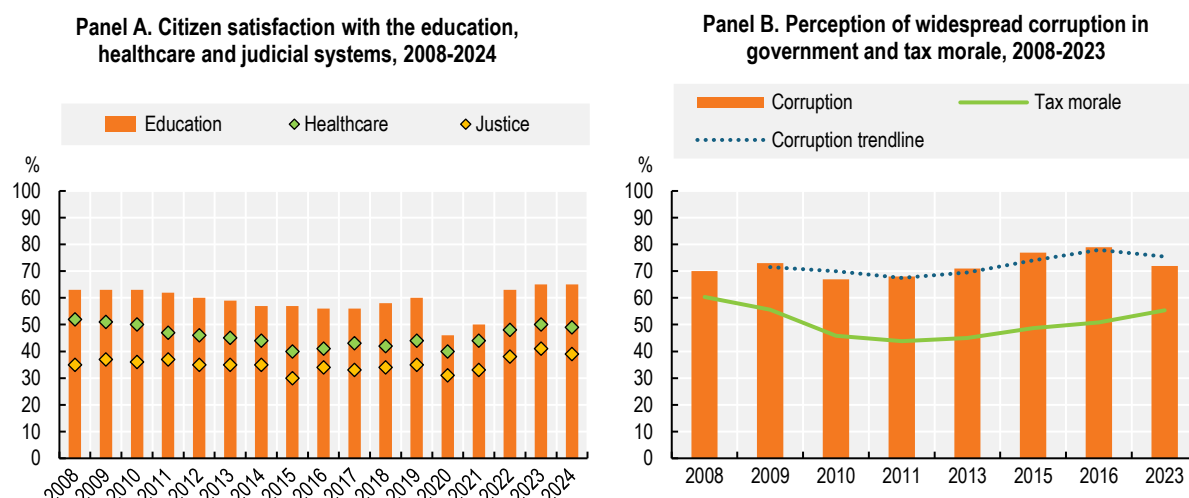
Note: The online survey covered 10 308 individuals from 26 developing countries in Africa, Asia and LAC (see details of countries and socio-economic conditions of respondents in the figure's source). The countries surveyed cover a range of economic, political, geographic and cultural conditions. The survey focused closely on countries in Latin America, with eight each in South America and Central America (and Mexico), and five in each of Africa and Asia. The current estimated population of the surveyed countries is 1 566 billion, including five of the seven largest non-G20 countries and representing 19.5% of the world population. The column totals may not equal exactly 100 due to rounding adjustments. Source: Author's elaboration based on (IFAC/ACCA, 2024^[31]).

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Daily interaction with deficient public services and corruption scandals discourage tax compliance, as citizens do not perceive an effective use of their contributions. Policymakers seeking to understand the low tax morale in LAC, and in other developing regions, should consider variables beyond demographic and socio-economic factors and also measure the standard of public services, which can further motivate citizens to support the tax system through their contributions. People's willingness to pay taxes is closely linked to how they perceive the use of public funds, particularly through the quality of services like education, healthcare and justice (OECD, 2019^[33]). In many LAC countries, satisfaction with these services

declined between 2011 and 2022 (Figure 3.10, Panel A). This decline in citizen satisfaction – likely influenced by the effects of the COVID-19 pandemic in recent years – has coincided with a weakening of tax morale. Individuals who believe that their taxes are used effectively to provide essential services are more inclined to view tax payment as a civic duty (Castañeda, 2024^[34]). Similarly, trust in government and the perceived level of corruption are strongly related and have an impact on tax morale in developing regions. A decrease in corruption increased the willingness to pay taxes in Africa by 3.5% in 2015 and in LAC by 4% in 2016 (OECD, 2019^[33]). Also in LAC, in 2023, the average perception of corruption was 72%, while the average tax morale was 55.3% (Figure 3.10, Panel B).

Figure 3.10. Tax morale, perception of corruption and trust in public institutions in LAC



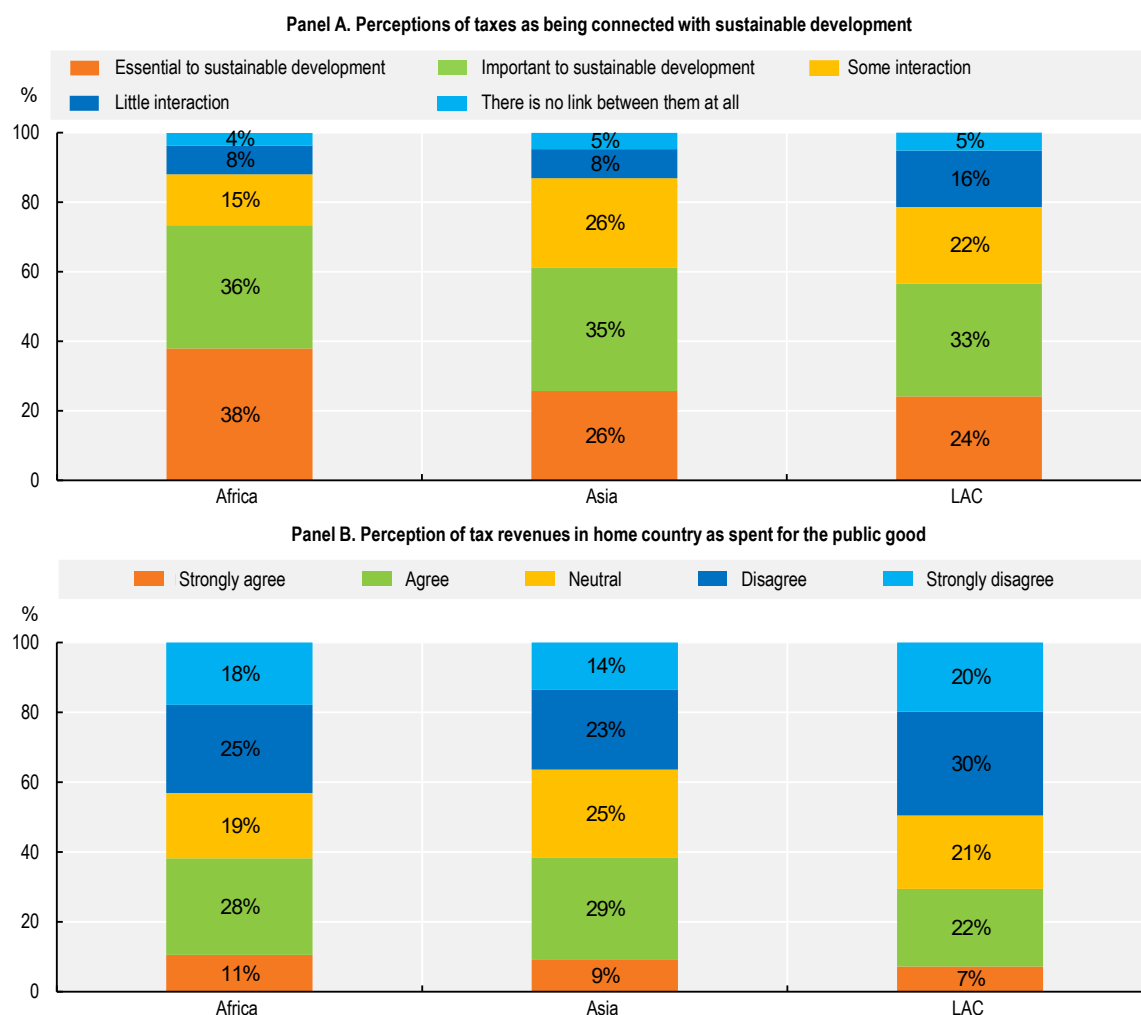
Note: Panel A shows citizen satisfaction with the education, healthcare and judicial systems, based on the following questions: “In the city or area where you live, are you satisfied or dissatisfied with the educational system and the schools?”, “...with the availability of quality health care?” and “Do you have confidence in each of the following, or not? How about the judicial system and courts?”. In Panel B, perception of corruption reflects the share of respondents who answered “yes” to the question “Is corruption widespread throughout the government of this country, or not?”. The dotted line represents a two-period moving average of perceived corruption levels, smoothing short-term fluctuations to highlight long-term trends. Tax morale is based on the question “Do you justify cheating on taxes if you have the chance?” and is calculated as the share of respondents who rated tax evasion as at least somewhat justifiable (responses between two and ten on a ten-point scale), excluding those who answered “never justifiable”. Only years with available data are shown.

Source: Authors’ calculations based on (Latinobarometro, 2023^[35]) and (Gallup, 2023^[36]).

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The transparency and efficiency with which public institutions invest public funds raised from tax collection are crucial to reducing corruption, fostering trust and encouraging tax compliance. In 2024, 60% of citizens from selected developing countries said they believed that taxes were essential to funding sustainable development (Figure 3.11, Panel A), but only 33% believed that taxes were spent for the overall public good (Figure 3.11, Panel B). Argentina and Brazil were the only LAC countries where fewer than half of the respondents viewed tax funds as a vital source for funding sustainable development. Demonstrating how public funds are efficiently used to address citizens’ top priorities can not only boost tax morale but also lower, to some extent, the perception of corruption. Digital tools and online platforms can prove particularly useful to reduce the opportunities for corruption (OECD, 2019^[33]) and to support greater transparency, accountability and citizen engagement, thus helping to bridge the gap in perceptions between tax collection and public spending.

Figure 3.11. Perceptions of taxation's role in sustainable development and public spending in Africa, Asia and LAC



Source: Authors' elaboration based on (IFAC/ACCA, 2024^[31]).

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Production transformation offers one relevant framework for enhancing tax morale by demonstrating tangible connections between tax contributions and sustainable development outcomes. Production transformation integrates social and environmental sustainability into economic development objectives through public-private co-ordination and experimentalist governance approaches. By directing tax revenues towards visible green infrastructure projects, renewable energy initiatives and sustainable manufacturing sectors, governments can strengthen the fiscal contract by showing citizens how their contributions directly support both economic growth and environmental protection. This dual benefit approach can be particularly effective in LAC, where 79.5% of citizens support tax incentives for green energy projects, indicating strong public backing for policies that align fiscal contributions with sustainability goals (Martinez et al., 2025^[30]).

Implementing educational programmes for taxpayers can be a powerful tool to explain how tax systems work and how public funds are used, which can ultimately strengthen tax morale. This suggestion is grounded in survey responses indicating that such programmes are perceived as valuable by participants

and are also welcomed by those who have not yet had access. Most respondents hold favourable opinions about taxpayer education. Across all countries surveyed, a majority of respondents had either received tax education in school and found it beneficial (34.1% on average) or had not received it but believed it would have been valuable (28.1% on average) (IFAC/ACCA, 2024^[31]). While many countries do undertake taxpayer education initiatives, these initiatives are often underresourced and insufficiently prioritised. It is important to ensure that tax education be included in the school curriculum and to establish links between the ministry of finance or tax administration and the education department, not least to provide support for training teachers to teach tax effectively (OECD, 2021^[37]).

There is scope to strengthen tax morale by incorporating targeted actions based on socio-demographic factors. For instance, evidence suggests that older people are less likely to view tax evasion as acceptable, indicating that compliance efforts might be more effectively directed towards younger taxpayers. Similarly, women generally appear to have higher tax morale than men, suggesting that it may be worth exploring tailoring compliance efforts to gender, though to date, very few countries have undertaken analysis on the gender implications of tax administration and compliance (OECD, 2022^[38]).

The relatively passive role that taxpayers are frequently given in educational initiatives merits reconsideration. Policies that promote civic participation may have a more lasting impact than programmes that treat citizens merely as recipients of training. Engagement could be enhanced by providing taxpayers with both online and in-person opportunities to voice their experiences – for example, on the user-friendliness of tax systems or areas for improvement. Many of the most successful taxpayer education initiatives targeting current taxpayers incorporate feedback opportunities (OECD, 2021^[37]). Feedback on the complexity of tax systems can help countries design more friendly procedures to facilitate payment. In addition, improving transparency around public spending – by offering accessible data and participation on how, where and when tax revenues are used – could further reinforce tax morale, provided this information is presented in a meaningful way with open government parameters.

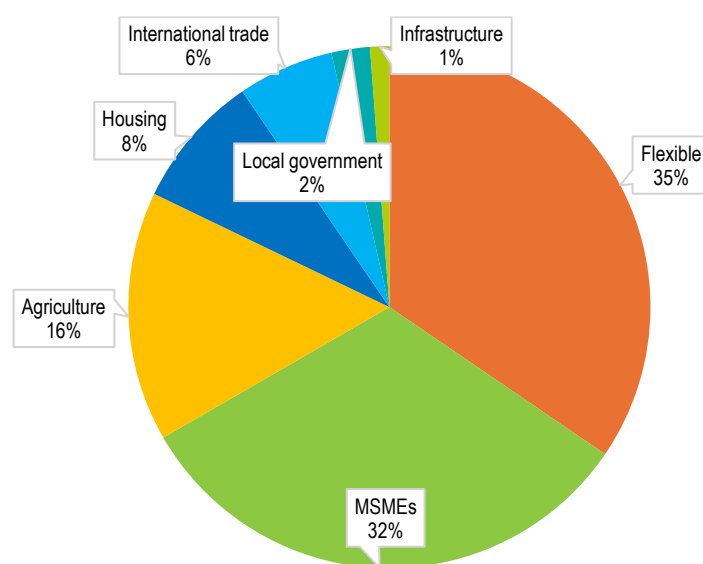
National development finance institutions, in close co-ordination with multilateral development banks and bilateral development finance institutions, will be needed to scale up investment

The financial and institutional capacities of national development finance institutions differ significantly across LAC

Production transformation is among the most common objectives of national DFIs. Many DFIs in LAC include in their mandates specific references to advancing one or more aspects of production transformation. Many also finance MSMEs' development or have a sector-specific focus. There is, however, significant heterogeneity in their financial and institutional capacities.

The financial capacities of development finance institutions in LAC differ greatly. Total assets, which include everything a DFI owns (e.g. cash, loans to clients, investments, property), vary widely as a share of GDP across and within LAC economies. In this regard, the region's largest DFIs, in Mexico and Brazil, reach around 7.4% and 6.9% of GDP, respectively, while the smallest, in Brazil and Argentina, represent only 0.04-0.08% and 0.14% of GDP, respectively. A similar divergence is observed in equity, defined as the portion of assets belonging to a DFI's owners (governments or shareholders) after subtracting liabilities. The largest DFIs in this regard reach 2.1% of GDP in Chile and 1.6% in Brazil, whereas the smallest account for only 0.02-0.03% of GDP in Brazil and 0.04% in Argentina. The amount of loans provided by DFIs in the region also varies widely and in some cases is related to countries' income and population levels. In Brazil, DFI loans average USD 36.6 billion, and in Chile, USD 12.3 billion, while at the lower end, DFIs in Belize and Haiti average USD 41 million and USD 188 million, respectively (Cipoletta Tomassian and Perez Caldentey, 2024^[39]).

Figure 3.12. National development finance institutions by mandate in selected LAC countries, 2024



Note: The dataset covers 73 DFIs across 22 countries in LAC (Antigua and Barbuda, Argentina, the Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Curaçao, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay and Peru).

Source: Authors' calculations based on (Jiajun et al., 2025^[40]).

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DFIs in the region also show significant heterogeneity in their mandates. While 29 institutions (35%) have a flexible mandate, many focus on MSMEs (27 institutions, 32%) or agriculture (13 institutions, 15%) (Figure 3.12). Other mandates include housing (7 institutions, 8%), international trade (5 institutions, 6%), local government (2 institutions, 2%) and infrastructure (1 institution, 1%). This reflects a strong emphasis on supporting small business development and also highlights the diverse objectives of these institutions.

DFIs in LAC also exhibit significant heterogeneity in their technical and operational capacities. Divergence in capacities is reflected in the constraints reported across institutions in the region. Major challenges include weak risk management, reported by 51% of DFIs in the region, and financial sustainability issues (48%). Both challenges hinder the ability of DFIs to manage risks, mobilise long-term resources and support production transformation. Other common problems are poor corporate governance and transparency (39%), difficulty in hiring qualified staff (31%) and political interference (14%) – issues that undermine technical autonomy, innovation and strategic independence (Cipoletta Tomassian and Perez Caldentey, 2024^[39]). These qualitative constraints show that heterogeneity among DFIs is reflected not only in their mandates or objectives, but also in their operational and technical capacities.

National development finance institutions already play a central role in advancing production transformation efforts, but more can be done

National DFIs in LAC use diverse instruments to support production transformation. Their focus is on MSMEs, financial inclusion and sustainability. Instruments include short- and long-term loans, guarantees, green and social bonds, venture capital funds, and leasing and co-financing schemes. For instance, direct loans from the Brazilian National Development Bank (BNDES) and Mexico's National Development Bank (NAFIN) support working capital and technological upgrades. To improve access to assets for firms with limited credit capacity, concessional loans and guarantees are also used by DFIs, including Argentina's Guarantee Fund (FOGAR), Brazil's BNDES Investment Guarantee Fund (BNDES FGI) and Colombia's

National Guarantee Fund. Guarantees hold significant potential to enhance MSME access to credit markets. However, their effectiveness depends on a sustained process of institutional development and capacity building among all stakeholders involved (ECLAC, 2021^[41]). More innovative instruments include green and social impact bonds, such as those issued by Costa Rica's National Bank (BNCR) and the Government of Colombia for youth employment; venture capital funds, such as BNDESPAR, a subsidiary of the Brazilian National Development Bank; and co-financing schemes that combine public and private resources, such as NAFIN's Infrastructure Investment Fund. Other instruments include microcredit, leasing, factoring, crowdfunding and revolving funds, which provide MSMEs with liquidity and access to assets without relying on traditional credit. This diversity of instruments highlights the strategic role of development banks in adapting their tools to strengthen production sectors, foster modernisation and promote inclusive, sustainable growth in the region (Cipoletta Tomassian and Perez Caldentey, 2024^[39]; OECD et al., 2024^[2]).

Instruments addressing the green and digital transformation agendas and targeting women's inclusion and gender equality remain limited within national DFIs in LAC. During the COVID-19 pandemic in 2020, DFI loan portfolios expanded in most LAC countries, with 71.2% of DFIs reporting an average portfolio increase of 21%, primarily aimed at supporting the production sector (OECD et al., 2024^[2]). Despite this growth, a stronger commitment by DFIs to developing financial instruments for MSMEs that integrate green, digital and gender-responsive objectives would be timely. Such instruments can help create enabling conditions that make investment in production transformation more attractive and viable. Of the 473 financial instruments offered to MSMEs by national DFIs in the LAC region in 2023, only 19% addressed at least one of these cross-cutting priorities: 9.7% focused on the green transition, 3.8% on digital transformation or innovation and 5.5% on gender equality (OECD et al., 2024^[2]).

Looking ahead, further support for climate financing requires DFIs to strengthen technical capacity both for themselves and their clients. As of 2023, extreme weather events had damaged the physical assets of 40% of public development banks⁵ and affected the asset quality of 59%, yet 93% view the climate transition as an opportunity and 77% align with Paris Agreement targets (EIB, 2024^[42]). Despite this, fewer than half see themselves as leaders or promoters of the green transition, with 46% following industry practices and 7% remaining sceptical. Expanding climate financing will require public development banks to build capacity internally and among clients, for example, through technical assistance programmes like the European Investment Bank's Greening of the Financial Sector initiative, which has reached 15 countries in Africa and Europe (EIB, 2024^[42]).

To enhance their contribution to production transformation, national DFIs can reinforce their traditional financing role while aligning more closely with the productive priorities defined at the national and territorial levels. This involves financing not only firms in strategic sectors but also public-good projects emerging from productive development agendas, such as cluster initiatives. DFIs can also expand their value proposition with instruments that allow countries to compete on equal terms in global markets. For instance, export credits and guarantees under the OECD Arrangement on Officially Supported Export Credits could provide a major advantage; they permit certain deviations from World Trade Organization (WTO) subsidy rules but remain scarcely used in the region.

At the same time, DFIs can embrace a market intelligence role that helps identify bottlenecks that limit production transformation. This can be achieved through lending activity, the assessment of the viability of projects, as well as complementary activities such as developing tools and analyses that serve as public goods for production transformation. An example of this was the work carried out by Bancóldex in Colombia with the Economic Complexity Atlas, which helped territories identify new economic activities and products to diversify the country's production structure (Fernández-Arias, Hausmann and Panizza, 2019^[43]).

For national DFIs to play a central role in production transformation, several conditions must be met. First, national DFIs need a clear mandate defining their participation in the design and implementation of productive development policies at both the national and territorial levels. Second, their strategies should

be adjusted to align closely with these policies and the priorities they establish. Third, national DFIs must actively participate in governance spaces for production transformation, including institutional arrangements at the national and subnational levels. Fourth, to effectively carry out this role, it is crucial to strengthen their institutional capacities. Finally, greater efforts are required to promote pedagogy and harmonisation of language around what is understood by productive development policies – both among those working within national DFIs and those leading policymaking efforts (Fernández-Arias, Hausmann and Panizza, 2019^[43]).

Multilateral development banks and bilateral development finance institutions can support the co-ordination of national development finance institutions while addressing some of their challenges

MDBs and bilateral DFIs can play an important role in enhancing the impact of national DFIs on development. In LAC, only 9% of countries' financing needs are met through external sources, with MDBs contributing half of this amount. However, MDBs and bilateral DFIs have strong transformative potential, given their ability to address market and co-ordination failures through supranational authority, as well as long-term strategies that extend beyond political cycles, which are often a risk to the continuity of investment programmes (CAF, 2025^[44]).

MDBs and bilateral DFIs can help national DFIs in LAC both reduce borrowing costs and crowd-in private investment. Many national DFIs, especially smaller ones, face higher financing costs and capacity constraints that limit their ability to scale impact. Tailored approaches are needed to address these disparities. MDBs and bilateral DFIs can provide concessional loans and grants to absorb initial costs, simplify financing procedures for smaller institutions and establish a dedicated joint facility to channel resources. Such a structure could pool funds from multiple MDBs and bilateral DFIs, deploy staff to identify promising DFIs and provide long-term support for institutional strengthening (Florian, 2025^[45]). Beyond lowering borrowing costs, MDBs and bilateral DFIs can also help national DFIs crowd in private capital. By offering risk-mitigation instruments such as first-loss guarantees or insurance contracts, they can de-risk portfolios and make investments more attractive to private investors. The experience of the African Development Bank, which insured over USD 1 billion of its portfolio using quasi-equity structures and private insurance, illustrates how such tools can enhance resilience and unlock broader flows of development and climate finance (AfDB Group, 2025^[46]). MDBs and bilateral DFIs can play a greater role in creating an enabling environment for private investment, such as by supporting initiatives to address risk misperceptions and improve investor confidence (OECD, 2024^[47]).

MDBs and bilateral DFIs can also act as knowledge banks, offering national DFIs in LAC technical expertise, capacity building and policy support tailored to their financial and institutional profiles. Beyond financing, MDBs and bilateral DFIs can help national DFIs generate knowledge, develop cohesive medium-term production strategies and strengthen data collection. For instance, MDBs and bilateral DFIs can support national DFIs with sufficient capacity to develop taxonomies and frameworks for climate adaptation projects, create sector-based impact metrics and share international best practices for building project pipelines (CPI, 2024^[48]). In addition, MDBs and bilateral DFIs can support national DFIs in project preparation and pipeline development in areas such as renewable energy, clean urban mobility, agro-industrial development and digital infrastructure, which are essential for advancing decarbonisation, productivity and competitiveness in LAC (FAO and ECLAC, 2021^[49]). The OECD's 2022 consultation on green hydrogen highlighted the importance of strategy, governance, technology development and de-risking mechanisms for developing sustainable green markets (Cordonnier and Saygin, 2022^[11]). MDBs, bilateral DFIs and national DFIs are well positioned to facilitate these processes, helping to reduce financial risk perceptions and drive long-term investment in green technologies.

MDBs and bilateral DFIs can also foster co-ordination among national DFIs by creating forums and platforms that connect them across different levels and key production sectors. Acting as facilitators, MDBs

and bilateral DFIs can promote peer learning and more cohesive productive development policies among national DFIs across sectors and borders. For example, the Inter-American Development Bank (IDB) has collaborated with the Latin American Association of Development Financing Institutions (ALIDE), Brazil's BNDES and other institutions to create a Latin American Development Banking Hub, which serves as a central platform to collect and share publicly accessible data and information on major areas of interest for development banks, particularly digital transformation, knowledge exchange, public-private partnerships and infrastructure investment. Within this initiative, the Development Banking Community of Practice enables national DFIs in the region to exchange knowledge, foster dialogue and share experiences related to sustainable finance (ALIDE, 2025^[50]). Similarly, the Development Bank of Latin America and the Caribbean (CAF) provides the region with co-ordination platforms that act as enabling and supervisory bodies for joint action, as well as spaces for knowledge dissemination (CAF, 2025^[44]).

Partnerships between bilateral DFIs and national DFIs can also combine targeted financing with technical assistance. For example, in 2021, the French Development Agency (AFD) signed a Tier 2 agreement with Banco Nacional de Costa Rica (BNCR) to support climate-related projects, particularly electric mobility. The programme includes a USD 50 million senior loan and a USD 15 million subordinated loan, providing long-term liquidity and leveraging additional BNCR financing. This is complemented by a four-year European Union grant of EUR 3 million for technical assistance to align BNCR project financing with Costa Rica's climate objectives (AFD, 2024^[51]). Strengthening the capacity of national DFIs through MDB-led training, technical assistance and the promotion of sustainable taxonomies is essential for aligning investments with climate and social impact goals, while unlocking greater private and concessional finance for transformative development. AFD is partnering with national development banks in Brazil and Colombia to integrate sustainability into financial systems and scale green investment. In Brazil, AFD works with Banco da Amazônia to foster bioeconomy value chains in the Legal Amazon through an EUR 80 million facility and with CAIXA to finance climate-smart infrastructure via a EUR 250 million sustainable bond, targeting sanitation and waste management, particularly in underserved regions (AFD, 2025^[52]). In Colombia, collaboration with Bancóldex supports climate, biodiversity, gender and social inclusion goals, backed by a USD 100 million loan and technical assistance to expand green lending for small and medium-sized enterprises (SMEs) (AFD, 2024^[53]).

MDBs and bilateral DFIs can also support national DFIs to expand financial inclusion, especially for MSMEs (OECD et al., 2024^[2]). Regional MDBs such as CAF and the Central American Bank for Economic Integration (CABEI) already allocate a significant share of their portfolios to MSME inclusion (12% and 12.9%, respectively), often acting as second-tier banks that channel funds through domestic financial institutions (Cipoletta Tomassian and Perez Caldentey, 2024^[39]). However, further efforts are needed, as MSMEs in the region continue to face major financial inclusion challenges. MSMEs in LAC primarily use the financial system for deposits and payments, with low uptake of loan and credit products, which limits their ability to expand and grow. Enhancing financial inclusion could therefore drive higher investment, income, poverty reduction, equality, more efficient resource allocation and innovation (OECD et al., 2024^[2]). The IDB, for example, is helping Colombia's Bancóldex to strengthen its institutional capacity and develop new products for MSMEs, focusing on credit access, production modernisation, environmental sustainability and solutions for bioeconomy enterprises in the Amazon. The initiative also promotes products for women and diverse groups, aligns Bancóldex's portfolio with the Paris Agreement and improves data and impact evaluation (IDB, 2025^[54]). Several DFIs in LAC promote financial inclusion through microcredits, providing micro and small firms with access to capital, particularly in informal or emerging sectors. In Ecuador, the State Bank's Banco de Oportunidades offers flexible rural microcredits, while Banco Nacional de Bolivia provides agricultural microcredits without requiring traditional collateral. Yet many national DFIs still face capacity constraints that limit their reach, underscoring the need for MDBs to help scale up financial inclusion efforts.

Collaboration among multilateral agencies is also necessary to maximise joint impact, avoid duplication and create synergies. MDBs and multilateral institutions lend credibility, helping overcome trust barriers

and mobilise capital, technology, and expertise that might otherwise be unavailable. This approach underpins the European Union's Global Gateway Strategy, which brings together the European Union, its Member States, development finance institutions and the private sector to drive sustainable private-sector investment. Global Gateway fosters a 360-degree enabling environment for quality investments, promoting high environmental, social and governance standards, climate neutrality, the green and digital transition, and respect for human rights, decent work and social inclusion.

Concrete initiatives illustrate this collaborative model. The Kuali Fund, a pioneering Spanish investment fund launched in 2024 with a target of over EUR 200 million, supports countries in LAC and India to transition to low-carbon economies and increase climate resilience. It promotes good climate practices among small financial institutions, co-operatives, microfinance institutions and fintechs, while backing innovative businesses that expand mitigation and adaptation solutions, with financing from the Green Climate Fund, the European Union, the Development Promotion Fund (FONPRODE) of the Spanish Agency for International Development Cooperation (AECID), and private investors, including GAWA Capital and COFIDES (LACIF, 2025^[55]). Another example is the EUR 200 million CAF-AFD partnership launched in May 2024, which combines non-earmarked funding, technical assistance, and expert exchanges to advance CAF's goal to become the region's green bank and tackle climate and biodiversity challenges in LAC (OECD et al., 2024^[2]).

Inclusive financial markets can drive productivity and strategic investment for small and medium-sized enterprises

A well-functioning financial system has the potential to mobilise and channel private resources towards development objectives. Financial markets in LAC have experienced significant growth over the last three decades in terms of volume, participants, instruments and products. Households have greatly increased their participation in financial markets through access to savings accounts and borrowing, although a large proportion of informal households still do not have a credit account. The expansion of the financial sector has benefitted the growth and development of large companies, including the largest. However, MSMEs still face challenges in accessing financial markets. LAC has the second-largest MSME financing gap of any region in the developing world. Regarding the development of capital markets, although most LAC countries have limited domestic capital market access for private companies, the region has expanded its presence in international markets through debt issuance and depositary receipts while continuing to advance regional financial integration (OECD et al., 2024^[2]).

Banks still serve as the primary source of financing for households and firms in LAC

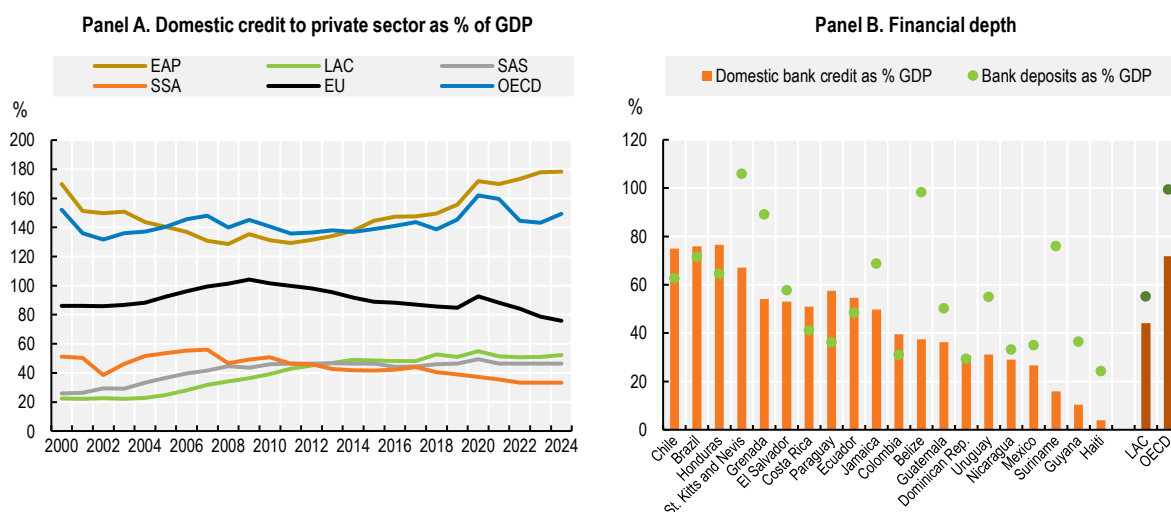
Given the limited development of capital markets in LAC, banks are the main intermediaries for households and businesses. Banking credit serves as the primary source of external financing for firms. However, banking financial inclusion remains limited for many households and for MSMEs. The development of more diversified and efficient financial markets is an imperative for driving inclusive development in LAC (OECD et al., 2024^[2]).

To assess the functioning of the banking system, three aspects are commonly considered: depth, access and efficiency. Depth measures the size of financial markets; access examines the extent to which individuals can use them; and efficiency evaluates the system's effectiveness in delivering services. This approach can capture the key features of financial systems and the evolution of the financial structure in the region (OECD et al., 2024^[2]).

Depth, access and efficiency

Although financial depth in LAC has improved over the last decade, it remains low. Domestic credit to the private sector has doubled over the last 20 years, reaching 52% of GDP in 2024. Despite this growth, LAC's depth is similar to the levels of South Asia and sub-Saharan Africa and lags behind regions such as East Asia (178%) and the European Union (76%) (Figure 3.13, Panel A). Domestic credit is mainly provided by banks. However, bank deposits as a percentage of GDP stood at 55.1% for LAC in 2021, compared to 99.3% for OECD countries (Figure 3.13, Panel B).

Figure 3.13. Domestic credit to the private sector as a percentage of gross domestic product and financial depth in LAC, 2024



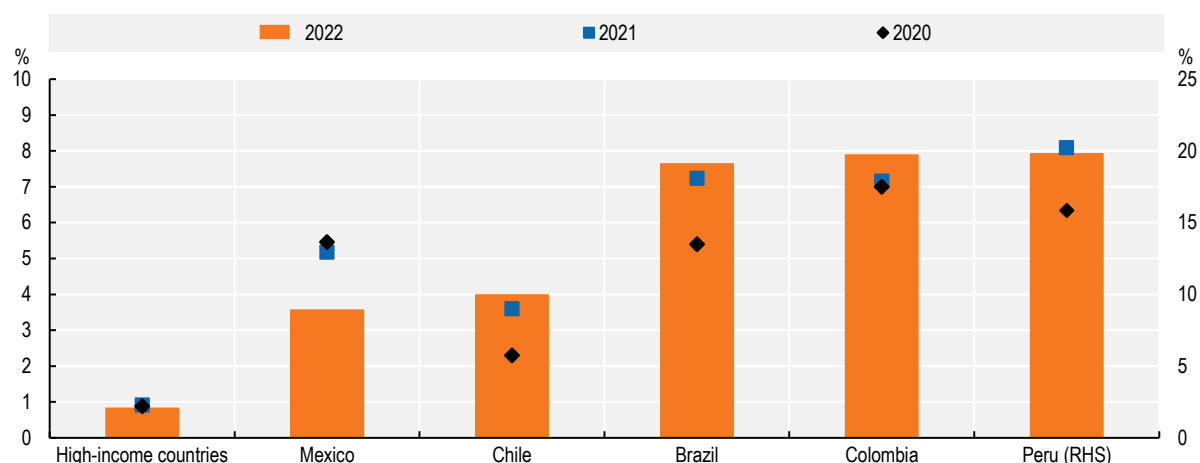
Note: EAP = East Asia and the Pacific, SSA = sub-Saharan Africa, EU = European Union and SAS = South Asia. In Panel A, SSA and SAS figures for 2022 and 2023 reflect the latest available data. In Panel B, figures for bank deposits as a percentage of gross domestic product (GDP) correspond to 2021 due to data availability.

Source: Authors' elaboration based on (World Bank, 2024^[56]).

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LAC has seen improvements in access to financial services for both households and MSMEs, but significant challenges remain. These include high costs, financial illiteracy, informal employment, lack of adequate and quality products, and regulatory hurdles. For households, disparities in access to formal financial services and reliance on informal borrowing persist. Formal MSMEs also face difficulties accessing credit due to the high cost of financing, often paying higher interest rates than large firms because of their riskier profile. Around 30% of MSMEs in the region face credit constraints. In 2022, the spread of interest rates between loans to SMEs and to large firms was notably high in LAC countries (Figure 3.14). A major barrier is the lack of collateral; for example, 90% of SMEs in Colombia need to provide collateral to obtain bank credit. Overcoming these challenges is essential to expanding access to financial services and promoting inclusive economic growth across LAC.

Figure 3.14. Interest rate spreads between loans to SMEs and to large firms in high-income and selected LAC countries, 2020-22



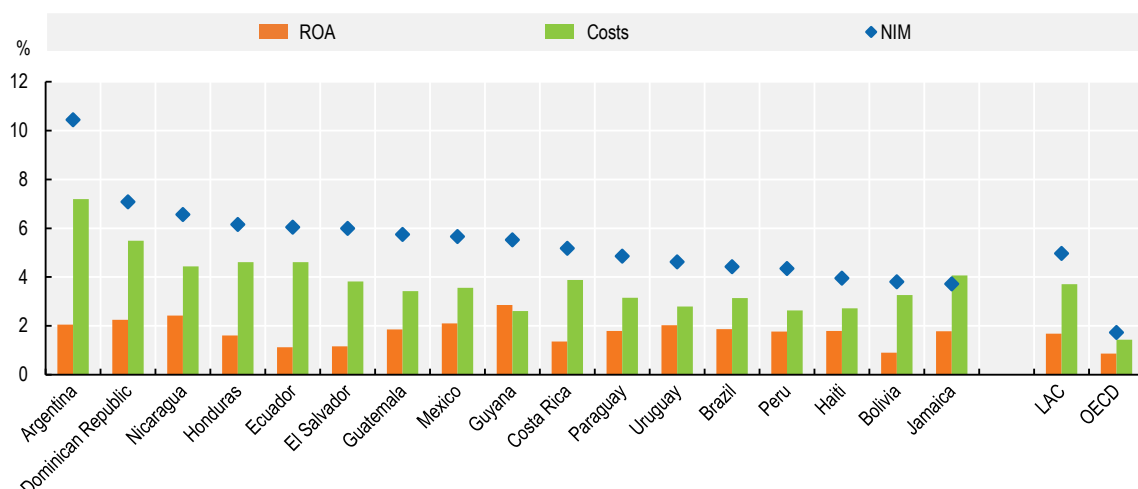
Note: High-income countries include Australia, Belgium, Canada, Chile, Czechia, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Korea, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovenia, Sweden, Switzerland and the United Kingdom. RHS = right-hand scale.

Source: Authors' elaboration based on (OECD, 2024^[57]).

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The banking system in LAC shows relatively high profitability, but this may reflect inefficiencies that limit credit access. In 2021, the region's average return on assets (ROA) stood at 1.6%, higher than the OECD average of 0.9%. Similarly, the net interest margin (NIM) stood at 5%, compared to 1.7% in the OECD, pointing to high credit spreads that increase borrowing costs and discourage savings (Figure 3.15). While these margins can attract investors, they often stem from market concentration, macroeconomic risks, limited revenue diversification and weak legal and regulatory frameworks. High banking costs are also prevalent in the region. In 2021, banks in LAC faced a ratio of overhead cost to total assets of 3.7%, higher than the OECD average of 1.4%.

Figure 3.15. Banking system profitability in selected LAC countries, 2021



Note: ROA = return on assets, Costs = overhead costs to total assets and NIM = net interest margin.

Source: Authors' elaboration based on (World Bank, 2025^[58]).

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Challenges and opportunities for greater financial inclusion

Financial inclusion in LAC has improved, particularly in terms of access and usage, but major challenges remain around the quality of services. Inclusion rests on three pillars: access, usage and quality. While access has expanded across the region, many vulnerable groups remain excluded due to low income, lack of collateral and informal, unstable or precarious employment. Poorer households face limited financial options, while wealthier ones enjoy easier access and more diverse tools. Informal workers also struggle to access financial products due to unstable income and missing employment records. Women face barriers such as cultural norms, expectations based on gender and low integration into the formal labour market. However, usage is growing rapidly, driven by digital innovation. In some LAC countries, fintech has simplified access to financial services, with digital payments, neobanks, insurtech and alternative finance leading growth. These innovations are enhancing competition and lowering borrowing costs. However, the quality and the availability of adequate financial products for low-income populations remain challenges. Limited financial literacy and weak consumer protection frameworks hinder the effective and responsible use of financial products. Many adults in the region still lack basic financial knowledge, impacting their ability to make informed decisions. Strengthening financial literacy and consumer protection is crucial to ensuring inclusive and resilient financial systems (OECD et al., 2024^[2]).

Increased financial inclusion, especially when combined with access to quality financial services, can significantly improve household well-being, firm productivity and broader economic development in LAC. High-quality financial products, supported by strong consumer protection and financial literacy, allow households to save, invest and manage consumption. For firms, particularly SMEs, quality inclusion facilitates access to credit, enabling growth, innovation and job creation (OECD et al., 2024^[2]).

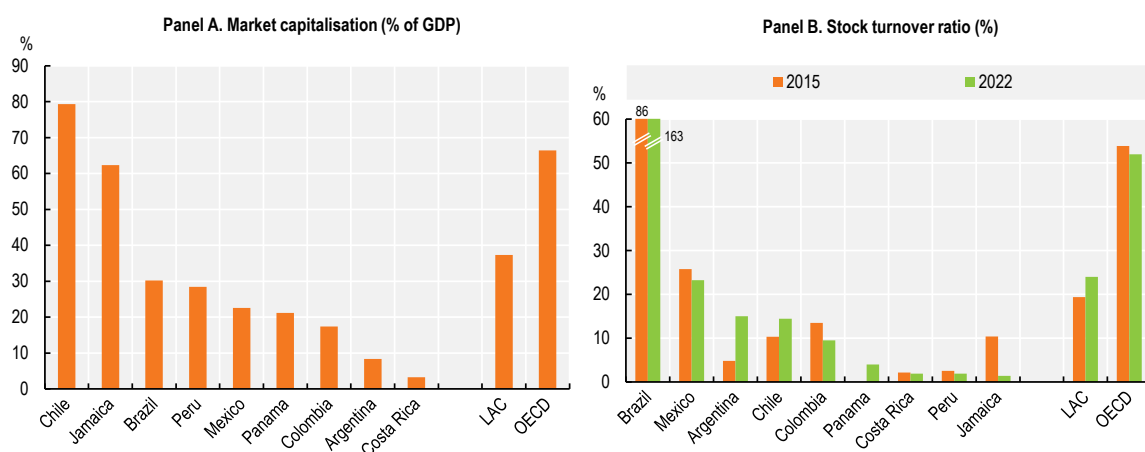
Deeper capital markets in LAC can help drive financing for production transformation

Capital markets are essential mechanisms to intermediate savings and to provide long-term financing for production transformation, offering opportunities to medium-sized firms in particular. These markets include both equity and debt instruments, which can be issued in the primary market through new bonds or initial public offerings (IPOs) or traded in the secondary market. Private capital markets also involve direct investments in companies that are not publicly listed. These mechanisms allow for an efficient allocation of capital and enable firms to scale, innovate and modernise. By improving access to large-scale and long-term financing, capital markets can drive investment and productivity and support economic growth and development (Fiorella and Didier, 2024^[59]; OECD et al., 2023^[12]). Capital market instruments have also proven useful for advancing strategic development priorities, such as the transition to a circular economy (UNEP, 2023^[60]).

Public equity markets

Public equity markets are essential for economic development, as they enable long-term financing, support business innovation and offer households investment opportunities. In LAC, equity markets remain underdeveloped and illiquid, with significant differences across countries. In 2024, LAC's average market capitalisation was 37.4% of GDP, well below the OECD average of 64.4%. It ranged from 79.3% in Chile to just 3.2% in Costa Rica (Figure 3.16, Panel A). Market liquidity is also limited, with a regional average turnover ratio of 24%, compared to 52% in the OECD, and with wide variation, from 162.7% in Brazil to 1.4% in Jamaica (Figure 3.16, Panel B).

Figure 3.16. Market capitalisation and stock turnover ratio in LAC, 2024 or latest available year



Note: GDP = gross domestic product. In Panel A, the LAC simple average for 2024 includes 7 countries due to data availability: Brazil, Chile, Colombia, Jamaica, Mexico, Panama and Peru. Argentina and Costa Rica correspond to 2022 data. The OECD simple average includes 23 countries: Australia, Austria, Belgium, Canada, Chile, Colombia, Czechia, Germany, Greece, Hungary, Ireland, Israel, Japan, Luxembourg, Mexico, New Zealand, Poland, Slovenia, Spain, Switzerland, Türkiye, the United Kingdom and the United States.

Source: Authors' elaboration based on (World Bank, 2025^[58]).

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Public equity markets in LAC are highly concentrated, with limited listings and strong dominance by a few large firms and corporate shareholders. This undermines market depth and inclusiveness. Most LAC countries have more concentrated equity markets than benchmark economies like Korea or the New York Stock Exchange, with large companies accounting for about 80% of market capitalisation. Activity in these markets relies heavily on secondary public offerings (SPOs), as net listings have been negative for much of the past two decades, reflecting delistings and challenges for medium-sized firms to go public. Brazil leads regional equity market activity, followed by Mexico and Chile. Ownership is also highly concentrated: in LAC the top 1% of shareholders hold 46% of listed equity – well above the global average – with corporate ownership dominating over institutional investment. For instance, in Argentina, Chile and Colombia, the three top investors hold on average over 60% of the shares in listed companies (Medina, de la Cruz and Tang, 2022^[61]).

Given the wide disparities in equity market development across LAC, it is crucial to implement context-specific strategies that promote both expansion and accessibility. In less developed markets, priorities include simplifying listing procedures, improving transparency and disclosure standards, and broadening domestic investor participation through low-cost and streamlined digital platforms and financial literacy (OECD, 2025^[62]). Proportional requirements and simplified prospectuses for SMEs can make equity financing more accessible for such firms, enabling them to raise capital more efficiently (OECD, 2024^[63]). Moreover, the development of growth equity markets, which are tailored to SMEs and growth-stage firms, can also help by offering more flexible entry requirements such as lower financial thresholds, simplified prospectus rules and smaller free float requirements (OECD, 2025^[64]). Greater cross-border integration and regulatory harmonisation can help to close the gap between advanced and emerging markets in the region (OECD, 2025^[62]). Strengthening public equity markets overall can enhance corporate resilience and boost regional competitiveness (OECD, 2025^[62]).

Private markets: A focus on venture capital

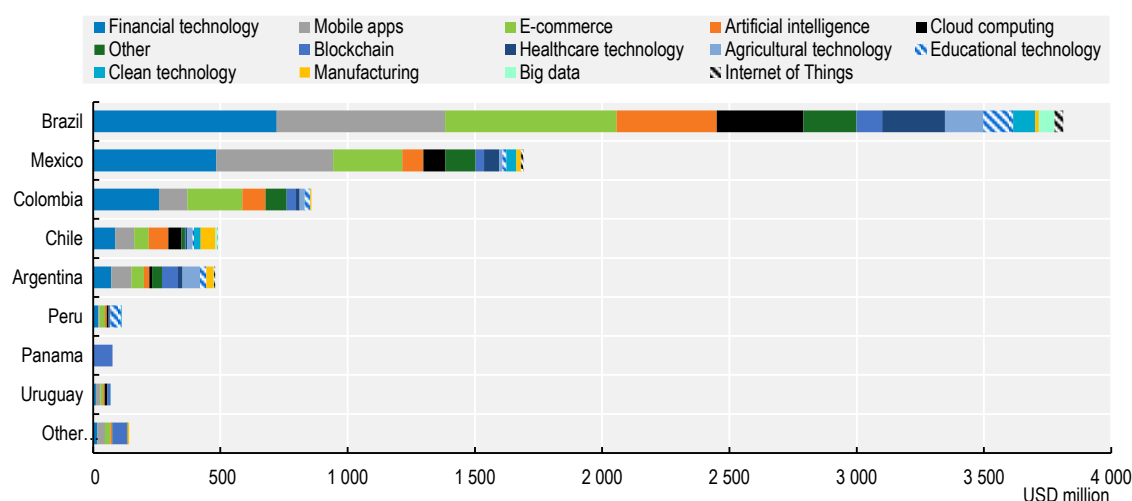
Venture capital (VC) is the most prominent segment within private capital markets in LAC. In the third quarter of 2023, VC represented 82% of total transactions and 47% of the invested capital in the region (OECD et al., 2024^[2]). However, in comparative terms, VC activity remains limited. In 2023, total VC investment in LAC amounted to USD 8.06 per capita and represented only 0.078% of the region's GDP, significantly below Asia's levels of USD 59.19 per capita and 0.757% of GDP (Preqin, 2025^[65]; World Bank, 2024^[56]). Despite their potential, equity and venture capital remain underutilised by SMEs in developing economies, due to weak financial ecosystems. Equity financing is often costly for small firms, which tend to rely instead on informal financial networks or personal resources. Development gaps in the financial sector limit the availability and affordability of formal private capital solutions (OECD et al., 2024^[2]).

Venture capital is an alternative financing form provided to emerging or new companies (start-ups) that have high growth potential but also involve a high level of risk. The investment does not come from traditional banks but from private investors or specialised funds that are willing to take on those risks in exchange for an equity stake in the company. Venture capital investors not only provide funding but also offer strategic advice, market connections and management experience, which can be vital to the success of a young company, particularly in the complex context of LAC (Chapter 1). Strengthening private equity and VC ecosystems is essential to ensuring the availability of funding across all stages of business growth, from start-ups to large-cap firms (OECD, 2025^[62]). Venture capital supports the survival of new entrepreneurs, fosters job creation and drives innovation by enabling dynamic business models that can transform key sectors such as technology, energy, healthcare and education.

After booming in 2021, venture capital dynamics have slowed more recently in LAC. VC funding in the region increased from USD 1.1 billion (249 deals) in 2016 to USD 25.1 billion (859 deals) in 2021. This growth was driven by factors including post-COVID-19 incentives to reactivate the market; increased demand for digital services since the pandemic; participation of a few deep-pocketed, non-domestic investors; a surge of profitable exit opportunities; and the development of a supportive local ecosystem for start-ups (Rudolph, Miguel and Gonzalez-Urbe, 2023^[66]). However, as in other regions, investment in LAC fell below pre-pandemic levels after 2021, declining to USD 5.4 billion in 2023 (OECD et al., 2024^[2]).

Compared to other regions, a significant share of VC funding in LAC goes towards mobile apps and fintech, while venture capital trails in manufacturing, agricultural technology and clean technology. From 2016 to 2024, financial technology accounted for nearly 22% and mobile apps for 19% of total VC investment in the region. Other outstanding verticals include e-commerce (17%), artificial intelligence (19%) and healthcare technology (6%) (Figure 3.17). Regarding VC funding globally, LAC ranks first in terms of its concentration in the financial services industry and second in terms of the relevance of the fintech vertical (Rudolph, Miguel and Gonzalez-Urbe, 2023^[66]).

Figure 3.17. Total venture capital investment in LAC by vertical and country, 2016-24



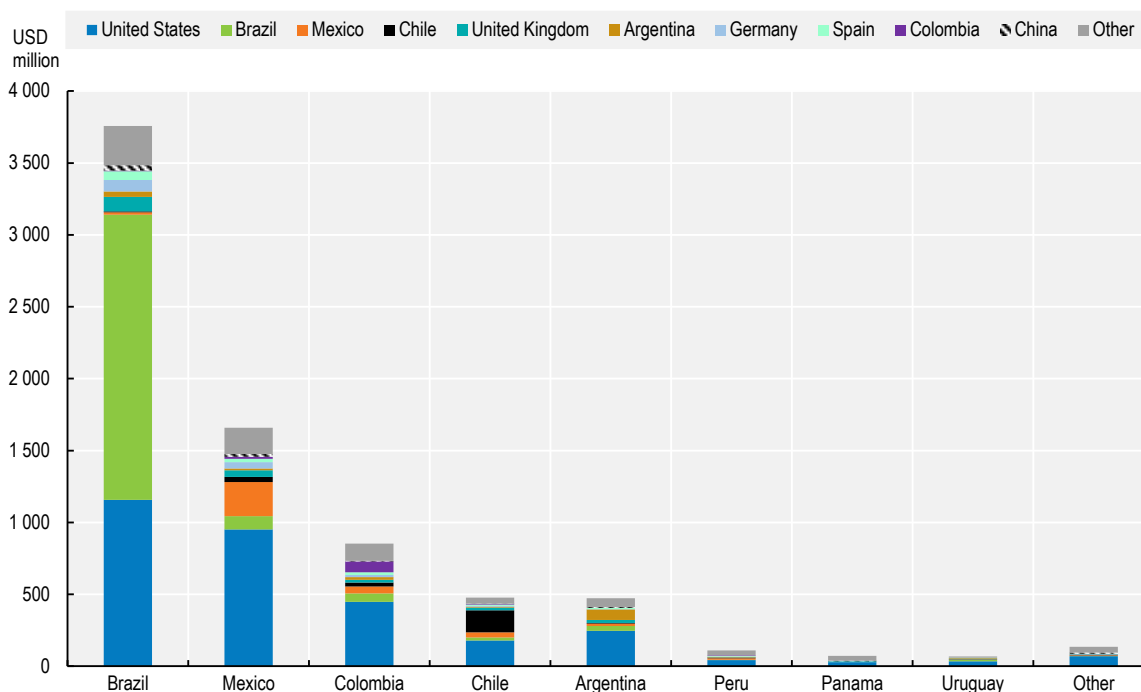
Note: Other countries include the Bahamas, Belize, Bolivia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica and Venezuela.

Source: Authors' elaboration based on (Preqin, 2025^[65]).

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Most VC inflows to LAC originate from the United States, which accounted for 42% of total VC investments between 2016 and 2024. The United States is the top source of VC investment in every major LAC market, including Brazil (USD 1.16 billion), Mexico (USD 951 million) and Colombia (USD 449 million). While intraregional VC flows are notable in countries like Brazil and Mexico, United States investment remains a dominant trend (Figure 3.18). These figures underscore the strategic role of international investors in scaling start-ups across LAC, especially in larger markets such as Brazil and Mexico, which together attracted more than 70% of all VC inflows during the 2016-2024 period.

Figure 3.18. Venture capital flows to LAC by origin of investment, 2016-24



Note: Other includes the Bahamas, Belize, Bolivia, Costa Rica, Ecuador, El Salvador, the Dominican Republic, Guatemala, Jamaica and Venezuela.
Source: Authors' elaboration based on (Preqin, 2025^[65]).

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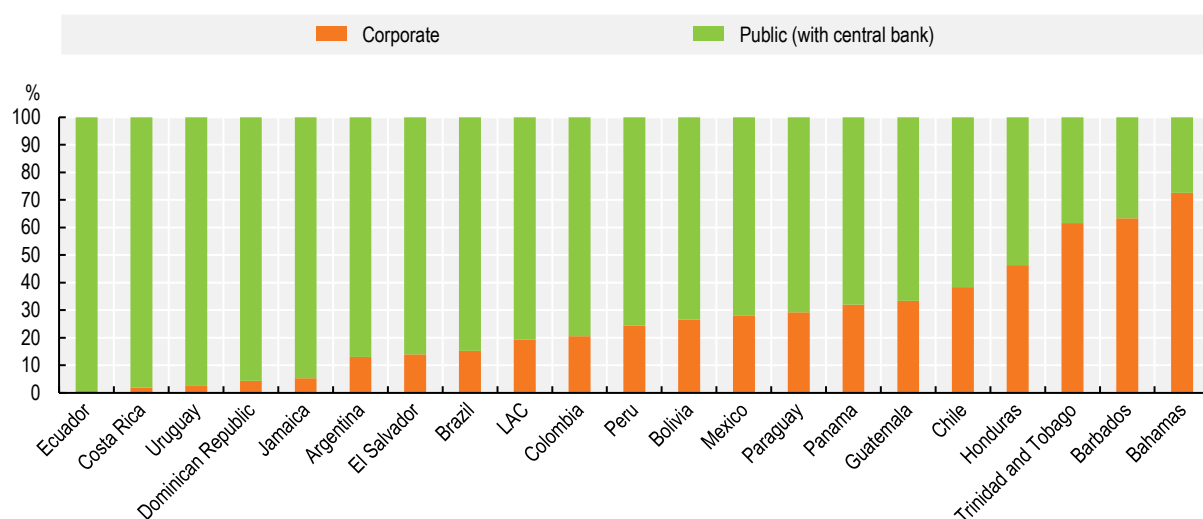
In venture capital, an exit denotes the process by which investors reach returns on their investments, typically through mechanisms such as mergers and acquisitions (M&A) or initial public offerings (IPOs) (Ahlwalia and Sul, 2024^[67]). Exits of venture capital in LAC were concentrated in digital sectors. During the period 2016-2024, the mobile apps sector accounted for the highest proportion of VC exits in LAC, at 44.4%, followed by fintech (17.3%) and cloud computing (15.1%) (Preqin, 2025^[65]). The peak year was 2021, concentrating 63.5% of all exits within the period. This distribution underscores the robust demand for digital and mobile solutions in emerging markets over the last decade. Verticals such as clean technology, blockchain and agricultural technology exhibited significantly lower exit activity (Preqin, 2025^[65]).

Domestic corporate bonds

Domestic corporate bond markets have emerged as a significant source of private-sector financing. These markets enable firms to diversify their funding sources beyond traditional bank loans and equity while offering benefits such as lower transaction costs, reduced currency risk, and greater familiarity with local regulations and investors. At the end of 2023, global corporate bond debt reached USD 34 trillion, and over 60% of the increase since 2008 came from non-financial corporations (OECD, 2024^[68]).

Yet corporate bond markets remain underdeveloped in LAC. The outstanding amount of corporate bonds in the region accounted for only about 2% of the global total in 2023. Domestic bond issuance in LAC is dominated by the public sector, which made up 81% of total issuances between 2015 and 2023, while corporate bonds represented just 19% (Figure 3.19). There is considerable variation across the region, with higher corporate issuance in some Caribbean economies, such as the Bahamas, Barbados, and Trinidad and Tobago.

Figure 3.19. Domestic corporate and public bond issuance in LAC, 2015-23



Note: Shares are of the amount issued in United States dollars. Bonds refer to those issued during the period from 1 January 2015 to 31 December 2023. This includes bonds with an original maturity greater than one year and issues greater than USD 1 million.

Source: Authors' calculation based on (OECD, 2024^[69]).

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Corporate bond markets in LAC are highly concentrated and lack diversification. Between 2015 and 2023, Brazil and Mexico accounted for nearly three-quarters of all corporate bonds issued in local markets, followed by much smaller shares in Argentina, Chile and Colombia. This concentration is partly explained by economic size: larger economies support liquid government bond markets that provide benchmark yield curves for pricing corporate bonds and that host firms with greater financing needs; this leads to larger issuances and lower relative bond costs through economies of scale (OECD, 2024^[70]). The rest of the region has only marginal participation, with 13 countries contributing less than 1% each, highlighting the need to expand market depth and issuer diversity. Demand is largely driven by pension funds, with a strong preference for investment-grade bonds, which limits access for SMEs and lower-rated issuers.

Non-financial firms dominate corporate bond issuance, but they face challenges in currency and maturity structures. These firms account for most of the total amount and number of bond issuances, and they tend to issue in larger amounts than financial firms. However, a significant share of issuances remains in foreign currency (58% between 2015 and 2023), exposing firms to currency mismatches and exchange rate risks. While there has been a recent shift towards local-currency issuance, average maturities have declined slightly in the last two years, narrowing the gap with other emerging markets but still leaving room for improvement (OECD et al., 2024^[2]; OECD, 2024^[68]).

There is untapped potential for strengthening corporate bond markets through targeted reforms and regional integration. Policy tools such as subsidised credit-rating costs, well-designed tax incentives for specific bonds (e.g. infrastructure) and robust sovereign yield curves could stimulate market growth. Updating bond issuance guidelines to broaden issuer eligibility and prioritise strategic sectors, such as green development and technological innovation, could enhance access to capital for high-tech and research-oriented firms. For instance, the Shanghai Stock Exchange recently revised its corporate bond rules to support green growth and innovation by expanding eligible issuers and refining criteria for science and technology bonds (OECD, 2025^[62]). Promoting environmental, social and governance bonds and regional bond-market integration could also help smaller countries to access deeper and more liquid investor pools. A regional approach could reduce borrowing costs and support medium-sized enterprises, although it would require overcoming technical, regulatory and currency-related barriers.

Regional financial integration

Regional financial integration can help to deepen and diversify participation in capital markets across LAC by broadening stakeholder access and enhancing market efficiency. It also lowers transaction costs for investors, increases liquidity, and helps to mitigate financial risks (Bonita et al., 2020^[71]). Fostering a more interconnected market can attract a wider range of foreign investors interested in acquiring diversified assets across multiple countries within a unified framework. A more integrated regional market could expand the base of issuers and channel investment into previously underrepresented sectors (Bown, 2017^[72]). Additionally, increased demand for securities listed on a single regional platform could help to lower borrowing costs for issuers.

Despite these benefits, several barriers hinder integration efforts in the region. These include macroeconomic disparities, limited supply and demand in local markets, fragmented regulatory systems, and incompatible market infrastructures. Countries in the region exhibit varied levels of economic stability and different exchange rate systems, which complicate harmonisation. Moreover, the limited number of active issuers and investors, as well as insufficient financial literacy, contribute to low market participation. Differences in tax regulations, legal frameworks and the use of separate trading systems across national exchanges further challenge integration across LAC (Bonita et al., 2020^[71]). Addressing these barriers is crucial, and initiatives promoting capital market integration should help advance the adoption of measures needed to strengthen such integration.

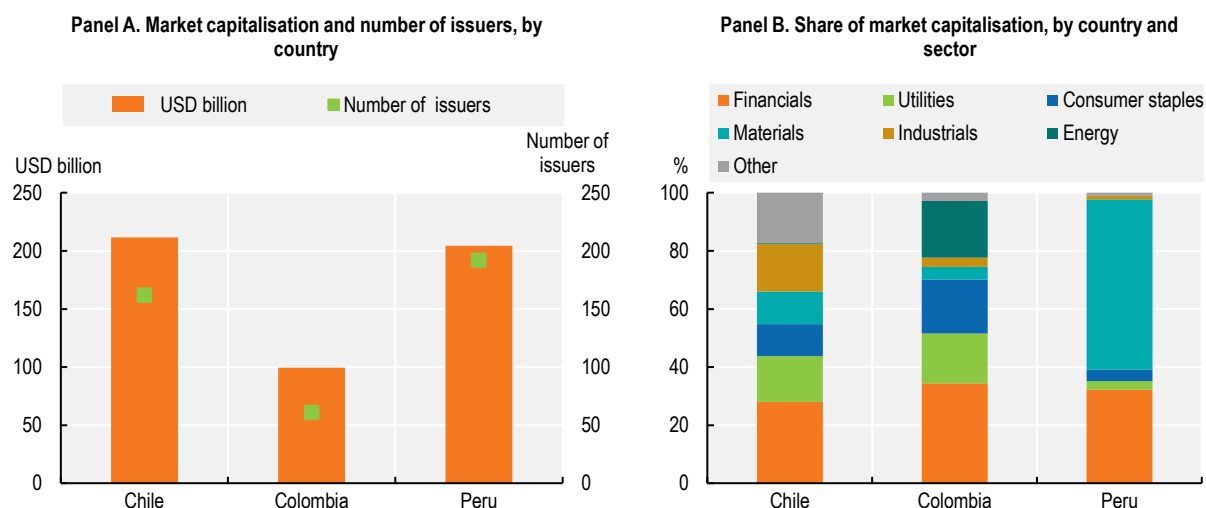
Existing initiatives of regional financial integration, such as nuam exchange, offer a concrete opportunity to advance the integration of capital markets in Latin America. The nuam exchange aims to integrate the Colombia, Lima and Santiago Stock Exchanges into a single market. Its goal is to provide a dynamic and modern offering that fosters business growth and creates value for investors through a more attractive and diversified portfolio. By consolidating assets and business operations on a shared platform, nuam exchange is working to align regulatory frameworks, promote cross-border investment and improve market efficiency (Nuam exchange, 2025^[73]; Rodríguez Martínez, 2024^[74]). As of August 2025, market capitalisation reached USD 212 billion in Chile, USD 100 billion in Colombia, and USD 204 billion in Peru, with 162, 61, and 192 issuers respectively, providing a strong foundation for growth through regional integration (Figure 3.20, Panel A). Currently, the three exchanges, still operating as independent market infrastructures, have adopted the same trading system provided by Nasdaq.

There are well-established international precedents that offer valuable models for regional capital market integration, such as Euronext in Europe. Euronext in Europe has successfully unified multiple national exchanges while preserving the existence of individual stock markets. Similar to nuam, Euronext started with the merger of three exchanges – Amsterdam, Brussels and Paris – and, in 2025, it operates seven European regulated exchanges and provides clearing, settlement and custody services, covering the entire capital markets value chain. Nuam is following the example of Euronext, and to reach its full potential, it needs to start establishing mutual recognition of market participants and ensure interoperability among clearing houses in the three countries, thereby enabling efficient cross-border trading and settlement (OECD et al., 2024^[2]).

Regional financial integration offers an opportunity to diversify portfolios through the development of key sectors across markets. The sectoral composition of the stock exchanges integrating nuam varies across countries, reflecting a focus on strategic sectors and the potential for diversification for both investors and issuers. In 2025, financial institutions played a central role, representing 28% of market capitalisation in Chile, 24.3% in Colombia, and 32% in Peru, supporting broader access to finance (Figure 3.20, Panel B). Beyond finance, other sectors hold significant potential. Industrials contribute to value-added production, while utilities can underpin the supply of renewable energy. Together, they account for 16% of the market each in Chile and 17% for utilities in Colombia, though they represent a smaller share in Peru. Materials remain a major driver in Peru, comprising 69% of market capitalisation, highlighting opportunities for greater sectoral diversification. This sectoral composition reveals both potential complementarities across

markets and areas where diversification could strengthen the region's production transformation and enhance portfolio diversification as nuam exchange advances toward full integration.

Figure 3.20. Market capitalisation, number of issuers, and sectoral composition in countries integrating nuam exchange, 2025



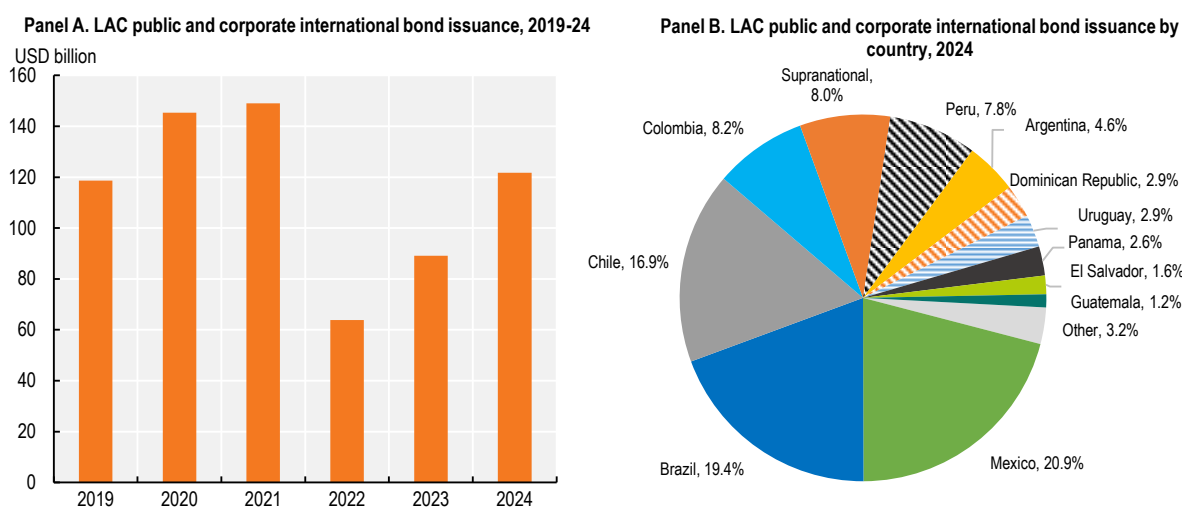
Note: 2025 data refer to information available up to 31 August 2025. Panel B: Other includes consumer discretionary, communication services, healthcare, information technology and real estate. Sector classification follows the MSCI Global Industry Classification Standard (GICS). Source: Authors' elaboration based on (Nuam, 2025^[75]).

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International capital markets

LAC bond issuance in international markets continued to rise in 2024 after a rebound in 2023. The total amount issued by public and corporate sectors reached USD 121.77 billion in 2024, up from USD 89.1 billion in 2023 (Figure 3.21, Panel A). Sovereign and corporate issuers contributed almost equally to this performance, with sovereign bonds making up 56.6% of the total. This recovery was driven by favourable macroeconomic conditions, such as currency appreciation, slowing inflation and the halt in interest rate hikes.

International bond issuance remains concentrated in a few LAC countries and limited production sectors. Mexico, Brazil, Chile and Colombia accounted for 65% of total issuance in 2024 (Figure 3.21, Panel B). Corporate bonds – issued by private financial and non-financial firms, state-owned enterprises and supranational entities – represented 58% of the total, while sovereign issuances made up 42%. From a sectoral perspective, most corporate debt was issued by firms in the financial, energy and transportation sectors, which together accounted for 73% of total corporate issuance (ECLAC, 2025^[76]).

Figure 3.21. LAC international bond issuance trends and country breakdown

Note: Other includes Ecuador, Honduras, Jamaica, Paraguay, and Trinidad and Tobago.

Source: Authors' elaboration based on (ECLAC, 2025^[76]).

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Larger firms in LAC are the main issuers of corporate bonds in international markets and play a central role in shaping investment dynamics in the region. An analysis of 295 listed non-financial corporations across the 6 largest economies in the region – Argentina, Brazil, Chile, Colombia, Mexico and Peru – shows that only 24% of them issued bonds between 2013 and 2023. However, these bond-issuing firms accounted for roughly 60% of total assets and net income and more than half of total investment in property, plant and equipment. This pattern holds across most countries in the sample, particularly in Chile, Colombia and Mexico, where bond-issuing firms contribute the majority share of corporate financial indicators. Sector-level data confirm this concentration: although fewer in number, bond issuers dominate in capital-intensive sectors such as manufacturing, mining, information and utilities. As a result, the financing decisions of these firms have a significant influence on gross fixed capital formation and the broader economic trajectory of the region (Méndez Lobos and Pérez Caldentey, forthcoming^[77]).

Risk perception in LAC's corporate bond market improved during 2023. High solvency and balanced risk are crucial factors for maintaining well-developed and strong capital markets. Risk in the region decreased in 2023 after a difficult first quarter. The JP Morgan Corporate Emerging Markets Bond Index (CEMBI) measures the extra interest (in basis points) that a corporate international bond pays over a government international bond in emerging markets. This is a measure of the level of risk that emerging market corporations are perceived to have. The CEMBI for the region stood at 3 521 basis points at the end of December 2023 after losing 36 basis points during the year. This was 62 basis points lower than the region's sovereign counterpart, the JP Morgan Emerging Markets Bond Index Global Core (EMBIG). After an increase in corporate spreads in the region in the first quarter of 2023 due to the default of Brazil's Lojas Americanas in January, the region was able to readjust in the following quarters and outperformed Asia and the Middle East.

Capital market regulation in LAC has evolved to reduce risk and improve efficiency, but significant challenges remain. Chile has implemented reforms to boost international integration and attract foreign investors, while Brazil is modernising its regulatory framework to lower compliance costs and enhance efficiency through new technologies. Colombia has advanced in aligning with the principles of the International Organization of Securities Commissions (IOSCO), reinforcing regulatory oversight. However, further efforts are needed across the region to simplify processes, attract new issuers and ensure that

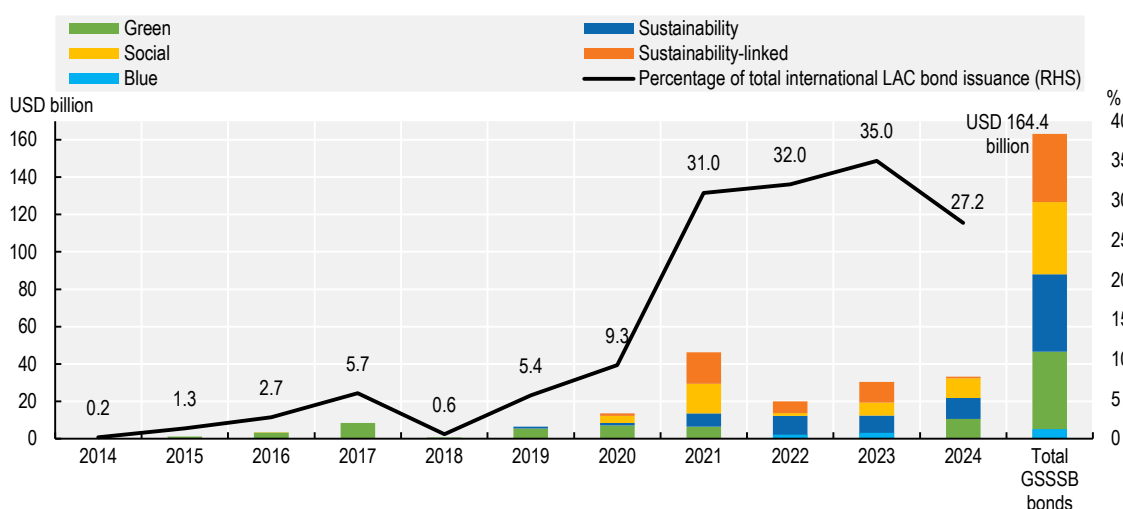
regulations are dynamic and responsive to changing market conditions. Priorities include promoting investment diversification, reducing barriers for foreign investors, enhancing governance to build investor confidence, protecting minority shareholder rights and improving financial literacy.

Green, social, sustainability, sustainability-linked and blue bond issuance in international markets can support sustainable production

Globally, green, social, sustainability and sustainability-linked (GSSS) bond issuance has experienced rapid growth and diversification, with the outstanding amount reaching USD 4.3 trillion in 2023, up from USD 641 billion just five years earlier (OECD, 2024^[68]). Green, social, sustainability, sustainability-linked and blue (GSSSB) bonds are also emerging in LAC as a powerful financing mechanism to support the region's production transformation towards more sustainable and resilient economic models. The share of GSSSB bonds in total LAC bond issuance in international markets increased to 27.2% in 2024, a sharp rise from 9.3% in 2020. Raising funds through these instruments instead of traditional bonds has become an attractive option in LAC for increasing returns on liquid global capital, diversifying the investor base, mobilising direct capital into sustainable activities and acquiring financial support for creating sustainable capital markets. Between 2014 and 2024, the GSSSB international bond market in LAC reached a cumulative value of USD 164.4 billion (Figure 3.22). Total green bond issuance in LAC more than doubled over five years, from a cumulative total of USD 18.7 billion in 2019 to USD 46.6 billion in 2024. The growth was even more pronounced for social, sustainability, sustainability-linked and blue bonds, reaching a cumulative issuance of USD 117.8 billion in 2024 (OECD, 2024^[78]).

Figure 3.22. LAC's total international green, social, sustainability, sustainability-linked and blue bond issuance, 2014-2024

By type of instrument and percentage of total international LAC bond issuance



Note: GSSSB = green, social, sustainability, sustainability-linked and blue.

Source: (ECLAC, 2025^[76]; Velloso and Perroti, 2023^[79]; OECD et al., 2024^[2]).

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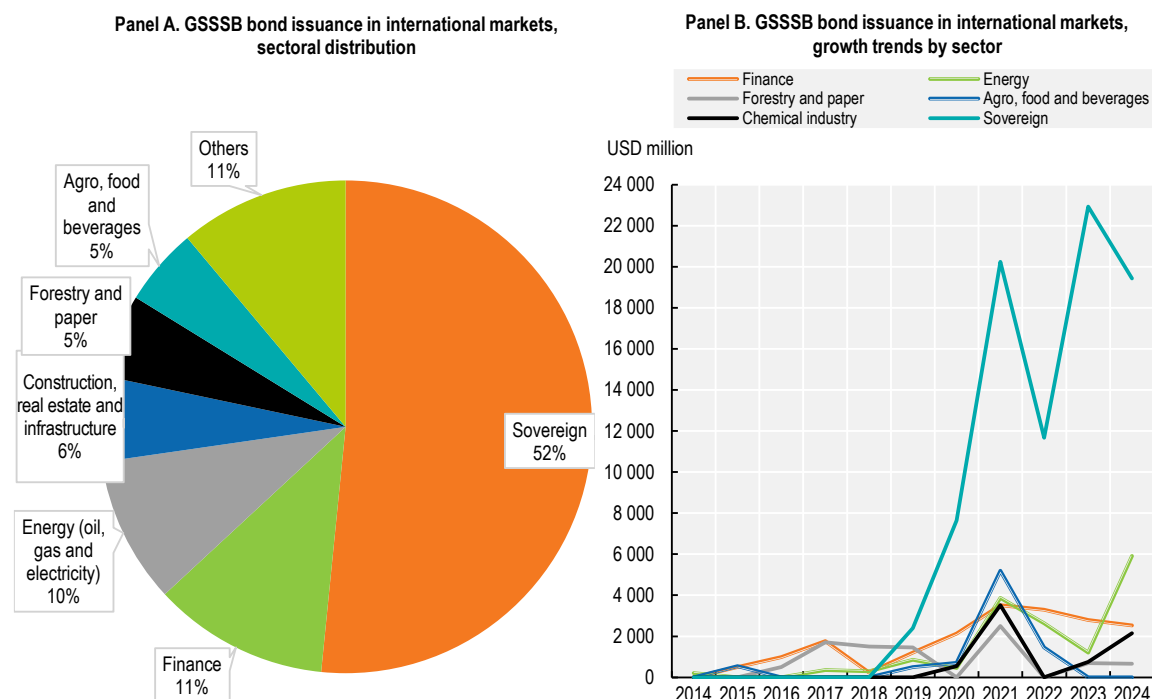
Cumulatively, LAC holds a significant share of global blue-labelled debt. Europe accounts for 40%, Asia and the Pacific 35%, LAC 23% and Africa 2%, with North America and supranational entities each under 1%. In 2023, LAC led global blue bond issuance, reaching USD 2.74 billion and surpassing Asia and the

Pacific, the second-highest issuing region, which recorded USD 1.95 billion (CBI, 2023^[80]). Most of LAC's blue bond issuance came from non-financial corporates, followed by sovereigns, government-backed entities, financial corporates and development banks. Key economic sectors in LAC are increasingly benefitting from blue bonds, which support both social and environmental objectives. In July 2023, Águas do Rio – a subsidiary of AEGEA, Brazil's largest private sanitation company – issued four bonds totalling USD 1.16 billion, maturing in 2034 and 2042, to finance projects in green categories such as renewable energy, pollution prevention and control, biodiversity conservation, and sustainable water and wastewater management, as well as social categories like affordable infrastructure and socio-economic advancement (CBI, 2023^[80]). This issuance exemplifies how the sustainable debt market can be leveraged to drive blue development.

GSSSB bonds have become attractive instruments for raising capital in a growing number of economic sectors in LAC. The sovereign sector dominated international GSSSB bond issuances in the 2014-2024 period, mainly due to Chile's large sovereign issuances since mid-2019, when it issued the region's first sovereign green bond in international markets. Between 2014 and 2024, the main sectors that issued GSSSB bonds in international markets, after sovereign (51.6%), were finance (11.5%), energy (9.6%), and construction and real estate (5.6%) (Figure 3.23, Panel A). Sovereign issuers' preferred instruments in the ten-year period were social, sustainability and sustainability-linked bonds. However, private-sector participation was also significant in the period, especially in the issuance of green and sustainability-linked bonds. The top five sectors (excluding sovereign) were finance, energy, forestry and paper, food and beverage, and the chemical industry. Combined with the sovereign sector, they accounted for 87.5% of the region's total international GSSSB bond issuances in the 2014-2024 period (ECLAC, 2025^[76]; Velloso and Perroti, 2023^[79]).

Excluding the sovereign sector, the financial sector showed the steadiest growth, and the energy sector surged in 2024 to become the region's top GSSSB bond issuer (Figure 3.23, Panel B). The region's international GSSSB bond issuances from the financial sector are growing steadily, as financial institutions increasingly align capital with sustainability goals to attract sustainability-focused investors. The energy sector saw a sharp rise in 2024, overtaking the financial sector to become the region's top GSSSB issuer after the sovereign sector. In the energy sector, GSSSB corporate bonds are important instruments for financing the energy transition and decarbonisation. In forestry and paper, GSSSB bonds support conservation, sustainable forest management and low-impact manufacturing; the sector maintained a relatively stable presence, though there were no issuances in 2020 or 2022. Issuances from the food and beverage sector peaked in 2021 but declined sharply in 2023 and 2024 amid rising scrutiny over deforestation and supply chain emissions. GSSSB bonds in this sector hold the potential to support a more sustainable food system through investments in plastic reduction, decarbonisation and climate resilience. In contrast, the chemical industry experienced rapid growth in 2023 and 2024, with GSSSB bonds increasingly financing decarbonisation and circular economy initiatives.

Figure 3.23. LAC's green, social, sustainability, sustainability-linked and blue bond issuance in international markets, by sectoral distribution and growth trends, 2014-2024



Note: GSSSB = green, social, sustainability, sustainability-linked and blue. The data include only international bonds and are based on market sources, including Dealogic, LatinFinance and Bloomberg, among others. Panel A: The category "Others" includes chemical industry (4.2%), transportation (3.1%), telecommunications and information technology (2.4%), construction and real estate (2.0%), and retail and consumer products (1.3%). The sovereign sector includes three sub-sovereign green bond issuances by Argentina's provinces of La Rioja and Jujuy. The infrastructure sector includes four green bonds (totalling USD 6 billion) issued in 2016 and 2017 by the Mexico City Airport Trust to finance the construction of a new airport, but the project was cancelled in 2018. Panel B: Sovereign sector issuances do not include sub-sovereign issuances.

Source: (ECLAC, 2025^[76]; Velloso and Perroti, 2023^[79]; OECD et al., 2024^[2]).

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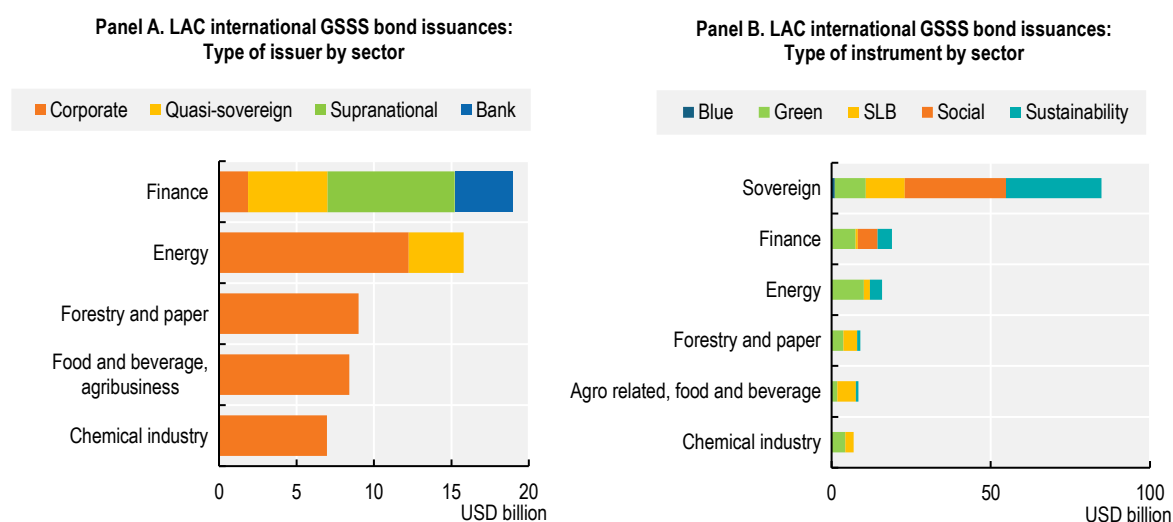
Brazil, Chile and Mexico are the region's leading issuers across the top five sectors. Chile (61.5%) and Mexico (15.6%) accounted for the largest share of sovereign international GSSSB bond issuances. The financial sector was dominated by issuances from supranational entities (43.3%) and Brazilian companies (34.7%). In the energy sector, the top issuers were from Chile (33.0%), Mexico (22.5%) and Brazil (22.5%). In forestry and paper, Brazilian issuers accounted for 64.6% of the international GSSSB bond issuances from the sector over the ten-year period, and Chilean issuers for 35.4%. Brazilian issuers also dominated in the food and beverage and chemical industry sectors. They accounted for a share of 57.2% in the food and beverage sector, followed by Mexican issuers with 25.6%, and for a share of 40.7% in the chemical industry, followed by Mexican and Chilean issuers with shares of 33.0% and 20.8%, respectively.

Issuer types and instrument preferences varied across sectors between 2014 and 2024, with private corporates dominating most sectors and green bonds showing greater sectoral diversity than other GSSSB instruments. Across the top five sectors (excluding the sovereign sector), different types of issuers predominated (Figure 3.24, Panel A). Private corporate (non-bank) issuers dominated in the energy, forestry and paper, food and beverage, and chemical industry sectors. In the financial sector, there was a mix of private banks, quasi-sovereign issuers and supranational entities. In the energy sector, 78% of issuers were private corporates, while 22% were quasi-sovereign. Sectors also diverged in their preferred

types of instruments. The energy sector was the top issuer of green bonds, while the sovereign sector led in sustainability, social, sustainability-linked and blue bond issuances (Figure 3.24, Panel B). Social, sustainability and blue bonds were issued predominantly by the sovereign sector, while the issuance by sector of international green bonds and sustainability-linked bonds (SLBs) was more diverse.

SLBs have proven particularly attractive to corporates in LAC. From a private-sector perspective, their appeal lies in their flexibility in terms of both sectoral diversity and credit quality. A significant share of SLB issuance in the region came from non-investment-grade (high-yield) issuers, who accounted for 66% of total international SLB issuances (Figure 3.24, Panel B). However, SLBs have come under scrutiny due to concerns over their credibility, particularly the lack of ambitious sustainability improvements following issuance (Sustainable Fitch, 2024^[81]). This has led some investors to shift their focus back to green bonds. Like SLBs, green bonds have drawn a wide range of issuers across sectors and credit ratings, with approximately 67% of green bond issuers in the region falling into the non-investment-grade category.

Figure 3.24. LAC international green, social, sustainability, sustainability-linked and blue bond issuance, by issuer and instrument type by sector, 2014-2024



Note: The data include only international bonds and are based on market sources, including Dealogic, LatinFinance and Bloomberg, among others. Panel A: The figure includes only the top five sectors excluding the sovereign sector, accounting for USD 59.10 billion (36%) of the total amount of international green, social, sustainability, sustainability-linked and blue (GSSSB) bonds issued by LAC issuers from 2014 to 2024. Panel B: The figure includes only the top sectors, which together accounted for USD 143.91 billion (87.5%) of the total amount of international GSSSB bonds issued by LAC issuers from 2014 to 2024. SLB = sustainability-linked bonds.

Source: (ECLAC, 2025^[76]; Velloso and Perroti, 2023^[79]; OECD et al., 2024^[2]).

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GSSSB bonds can serve as strategic instruments to finance high-impact sectors that drive the green transition and support production transformation in LAC. As noted above, the financial, energy, forestry and paper, food and beverage, and chemical industry sectors have emerged as important drivers of sustainable growth. The green transition provides an opportunity to reorient the region's economic structure towards high-impact sectors such as renewable energy, sustainable agriculture, biodiversity conservation, and advanced manufacturing. Investment in these areas not only helps to mitigate climate risks but also supports quality job creation, strengthens regional value chains and fosters technological innovation, all of which are central to a transformative and inclusive development path (Martinez et al., 2025^[30]).

The integration of GSSSB bonds with green productive development policies can significantly enhance the effectiveness of sustainable financing in LAC. Green productive development policies can provide the strategic framework needed to ensure that the proceeds of GSSSB bonds are directed towards high-impact sectors that deliver both economic and environmental returns. Some countries have demonstrated this integration through initiatives such as Brazil's USD 10.8 billion platform supporting conservation and green industrial hubs, which represents a comprehensive approach to aligning sustainable finance with productive development strategies. This model shows how green productive development policies can help to structure robust project pipelines, enhance the credibility of GSSSB instruments and ensure that sustainable financing contributes to long-term economic transformation rather than isolated environmental projects (Chapter 2) (Martinez et al., 2025^[30]).

Efforts to expand green bond markets in low- and middle-income countries are gaining momentum, with the European Union and LAC institutions taking a leading role. Building on Europe's track record of successful green bond issuance, the European Union is advancing its Global Green Bond Initiative (GGBI), designed to catalyse green finance in low- and middle-income countries by mobilising EUR 15 billion to EUR 20 billion for sustainable investment (Présidence de la République, 2023^[82]). This initiative combines financial support, technical assistance and risk mitigation tools to strengthen local green bond ecosystems. In LAC, the LAGreen Fund stands out as the region's first dedicated green bond fund. Launched in 2021 with backing from the European Union's Latin America and Caribbean Investment Facility (LACIF) and the German Government, LAGreen invests in green bonds and provides technical support to new issuers, helping them to adopt high-impact standards and to access international capital markets. By end-2024, LAGreen had subscribed to nine green or social bonds across seven countries, having mobilised a total of USD 866 million through bonds in which it invested, for which it provided advice and/or for which it built capacity. Around 83% of the use of proceeds went to green projects, the remaining to social projects (LAGreen, 2025^[83]). Both GGBI and LAGreen can contribute to aligning financial flows with sustainability goals, while supporting the broader transformation of production systems through investment in clean energy, sustainable infrastructure and climate-resilient sectors.

Robust sustainable finance frameworks can ensure the effectiveness of green, social, sustainability, sustainability-linked and blue bonds

Establishing robust sustainable finance frameworks in LAC is crucial for regulating GSSSB bond issuance and directing investment to priority sectors. These frameworks, aligned with national development goals, rely on taxonomies, standards, policies and international co-operation, aiming to integrate environmental, social and governance factors, manage climate risks and facilitate sustainability financing. At the international level, two widely used private-sector standards classify bonds as sustainable – the International Capital Market Association (ICMA) and Principles and the Climate Bonds Initiative (CBI) – with the caveat that these overarching guidelines provide a broad, non-exhaustive list of eligible green and social projects, and issuers often refer to third-party taxonomies or their own classifications. Globally, corporate GSSSB bond issuance following various international standards and taxonomies grew from under USD 150 billion in 2014 to USD 450 billion in 2023 (OECD, 2024^[68]). Sovereign issuance following any kind of international standards also rose sharply over the same period, from less than USD 150 billion to over USD 300 billion, with nearly USD 200 billion issued following some type of taxonomy (OECD, 2024^[68]). Increasing GSSSB bond issuance in LAC has also prompted the region's issuers, both public and private, to develop more robust frameworks that guide issuance and boost investor confidence. By the end of 2023, 14 LAC countries had launched initiatives, standards, guidelines or taxonomies, totalling 221 actions (OECD, 2024^[78]). Moving forward, the region needs clearer, harmonised frameworks to enhance transparency, credibility and investor confidence. Strengthening governance, co-ordination and data availability will be critical to ensuring effective, long-term financing that supports sustainable development and decarbonisation (OECD, 2024^[78]).

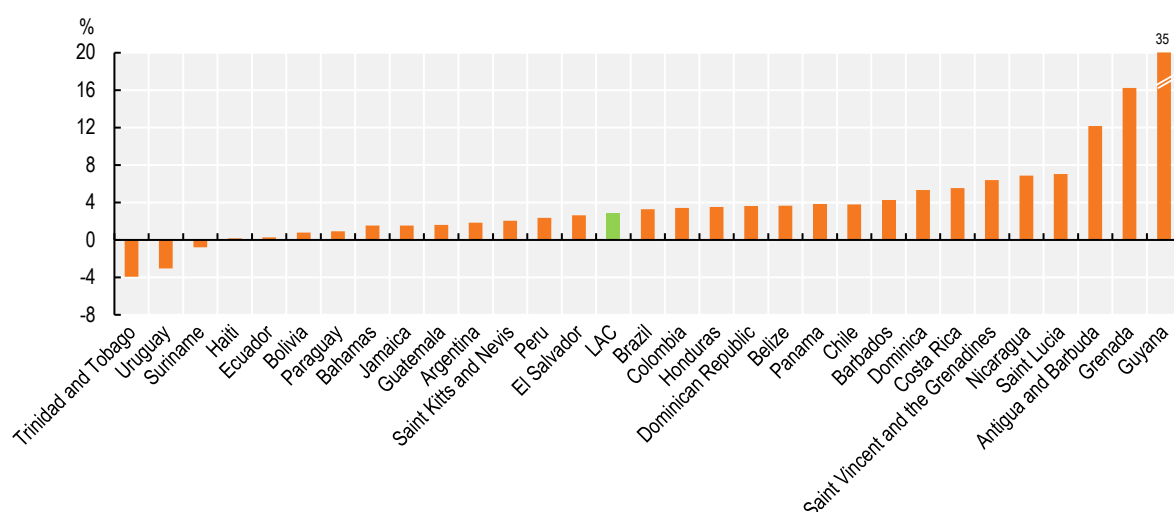
When examining sustainable finance frameworks in LAC countries, green and sustainable taxonomies stand out. Taxonomies are crucial for the credibility of use-of-proceeds bonds, such as green, social, sustainability bonds, as they define eligible projects and help to prevent greenwashing and SDG-washing (OECD, 2024^[78]). As of September 2025, taxonomies had been published in Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Mexico and Panama, and were under development in Peru. The first in the region was Colombia's 2022 green taxonomy, which focused on the agriculture, forestry and other land uses (AFOLU) sectors. These frameworks typically address one or more areas such as climate change mitigation and adaptation, the circular economy, and biodiversity. In Costa Rica, for example, the first edition of the taxonomy focused on climate change mitigation and adaptation, and the country is now preparing a second edition to include the conservation, restoration, and sustainable use of biodiversity and ecosystems.

Sustainable and green taxonomies are crucial for making regional markets more attractive and reliable, yet their use and implementation remain limited in the LAC region. As they are not legally binding and often little known by financial actors, their impact depends on wider adoption by key stakeholders across both banking and non-banking sectors. A case in point is Costa Rica's Sustainable Finance Taxonomy, currently in its implementation phase through three pilots involving a diverse set of actors: one with seven banks, a second with three insurance companies, and a third with an investment fund and a pension fund. Conducted with the United Nations Environment Programme Finance Initiative (UNEP FI) and regulators such as the Superintendency of Financial Institutions (SUGEF), Insurance (SUGESE), Securities (SUGEVAL), and Pensions (SUPEN), these pilots aim to build capacity, identify and close gaps between current practices and taxonomy requirements, and provide training and guidance to facilitate adoption. In parallel, Costa Rica is developing a web platform to make the taxonomy more accessible for regulators, financial institutions, issuers, consultants, NGOs, academics, production sectors, and citizens. The platform will serve as a strategic tool to support implementation and foster transparency, standardisation, and informed decision-making in sustainable investments. It will feature interactive dashboards, self-assessment modules, a resource centre with tutorials, and tools to compare taxonomies and assess eligibility (MINAE et al., 2024^[84]; SUGEVAL, 2024^[85]). These types of initiatives can serve as best practices for other countries in the region seeking to improve understanding and use of their taxonomies, identify eligible projects, strengthen the alignment of financial instruments, and build confidence among investors and regulators.

Attracting foreign direct investment will be necessary for bridging the investment gap and accelerating production transformation

LAC is one of the world's most attractive destinations for FDI. In 2024, LAC received high FDI inflows, accounting for 12.6% of global FDI (ECLAC, 2025^[86]). In 2024, FDI inflows represented 2.8% of the region's GDP and played a particularly significant role in Caribbean countries (Figure 3.25). In 2024, reinvested earnings became the largest component of FDI inflows into LAC (52%), followed by equity (34%) and intercompany loans (15%) (ECLAC, 2025^[86]). FDI can be a key driver of production transformation by boosting sectoral productivity, fostering innovation and accelerating the development of strategic industries. Foreign firms often outperform domestic ones due to their access to advanced technologies, managerial expertise and greater capital intensity. FDI can generate positive spillovers for local firms through supply-chain linkages, competition, imitation and knowledge transfers, thus narrowing productivity and innovation gaps and supporting structural transformation (OECD, 2019^[87]; OECD et al., 2023^[12]). However, the impact of FDI is not automatic, and it depends on the enabling conditions and policies implemented by host countries (ECLAC, 2024^[88]).

Figure 3.25. FDI inflows as a percentage of GDP in selected LAC countries, 2024



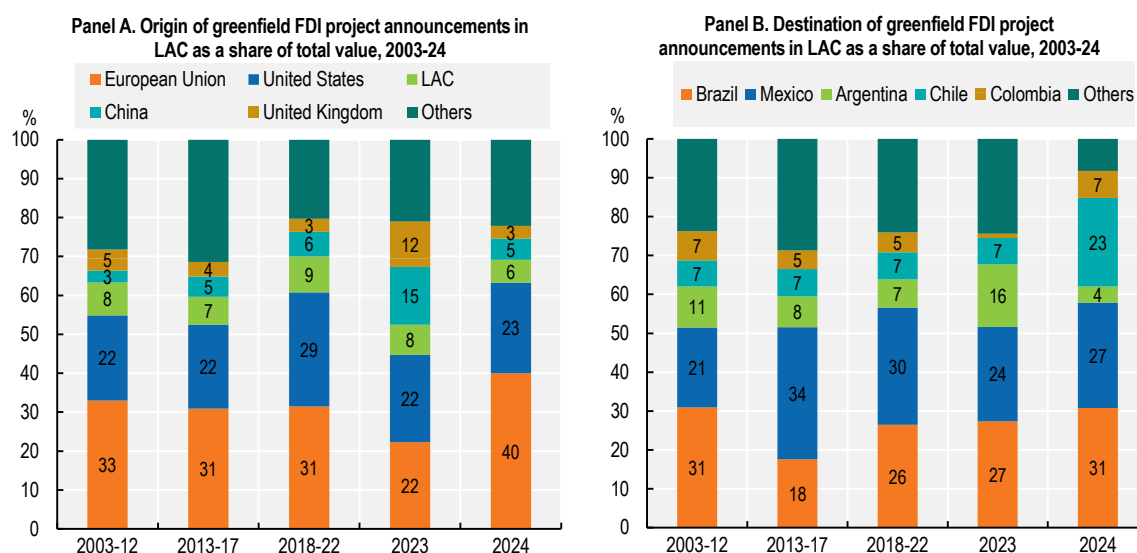
Note: Data for LAC corresponds to a weighted average as in (World Bank, 2025^[58]).

Source: Authors' calculations based on (World Bank, 2025^[58]).

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FDI trends reflect long-standing investment ties while also highlighting opportunities to diversify destination countries across the region. Over the last two decades, the European Union, followed by the United States, have been the leading greenfield investors in LAC. In 2024, they accounted for 40% and 23% of total capital investment, respectively (Figure 3.26, Panel A). Other sources included intraregional investment (6%), the People's Republic of China (5%) and the United Kingdom (3%). On the receiving end, FDI remains concentrated in a few economies, with Mexico (31%) and Brazil (27%) attracting the largest shares of total FDI, while Chile increased its share to 23%, followed by Colombia (7%) and Argentina (4%) (Figure 3.26, Panel A). These patterns highlight the potential to broaden FDI across a wider set of countries in the region.

Figure 3.26. Origin and destination of announced FDI projects in LAC, 2003-24



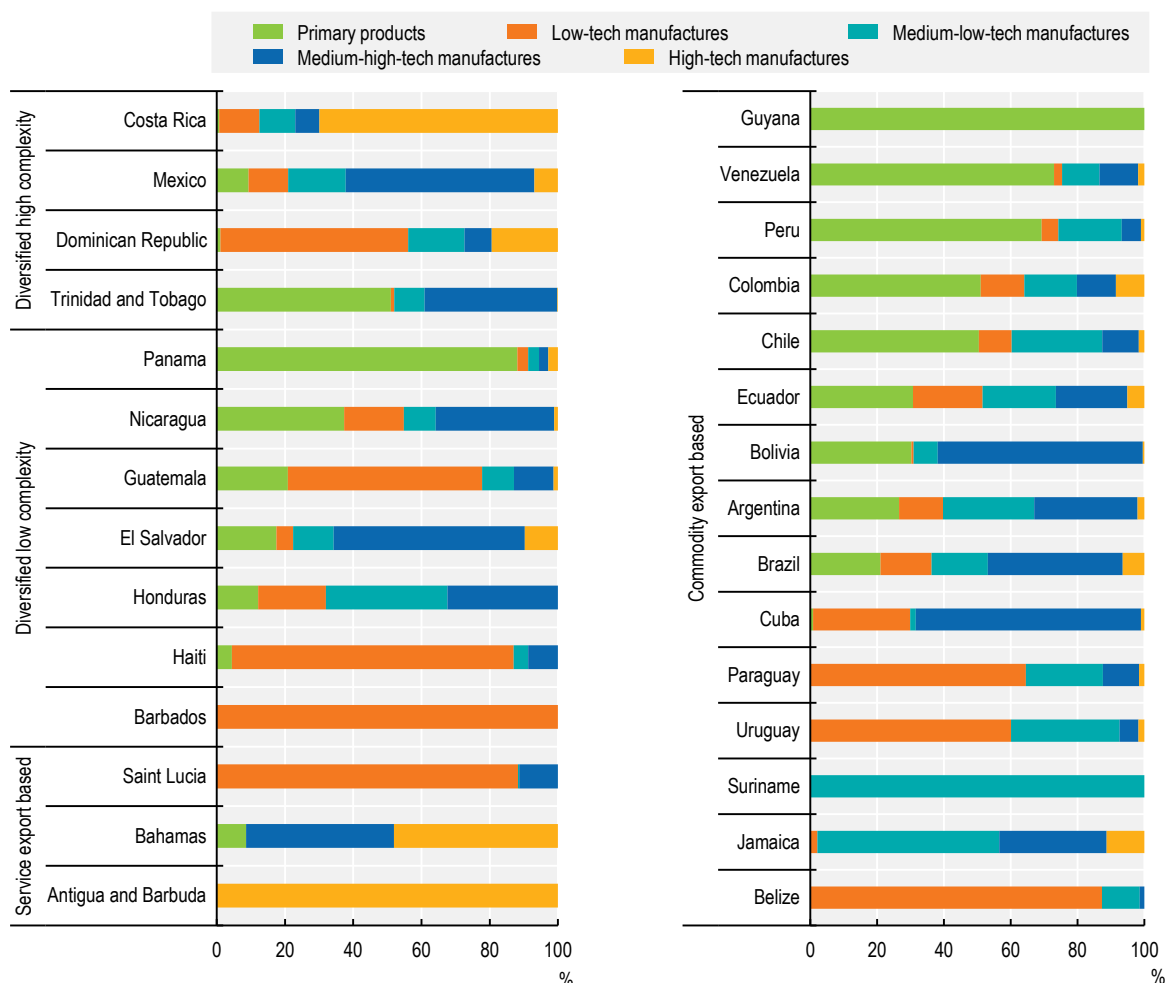
Source: Authors' calculations based on (Financial Times, 2024^[89]).

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Foreign direct investment in medium-tech sectors has the potential to support production transformation

Over the past decade, a significant share of FDI has been directed towards sectors with medium levels of technological sophistication. In commodity-based economies, such as Argentina, Bolivia, Brazil, Chile and Uruguay, between 40% and 69% of merchandise-related FDI flowed into medium- and high-tech sectors, highlighting opportunities to diversify and upgrade their production structures (Figure 3.27).

Figure 3.27. Share of capital investment of greenfield FDI announced projects by tech intensity, 2013-23



Note: Capital investment corresponds to ISIC Rev.4 Divisions A-C, covering the primary sector and manufacturing industries. Tech-intensity manufacturing groups are based on the OECD Technology Classification in ISIC Rev.3. Commodity export-based economies have more than 60% of their merchandise exports as raw commodities and resource-based products (Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Guyana, Jamaica, Paraguay, Peru, Suriname, Uruguay and Venezuela) (UNCTAD, 2023^[21]). Service export-based economies exceed 45% in service trade (Antigua and Barbuda, the Bahamas, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines). Economies in the top 60 on the Economic Complexity Index (Costa Rica, the Dominican Republic, Mexico, and Trinidad and Tobago) are categorised as diversified with high economic complexity (Harvard Growth Lab, 2023^[22]). The remaining economies (Barbados, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama) are categorised as diversified with low complexity.

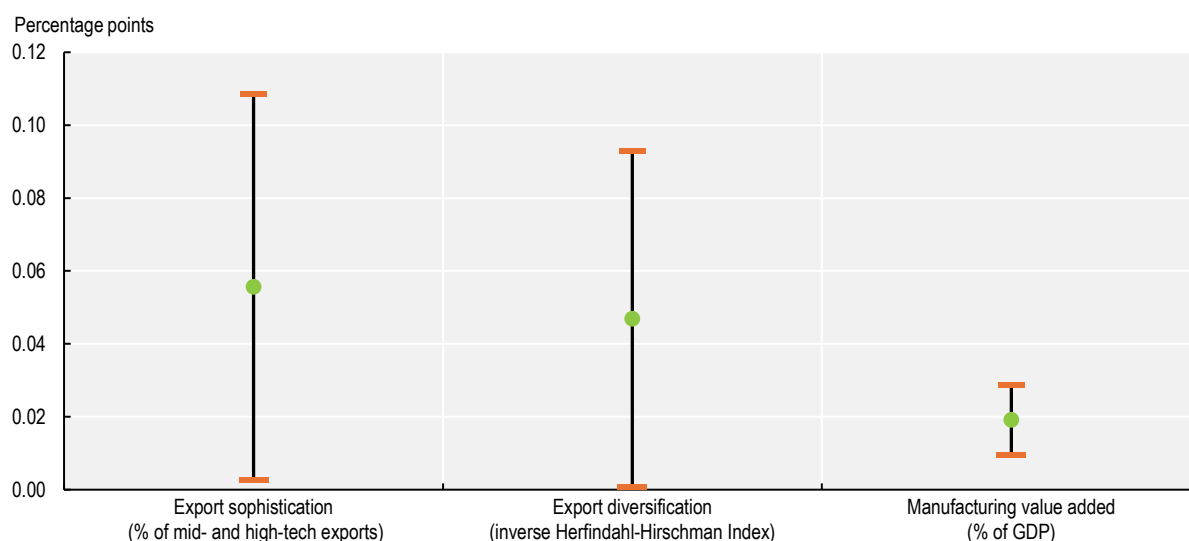
Source: Authors' calculations based on (Financial Times, 2024^[89]).

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In diversified and complex economies, between 44% and 88% of FDI was channelled into medium- and high-tech industries. Services-exporting countries also attracted the most investment in these segments, particularly in digital-oriented sectors such as ICT goods, electronic components and pharmaceuticals. Some less complex economies, such as El Salvador and Honduras, also received a high share of FDI in medium- and high-tech sectors (78% and 68%, respectively), while others saw investment concentrate in primary and lower-tech activities, reflecting the current structure of their production base.

FDI can support production transformation by enhancing export sophistication, export diversification and industrial capacity. FDI can have a positive impact on recipient economies by i) fostering technological diffusion, innovation and productivity spillovers, ii) facilitating access to international markets and mobilising resources to diversify economic activity and expand industrial bases, and iii) investing in human capital. In LAC, a 10% increase in capital expenditure from announced FDI projects is associated with a rise of 0.05 percentage point in the share of medium- and high-tech goods in total exports, a 0.04-point increase in the export diversification index and a 0.02 percentage point increase in manufacturing value added as a share of GDP, when everything else is held constant (Figure 3.28) (Box 3.2). These results underscore the importance of attracting quality investment to support sustainable and inclusive production transformation.

Figure 3.28. Foreign direct investment impact on export sophistication, diversification and manufacturing value added



Note: The figure displays the estimated percentage-point impact of a 10% increase in capital investment from announced greenfield FDI projects on the share of high and mid-tech exports, on the export diversification index and on the share of manufacturing value added relative to gross domestic product, along with their 95% confidence intervals.

Source: Authors' calculations based on (Financial Times, 2024^[89]), (WITS, 2023^[90]) and (World Bank, 2025^[58]).

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Box 3.2. Empirical model to estimate FDI impact on exports' sophistication, diversification and manufacturing value added

This analysis draws on fixed-effects panel regressions to evaluate the impact of capital investment from announced greenfield projects on two key outcomes. The model covers 28 LAC countries over 2003-2023 and is specified as follows:

$$y_{it} = \beta_0 + \beta_1 \cdot \ln(\text{FDI capital investment}_{it-1}) + \gamma \cdot \text{controls}_{it} + \delta \cdot \text{FE}_{it} + \epsilon_{it}$$

where y_{it} is one of the following dependent variables for country i in year t :

1) Export sophistication measures the share of medium- and high-technology goods in total merchandise exports. This indicator reflects the complexity and technological advancement of a country's export structure. Data from exports are sourced from the World Integrated Trade Solution (WITS) and classified according to the OECD Technology Classification in ISIC Rev.3.

2) Export diversification captures the degree of diversification in a country's merchandise export basket. It is calculated as the inverse of the export product concentration Herfindahl-Hirschman Index (HHI) in the following specification: $(100 - \text{HHI})$. The HHI measures how concentrated exports are across products, with higher values indicating greater concentration. By inverting the index, higher values reflect a more diversified export structure. HHI data are sourced from UNCTADstat.

3) Manufacturing value added represents the manufacturing sector's contribution to GDP, expressed as a percentage. It captures the level of industrial upgrading and structural transformation within the economy. Data are sourced from the World Development Indicators of the World Bank.

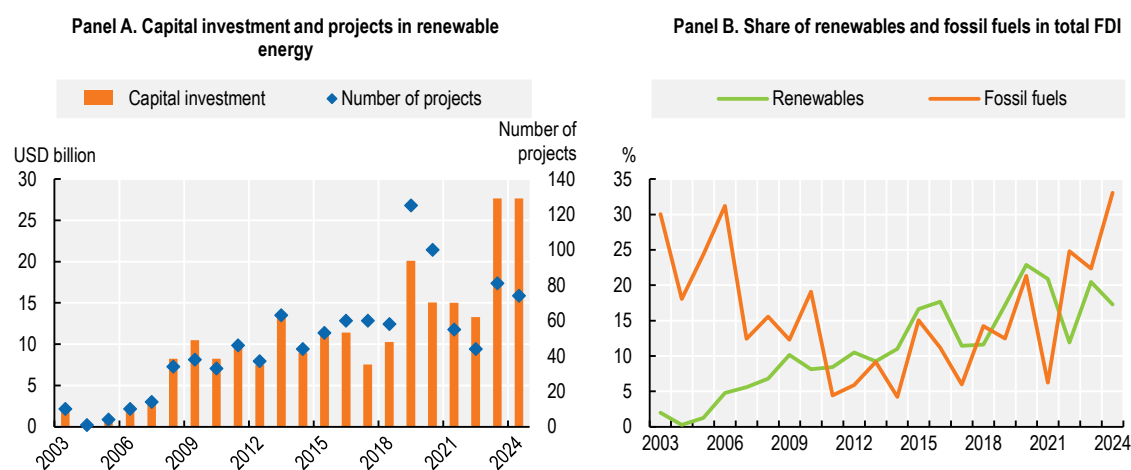
The explanatory variable is the **one-year lagged capital investment from FDI**, capturing the delayed effect of project implementation. Control variables include GDP per capita, trade openness (trade as a percentage of GDP), financial development (private-sector credit as a percentage of GDP) and infrastructure (fixed broadband subscriptions per 100 people). Regressions include country and year fixed effects, and standard errors are clustered at the country level.

The results reflect robust empirical associations but do not establish causal relationships.

FDI in the renewable energy sector has expanded over the last two decades

Capital investment in renewable energy amounted to USD 2 billion across 10 projects in 2003, increasing to USD 27.66 billion across 74 projects in 2024 (Figure 3.29, Panel A). The share of renewable energy greenfield investment of total FDI has also increased, from 2% in 2003 to 17% in 2024 (Figure 3.29, Panel B). Between 2011 and 2021, FDI in renewable energy consistently exceeded FDI in fossil fuels, reflecting a global shift towards cleaner energy sources. However, from 2022 to 2024, fossil fuel investment surpassed renewables, driven primarily by country-specific developments rather than by a broader regional trend in LAC. Investment in renewables can contribute to advancing towards a more sustainable and diversified energy mix; it can reduce emissions, lower energy costs, enhance energy security and lessen dependence on fossil fuel imports. Moreover, it can boost productivity, generate formal employment and support a more resilient and inclusive development path (OECD et al., 2022^[91]).

Figure 3.29. Announced greenfield FDI in renewable energy in LAC, 2003-24



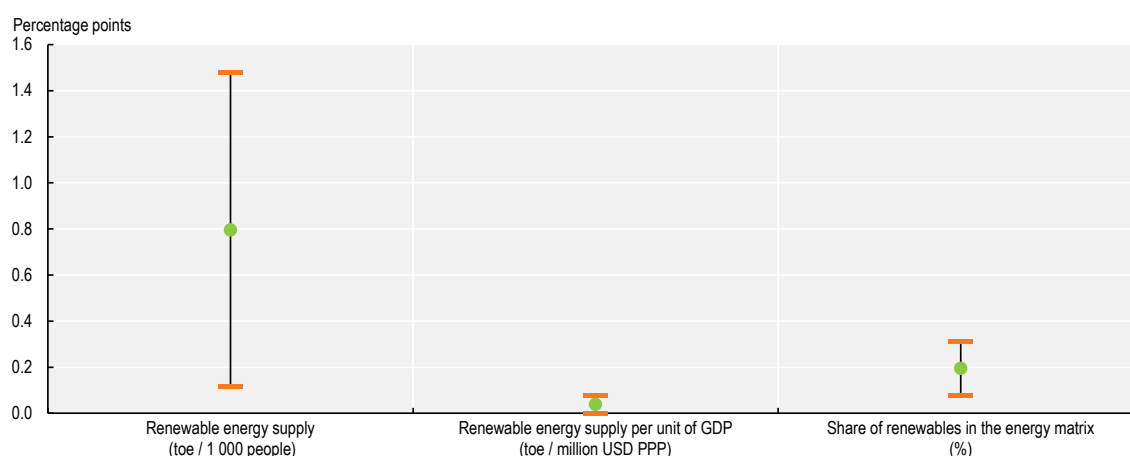
Note: The figures include 27 LAC countries: Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

Source: Authors' calculations based on (Financial Times, 2024^[89]).

StatLink  <https://stat.link/lmbqys>

FDI plays a major role in advancing the green transition in LAC. Investment in renewable energy is positively associated with both the expansion of clean energy supply and the transformation of recipient countries' energy matrices. In LAC, a 10% increase in capital investment in the renewable energy sector is associated with an increase of 0.79 tonnes of oil equivalent (toe) per 1 000 people in renewable energy supply. It also corresponds to an increase of 0.03 toe per million USD of GDP (purchasing power parity) and a 0.19 percentage point rise in the share of renewables in the energy matrix, when all else is held equal (Figure 3.30) (Box 3.3). These results suggest that greenfield FDI may be particularly effective in supporting the region's energy transition, with potentially higher technological spillovers, stronger environmental safeguards or greater alignment with long-term sustainability goals.

Figure 3.30. FDI impact on renewable energy supply and on the energy matrix



Note: Toe = tonnes of oil equivalent, GDP = gross domestic product and PPP = purchasing power parity. The figure displays the estimated percentage-point impact of a 10% increase in capital investment from announced renewable energy foreign direct investment projects on three variables, along with their 95% confidence intervals.

Source: Authors' calculations based on (IRENA, 2023^[92]), (Financial Times, 2024^[89]) and (OLADE, 2023^[93]).

StatLink  <https://stat.link/mp12sv>

Box 3.3. Empirical model to estimate the effect of FDI on the energy mix

This analysis draws on fixed-effects panel regressions to assess the impact of greenfield FDI on three renewable energy outcomes. The model covers 16 LAC countries over the period 2003-2023 and is specified as follows:

$$y_{it} = \beta_0 + \beta_1 \cdot \ln(\text{capital investment}_{it-2}) + \gamma \cdot \text{controls}_{it} + \delta \cdot \text{FE}_{it} + \epsilon_{it}$$

where y_{it} is one of the following the dependent variables for country i in year t :

1) Renewable energy supply per capita measures the amount of renewable energy available per person, expressed in tonnes of oil equivalent (toe) per 1 000 inhabitants. It reflects the intensity of renewable energy supply relative to population size, offering insights into access to and distribution of clean energy.

2) Renewable energy supply per unit of output captures the volume of renewable energy supplied per unit of economic output, measured in toe per million USD of GDP (PPP). It serves as a proxy for the energy intensity of the economy, indicating how efficiently renewable energy is integrated into production.

3) Share of renewables in the primary energy matrix represents the proportion of a country's primary energy derived from renewable sources. It reflects the level of renewable energy integration into the national energy matrix and the shift away from fossil fuel dependence.

All dependent variables are sourced from OLADE-sieLAC, a comprehensive regional database that compiles and harmonises energy statistics for Latin America and the Caribbean.

The main explanatory variable is the **two-year lagged capital investment** from renewable energy announced projects, capturing delays between project announcements and operational impact. It is sourced from the fDi Markets database, which tracks cross-border greenfield investment.

Control variables include electricity consumption (megawatt hours per 1 000 people) and two-year lagged public investment in renewable energy (as a percentage of GDP). Regressions include country and year fixed effects, and standard errors are clustered at the country level.

The results reflect robust empirical associations but do not establish causal relationships.

Integrating foreign direct investment strategies with green productive development policies

Green productive development policies offer a comprehensive framework for maximising the developmental impact of FDI by strategically channelling foreign investment towards sectors that deliver both economic growth and environmental sustainability. Green productive development policies go beyond traditional investment promotion by establishing clear criteria for green value-chain development, technology transfer requirements and measurable environmental outcomes. This is particularly relevant for LAC, given the region's transition towards renewable energy and sustainable manufacturing (Martinez et al., 2025^[30]). Countries implementing green productive development policies can leverage FDI to build competitive advantages in emerging green sectors. This is demonstrated i) by Argentina's advances in sustainable agriculture and lithium extraction, which illustrate how green productive development policies help countries to position themselves strategically in global green value chains while attracting quality FDI that supports both export diversification and environmental objectives, and ii) by Brazil's electric bus industry development, which shows how co-ordinated policies can attract foreign investment while building domestic capabilities in clean transportation technologies. The success of integrating FDI with green

productive development policies depends on establishing clear transition pathways, harmonised regulatory standards and robust monitoring systems that set specific targets for green technology transfer, quality job creation in sustainable sectors and environmental impact reduction. Such steps ensure that FDI contributes to long-term transformation rather than short-term gains, an approach essential for LAC countries seeking to move beyond commodity dependence towards more sophisticated, environmentally sustainable production structures.

Policy recommendations

Enhancing domestic resource mobilisation is essential to finance an inclusive and sustainable production transformation in LAC. In a context of limited fiscal space and growing development challenges, governments will need to increase the mobilisation of public funds through more effective taxation, greater spending efficiency, and improved debt management. At the same time, they must design policies that channel private resources towards investments aligned with national development objectives. This includes expanding the role of development finance institutions (DFIs) and aligning their activities more closely with long-term development goals. Similarly, strengthening policy frameworks for capital markets will be key to fostering long-term investment, while ensuring that foreign direct investment (FDI) contributes more effectively to production transformation and sustainable growth. The key policy recommendations for LAC on financing production transformation are presented in Box 3.4.

Box 3.4. Key policy recommendations

Enhancing domestic resource mobilisation to finance an inclusive and sustainable production transformation in LAC

- Strengthen tax revenue mobilisation by broadening the tax base, increasing the share of direct taxes and reducing inefficient and regressive tax expenditures and subsidies.
- Leverage environmentally related tax revenues by expanding energy and pollution taxes and phasing out fossil fuel subsidies, while protecting vulnerable households.
- Improve the design of CIT incentives to better mobilise investment aligned with national development policies, and prioritise expenditure-based over income-based tools.
 - Strengthen targeting strategies by setting clear, measurable and stable eligibility criteria, and minimise distortions and administrative burdens.
 - Institutionalise monitoring and evaluation through requirements for systematic reviews, tax expenditure reports and assessments.
 - Improve governance and transparency, for example, by consolidating incentives into tax legislation, ensuring ministry oversight and fostering interagency co-ordination.
- Enhance tax morale by improving transparency, efficient use of tax revenues and actively engage citizens.
- Align DFIs more closely with productive development policies by clarifying mandates, financing strategic sectors and public-good projects and enhancing their role in market intelligence and governance spaces.
- Expand and diversify financial instruments offered by national DFIs to better integrate green, gender-responsive and digital objectives, and strengthen technical capacity for climate financing and risk management.

- Improve collaboration between MDBs, bilateral DFIs and national DFIs to reduce fragmentation, align with national priorities and expand cohesive pipelines for green, digital and inclusive investments.
- Expand MDB and bilateral DFI support for national DFIs to mobilise private capital, advance financial inclusion (especially for MSMEs) and align portfolios with climate and social goals.

Strengthening capital markets to channel financing towards productivity, decarbonisation and inclusive transformation

- Increase market depth, liquidity and long-term financing by expanding institutional investor participation in domestic financial markets.
- Modernise regulatory frameworks to streamline processes, diminish compliance costs, incentivise new issuers and reduce barriers for foreign investors in bond and equity markets.
- Lower issuance costs through policies that simplify procedures, enhance market infrastructure, foster competition among intermediaries and encourage greater participation of issuers in sectors aligned with production transformation.
- Promote regional financial integration to expand investment opportunities, increase market efficiency, enhance liquidity and reduce transaction costs and risks.
- Strengthen the integration of GSSSB bonds with productive development policies to ensure proceeds finance high-impact sectors that drive decarbonisation, competitiveness and long-term economic transformation.
- Expand regional and international initiatives to provide technical assistance, risk-mitigation tools and capacity building for new GSSSB bond issuers, broadening market access and scaling sustainable investment.
- Develop and harmonise sustainable finance frameworks and taxonomies across LAC to enhance transparency, prevent green/SDG-washing and strengthen investor confidence in the region's capital markets.

Channelling FDI towards the objectives of production transformation

- Promote quality FDI towards long-term development objectives, ensuring investment contributes to production transformation, innovation, and sustainable growth.
- Promote FDI in renewable energy, leveraging instruments such as tax incentives, feed-in tariffs, standardised power purchase agreements and renewable energy auctions.
- Reinforce investment promotion frameworks by building stronger agencies, improving co-ordination across levels of government and fostering international co-operation to expand market size, diversify investors and broaden the base of recipient countries.
- Strengthen the enabling environment for FDI by reinforcing macroeconomic stability, upgrading infrastructure, investing in skills development, deepening financial markets and enhancing regulatory certainty.

Notes

¹ For LAC, the UNCTAD study focuses on 19 countries (LAC19). It covers 7 Central American countries – Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico and Panama; 3 Caribbean countries – the Dominican Republic, Haiti, and Jamaica; and 9 South American countries – Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela. In calculating the total cost of reaching Sustainable Development Goal (SDG) pathways, UNCTAD focuses on government spending but also considers other financing sources like foreign direct investment and official development assistance. The methodology emphasises the importance of government expenditure for achieving SDGs while acknowledging the role of private investment and external financing. It highlights the need for caution in interpreting results due to data limitations and assumptions, providing valuable insights into progress towards SDGs and identifying financing gaps for policymakers to address.

² Financing gaps by priority SDG area are based on (UNCTAD, 2023^[3]) estimates and represent average annual shortfalls. Since many of these gaps were calculated separately, they should not be summed to derive a total financing gap.

³ EATRs evaluate investment decisions at the extensive margin. They summarise the effect of taxation on the decision to invest in comparable but mutually exclusive projects, assuming that investment projects earn economic rents over their lifetime. The EMTR measures the tax burden on a project that is just breaking even before tax in order to evaluate investment decisions at the intensive margin, i.e. on how much to invest once the location or activity has been defined. For further details on the calculation of EATRs and EMTRs, see (Hanappi et al., 2023^[14]).

⁴ The study on tax incentives in LAC benefited from the financial support of the Spanish Agency for International Development Cooperation (AECID) in the framework of the activities aimed at improving fiscal systems in LAC.

⁵ In this case, public development banks do not include other national DFIs. The broader category of national DFIs encompasses a wide range of financial institutions, including public development banks, guarantee funds and others.

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4 International partnerships for production transformation

Latin America and the Caribbean face a decisive opportunity to shift towards resilient, knowledge-intensive production structures that underpin inclusive and sustainable growth. With public resources under pressure, it is vital to target co-operation on the three enablers of production transformation: skills development, infrastructure and technology adoption. At the same time, deepening regional integration and forging robust cross-border value chains will elevate value added across the region and boost its competitiveness. Achieving this transformation requires strategic international partnerships that mobilise public and private finance, foster capacity building and redirect investment into strategic sectors including renewable energy, digital infrastructure, health technologies and sustainable agriculture.

Introduction

Latin America and the Caribbean (LAC) faces an urgent need for production transformation to overcome structural limitations and reach sustainable development goals. The region's current economic model, which is heavily reliant on low-value-added exports, will not allow for sustainable economic growth or for a green transition. A shift towards more diversified, knowledge-intensive and environmentally sustainable industries is essential. International co-operation should strategically support sectors with high potential for structural change.

This is a crucial moment for LAC to advance towards a new development model that places production transformation at the centre of inclusive and sustainable growth. After decades marked by recurrent external shocks, limited diversification and high levels of inequality, the region must reposition itself in a global economy marked by the Fourth Industrial Revolution by building more resilient, innovative, inclusive and sustainable production systems. Achieving this transformation requires more than domestic reforms. It demands strategic international partnerships that mobilise resources, promote collaboration, capacity building and peer learning and foster innovation and technology transfer in support of structural change.

The transition to a more sustainable, inclusive and knowledge-intensive production structure in LAC requires a significant reorientation of investment flows and strengthened international co-operation. In a context marked by overlapping global crises, rising geopolitical tensions and an urgent need for climate action, the mobilisation of international finance – both through foreign direct investment (FDI) and development co-operation – has become increasingly important to accelerate the transformation of productive sectors across the region. Strategic sectors such as renewable energy, digital infrastructure, health technologies and sustainable agriculture offer new opportunities for competitiveness and innovation, while also serving as key pillars for a just transition and long-term resilience.

However, aligning international finance with the development needs and production transformation priorities of LAC economies remains a challenge. FDI flows to the region have historically been concentrated in low-complexity sectors, such as the extractive industries, limiting their contribution to structural change. But this is drastically changing as a growing share of FDI investments target the digital sector, playing an important role in the digital transition within the region. Development co-operation, both bilateral and multilateral, has also begun to pivot towards supporting transformative agendas – especially in areas such as climate, digitalisation and regional integration – but financing gaps persist. The evolving landscape of international development co-operation, including new donors and instruments, creates both opportunities and complexities for countries in the region seeking to strengthen productive capacities.

The next wave of productive development policies in LAC must take into account regional partnerships. These policies must be built on a clear, shared vision by governments, international financial institutions and the private sector, working together to map out sector-by-sector strategies, create technology hubs and train local workforces. In this new phase, international co-operation needs to move from broad support to more focused partnerships that will drive the region's sustainable, knowledge-based growth.

International finance and development co-operation for the production sectors

International partnerships and co-operation remain a key instrument for fostering LAC's production transformation, yet public resources are under growing pressure. Official development assistance (ODA) from major donors fell by 9% in 2024 and is projected to decline by a further 9-17% in 2025, marking the first back-to-back cuts on record (OECD, 2025^[1]). This downturn in concessional funding heightens the urgency of mobilising alternative financing mechanisms, leveraging blended instruments and deepening public-private partnerships to sustain investment in the region's production sectors. By combining these

innovative approaches with targeted support from partners, LAC can navigate tightening budgets while accelerating structural change.

Current trends in development co-operation to foster economic transformation

Financial resources are crucial for transforming LAC's production structure. Yet the region faces a persistent savings-investment gap, with domestic savings falling short of the resources needed. An estimated total of USD 2.2 trillion is required to close the infrastructure investment gap, with USD 99 billion annually needed to bridge the spending gap for meeting the Sustainable Development Goals (SDGs) (OECD et al., 2024^[2]; CAF, 2024^[3]). These financing gaps are significant structural challenges constraining the region's development and economic growth, as well as the green transition.

FDI, which plays a key role in developing critical sectors at the heart of production transformation, is a vital source of capital for bridging the investment gap. Between 2014 and 2024, the LAC region received more than USD 1 trillion in greenfield FDI. Historically, many of these flows have gone to the extractive sectors, such as mining and quarrying (22% from 2003-2013), but greenfield FDI to this sector dropped sharply in the last decade, representing just 13% of total greenfield investments. Meanwhile, investments have increased to priority areas such as technology and knowledge-intensive sectors and renewable energy. Over the last two decades, the share of greenfield FDI to technology and knowledge-intensive sectors rose from 33% to 36%, largely driven by medium-high tech manufacturing in chemicals and motor vehicles, and increased in renewable energy by ten percentage points, to 16% of total greenfield investments (OECD, Forthcoming^[4]). However, these regional averages mask important heterogeneities across LAC, with some countries experiencing more drastic shifts than others in FDI flows to sectors critical for production transformation (Chapter 3).

FDI serves as a means to diversify domestic production and exports, gain access to advanced technologies, boost competition and bolster national capacities (ECLAC, 2024^[5]). A prime example is Costa Rica, where targeted FDI allowed for an upgrading of production from light manufacturing, such as food and beverages, to high-tech manufacturing in medical devices and pharmaceuticals (Box 4.1).

Box 4.1. Foreign direct investment as a catalyst for upgrading medical technology production in Costa Rica

Costa Rica is a global manufacturing hub for medical devices. Home to more than 90 multinational medical technology (medtech) companies, it is Latin America's second-largest medical device exporter and the eighth largest in the world. The country's investment promotion agency, PROCOMER, has been a strategic force in attracting FDI in high-value-added sectors such as medtech. Major pull factors for companies investing in Costa Rica's medtech sector include its highly skilled talent pool, large innovation abilities, political and economic stability, well-defined regulatory frameworks, high standards of intellectual property protection and the country's geostrategic location, which allows for easy access to North and South America.

One of the strongest pull factors is the country's pool of employees with specialised skills for medical device manufacturing. This talent pool was created thanks both to foreign firms, which provided initial training, and to strategic government programmes to build technical abilities within the sector. The presence of multinational medtech leaders has resulted in large knowledge transfers over the past two decades. In fruitful private-public partnerships between medtech companies and academia, medtech firms have helped shape curricula for future engineers and technicians within the industry and have donated technological equipment to universities to ensure that students are trained with the latest technologies. Costa Rica is the first and only country in LAC to have a specific law on dual vocational

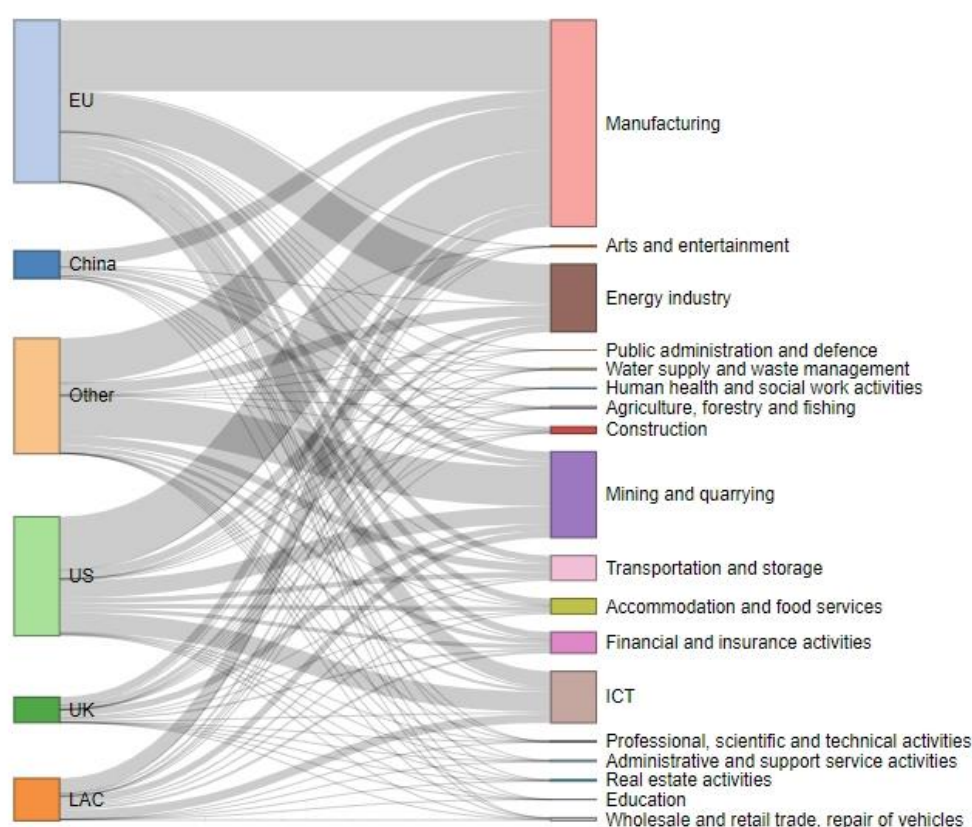
training that strengthens the development of skills linked to practical training in the productive sector and promotes skilled labour market integration.

FDI within this knowledge and technology intensive sector has been a catalyst for economic growth and job creation in Costa Rica. More than 55 000 new jobs have been created, most of them skills-intensive. Ten of the 90 multinational medtech companies conduct research and development (R&D) in Costa Rica, creating a thriving R&D environment within the country. Costa Rica's targeted FDI strategy, which resulted in nearly USD 2.7 billion in greenfield investments within the medical device manufacturing industry between 2005 and 2024, has been vital to the country's upgrading of production.

Source: (OECD, Forthcoming^[4]).

Attracting greater flows of FDI could boost resilient, diversified growth and support regional value-chain development across the region. Over the last two decades, the largest sources of greenfield FDI have originated from the European Union (EU) and the United States (US) (Figure 4.1).

Figure 4.1. Greenfield foreign direct investment inflows to LAC by origin and sector, 2003-2024



Source: (fDi Markets Database, 2025^[6]).

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International investment agreements (IIAs) – bilateral, regional and multilateral treaties related to foreign investment – can help to ensure not only that more FDI is attracted but also that it is aligned with broader

development objectives. As of May 2025, more than 490 bilateral investment treaties and treaties with investment provisions were in force in LAC (UNCTAD, 2025^[7]).

IAs, which have traditionally focused on providing protection and incentives to foreign investors, are increasingly incorporating provisions related to sustainability. For instance, the EU-Chile Advanced Framework Agreement, signed in December 2023, emphasises sustainable investment in critical raw materials essential for the green transition, thereby supporting production transformation and value addition in Chile's economy. The agreement also strengthens co-operation on sustainability, aligning with principles of responsible business conduct (European Union, 2025^[8]). Similarly, the EU-Mexico Modernised Global Agreement will promote the protection of climate and labour rights as well as will facilitate the supply of material vital for the digital and green transition. The negotiations on the agreement were concluded in 2025, and once ratified, it will ease the trade of agricultural products by reducing custom duties and protecting heritage products (European Commission, 2025^[9]). A text analysis of 2 083 bilateral investment treaties and 374 treaties with investment provisions worldwide reveals that the number of sustainability references in IAs has dramatically increased in the last decade, resulting in the emergence of a “new generation” of IAs (Dotzauer, Biber-Freudenberger and Dietz, 2024^[10]).

Provisions on sustainable investment in IAs help leverage FDI to promote national development objectives. Sustainability provisions include references to the role FDI plays in sustainable development and “right to regulate” provisions, which give host countries the right to adopt measures that protect the environment and human and labour rights. Some provisions may also address tools to support sustainable development. For example, in some treaties, investors must be actively contributing to sustainable development in the host country for investments to be protected by the host government.

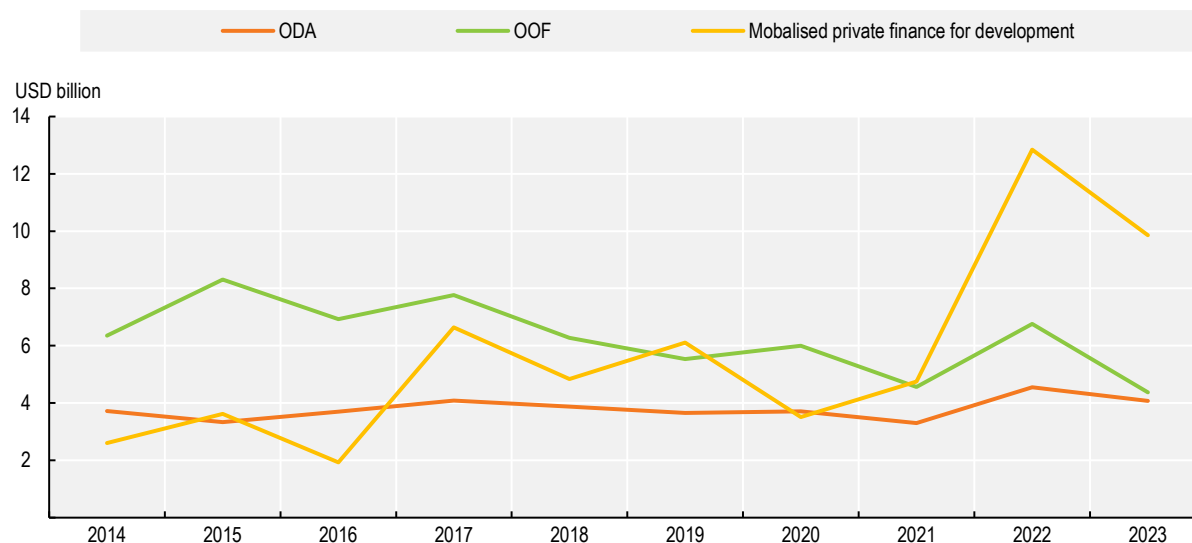
These new-generation IAs are increasingly incorporating responsible business conduct by referencing corporate social responsibility standards or explicitly stating the conduct that businesses must follow in the implementation of their investment activities. For example, Brazil's Co-operation and Facilitation Investment Agreements address investor behaviour expectations, including human rights compliance, combatting corruption, good governance, and labour and environmental protection. Free trade agreements and economic partnership agreements involving the European Union have specific clauses under which signatories agree not to lower protection levels in environmental and labour laws for the purpose of attracting trade and investment (OECD, 2024^[11]).

ODA can help bridge investment gaps, but its volume in the region remains limited, representing merely 1% of gross national income (GNI) across LAC. The region receives less ODA than other developing regions mainly because many LAC countries are classified as middle-income, limiting their eligibility for concessional financing. In comparison, ODA represents 2.6% of GNI in Eastern Europe and as much as 5.7% of GNI in Africa (OECD et al., 2024^[2]). The largest ODA donors to LAC include EU countries and institutions (30.5%), multilateral institutions (29.0%), the United States (22.6%), South Korea (7.5%) and Canada (3.0%) (OECD, 2025^[12]).

The shift in development co-operation from traditional aid models to mobilising finance from the private sector reflects the scale of financing required to achieve the SDGs and the growing recognition that public resources alone are insufficient. At the same time, donors are increasingly experiencing domestic fiscal pressures and intensified political and public scrutiny of development assistance. For these reasons, development partners are increasingly using ODA as a lever to de-risk investments, support blended finance mechanisms and attract private capital into sectors such as infrastructure and clean energy (OECD et al., 2024^[2]; European Commission, 2023^[13]). Blended finance is the use of public capital to increase private-sector investment in sustainable development. It works by de-risking investments that are otherwise considered too risky or not financially viable for private investors, especially in emerging markets. These public interventions aim to mitigate risks and scale-up or enhance returns, thereby encouraging private investors to fund projects aligned with SDGs in order to narrow the financing gap (OECD, 2023^[14]).

Mobilised private finance for development has played a larger role than ODA in LAC in recent years, emerging as an important source of finance for production transformation (Figure 4.2). The production sectors involved include agriculture, forestry, fishing, energy, construction, industry, mineral resources and mining, water and sanitation, transport and storage, and tourism. Within these sectors, mobilised private finance for development amounted to more than USD 9.8 billion in 2023, representing 51% of total mobilised private finance for development. This is more than double the USD 4.1 billion received in ODA (29% of total ODA) or the USD 4.4 billion received in other official flows (OOF) (17% of total OOF).

Figure 4.2. Official flows to the production sectors in LAC, 2014-2023



Note: ODA = official development assistance and OOF = other official flows. Production sectors include agriculture, construction, energy, fishing, forestry, industry, tourism, mineral resources and mining, water supply and sanitation, transport and storage, and others.

Source: (OECD, 2025^[12]).

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Assistance from development co-operation partners reflects this shift. Most notably, European partners have become an important leader in mobilising private finance. In 2017, the European Fund for Sustainable Development (EFSD+) was established to facilitate investments for sustainable development using blending mechanisms, guarantees and other financial instruments. In July 2023, the EU-LAC Global Gateway Investment Agenda (GGIA) was launched in the context of the III EU-Community of Latin American and Caribbean States (CELAC) Summit. It aims to mobilise at least EUR 45 billion by 2027 for initiatives that focus on addressing the region's infrastructure needs, creating local added value and promoting growth, jobs and social cohesion (OECD et al., 2024^[2]). In light of this development, EU ODA now aims to serve primarily as a catalytic instrument to boost transformational impact in the sectors and actions prioritised by the EU-LAC GGIA, where concessional funds are blended with private capital to promote sustainable investments in energy, transport infrastructure, digital connectivity, health and social cohesion projects. The GGIA is based on a 360-degree approach, placing beneficiaries in the centre of the design and promoting public private and civil society collaboration (European Commission, 2025^[15]). It goes beyond mere financial support by creating an enabling environment following six core pillars (Figure 4.3).

Figure 4.3. EU-LAC Global Gateway 360-degree approach for an enabling environment



Source: (European Commission, 2025^[16]).

The EU-LAC GGIA targets transformative investment projects across LAC revolving around four key pillars: a fair green transition, inclusive digital transformation, human development, and health resilience and vaccines (European Commission, 2023^[13]). Two notable initiatives are in green hydrogen markets and in local vaccine and pharmaceutical manufacturing (Box 4.2).

Beyond traditional bilateral and multilateral donors, regional development banks are increasingly central to mobilising resources for production transformation. Institutions such as the Inter-American Development Bank and the Development Bank of Latin America and the Caribbean (CAF) are expanding their use of mobilisation instruments including guarantees, syndicated loans and concessional co-financing to attract private investment into sectors critical for LAC's production transformation, such as renewable energy, digital infrastructure and sustainable transport (CAF, 2025^[17]; IDB, 2025^[18]). These initiatives reflect a broader global trend in development co-operation, whereby concessional ODA is strategically employed to de-risk projects and catalyse additional private capital, notwithstanding that current levels of private sector participation remain below estimated requirements (OECD, 2025^[19]). Within this context, CAF has reinforced its role as a regional financial catalyst, in line with joint commitments under the MDB (Multilateral Development Bank) Task Force on Mobilization, mobilising USD 780 million for LAC in 2023 (MDB Task Force on Mobilization, 2023^[20]). Building on this framework, regional development banks complement the role of traditional donors by providing structured platforms and deploying financial instruments that facilitate private sector engagement in sectors critical for production transformation, thereby contributing to the development of more resilient production systems and supporting conditions that may enable long-term sectoral structural improvements.

Box 4.2. How European Union investment boosts green hydrogen and vaccine and pharmaceutical manufacturing in LAC

Renewable hydrogen markets

LAC countries are increasingly embracing renewable energy solutions to drive the region's green transition. Under the GGIA's green transition pillar, support for green hydrogen (GH2) aims to accelerate decarbonisation, generate green jobs and unlock new business opportunities. The EFSD+, one of the main tools for mobilising investments under Global Gateway, provides financing for blending and guarantees for the renewable energy transition. Most of the 17 Guarantee Agreements covering the LAC region are now signed or close to signature. Renewable hydrogen can be promoted through the European Development Finance Institutions (EDFI) Renewable Energy Transition (RET) Guarantee Agreement, signed in May 2025 and open for investments until November 2027 (European Commission, 2025^[21]). The project aims to address the gap related to energy access in LAC, as well as in sub-Saharan Africa, Asia and the Pacific. Globally, it offers a total guarantee of up to EUR 332 million in those regions for sustainable direct and indirect debt and equity investments into renewable energy sub-sectors, such as wind, solar, hydro, biomass and geothermal, and the green hydrogen value chain. It supports private enterprises through the construction and implementation phases of the investments.

There are already various examples of EU-LAC partnerships focusing on renewable hydrogen within the framework of the Global Gateway Investment Agenda. In Chile, for instance, the Global Gateway Renewable Hydrogen Fund was established to promote renewable hydrogen markets and foster local supply chains to create renewable energy for both local use and exportation. The goal is to produce 150% of the existing global hydrogen market and 15% of future demand in 2050. In addition to creating an enabling environment for GH2 production and providing technical assistance, this initiative aims to facilitate private-sector investment through blending and/or investment de-risking mechanisms (European Commission, 2023^[13]). Similar projects supporting renewable hydrogen are being carried out in Argentina, Brazil, Colombia, Paraguay and Uruguay. In the Caribbean, the European Union and Barbados have taken an important step with the launch of the Renewstable Barbados project, which uses solar power as well as green hydrogen to address weaknesses in the island's infrastructure, and further collaborations are being explored to move towards a sustainable energy future (European Commission, 2025^[22]).

Vaccine and pharmaceutical manufacturing

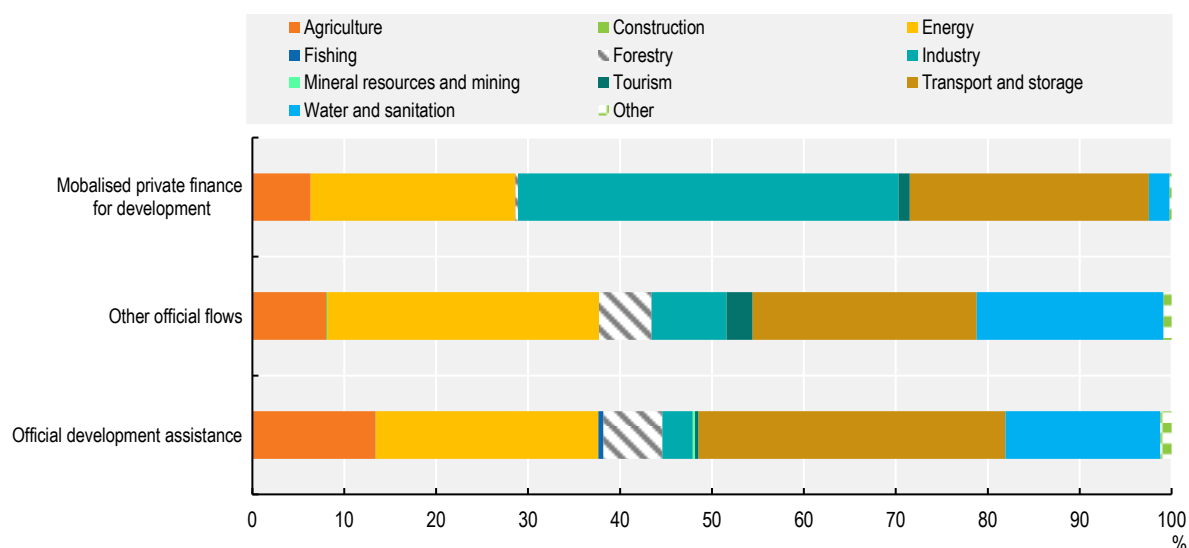
GGIA is also supporting vaccine and pharmaceutical manufacturing in LAC through the GGIA EU-LAC Initiative for Regional Health Resilience, building on the EU-LAC Partnership on Health Resilience and Equitable Access to Health Products presented jointly in 2022. GIGA provides support for regulatory frameworks, technology transfers, and research and innovation. A key pillar of the initiative is to promote private-sector engagement and facilitate access to finance. The regional pharma working group met in March 2025 to discuss private-sector engagement, and next steps are being discussed jointly with LAC representatives. Via the EFSD+, instruments like guarantees and blending are made available to de-risk and encourage investment in pharmaceutical manufacturing primarily across LAC. Overall, actions are expected to be focused on, but not limited to, key countries such as Barbados, Colombia, Cuba, Guyana and Mexico for local production and regulatory reforms, as well as Argentina, Brazil and Chile for regional integration and capacity-building.

Source: (European Commission, 2023^[13]).

Similarly, the United States established the Development Finance Corporation in 2018, increasing the importance of private finance in US development co-operation. However, US development policy is set to undergo significant realignment following a government decision in early 2025 to freeze foreign assistance. Policy makers will likely reassess the geographic and sectoral allocation of ODA, scaling back support in lower-priority regions while safeguarding critical humanitarian and security programmes (Better World Campaign, 2025^[23]). This freeze has put pressure on country teams to redesign initiatives for greater cost-effectiveness and to deepen partnerships with the US Development Finance Corporation, which can mobilise private capital in lieu of direct grants (International Rescue Committee, 2025^[24]). A sharper focus on leveraging blended finance and guarantee mechanisms is expected to help sustain investment in production sectors despite tighter federal budgets.

The United States and the European Union target their development assistance to LAC towards renewable energy, industry, agriculture, transport and storage, and water and sanitation. Over the last decade, more than 46% of US ODA to the production sectors has been directed towards agriculture, 21% towards the energy sector and 16% towards water supply and sanitation. A large share of ODA from EU countries and institutions goes to energy (29%), followed by transportation and storage (20%), water supply and sanitation (20%) and agriculture (19%) (OECD, 2025^[25]). The sectoral distribution is different with OOF that do not meet ODA criteria, such as loans for commercial purposes, transactions for development purposes that have a grant element of less than 25% and bilateral transactions that primarily facilitate exports (OECD, 2025^[25]). The majority of OOF from the United States is directed towards the energy sector (73%), followed by 14% towards transportation and storage, while 39% of OOF from EU countries and institutions is allocated to energy and 36% goes to industry (OECD, 2025^[25]). Looking at development assistance from all official donors within the production sectors, private finance for development is mainly financing industry (41%), transport and storage (26%) and energy (22%) (Figure 4.4). OOF and ODA mainly finance transportation and storage (24% of OOF and 33% of ODA), the energy sector (30% of OOF and 24% of ODA), as well as water and sanitation (20% of OOF and 17% of ODA).

Figure 4.4. Share of official flows to LAC by production sector, 2023



Note: Other includes trade policies and regulations.

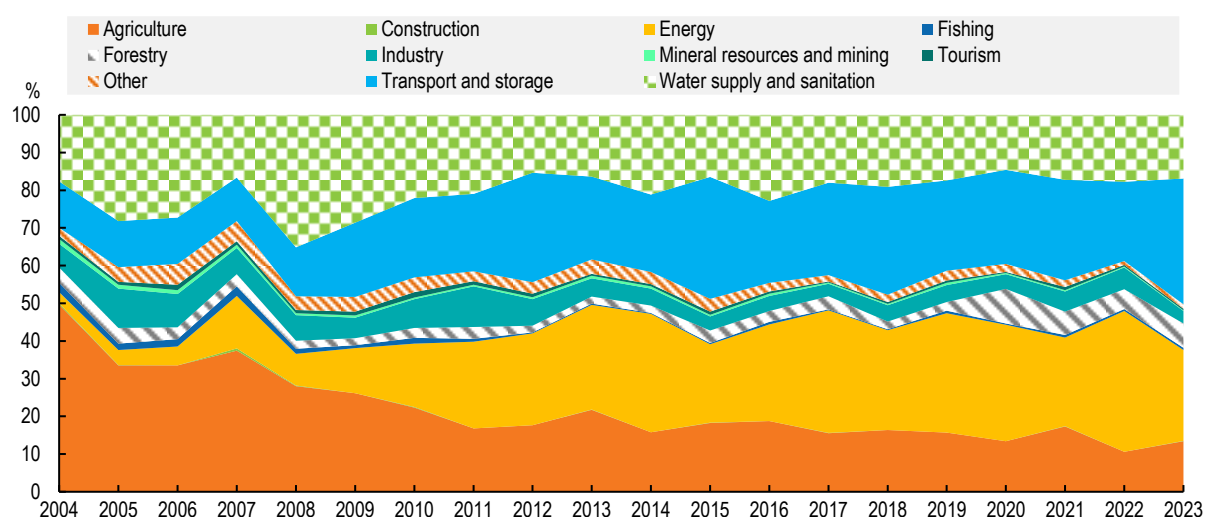
Source: (OECD, 2025^[12]).

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There is a growing emphasis on funds allocated to contribute to sustainable production transformation, with a large amount going to renewable energy. This is crucial since transitioning to a low-carbon economy requires the mobilisation of significant financial resources. LAC requires annual estimated investments of USD 75-92 billion for climate mitigation and USD 14-17 billion for climate adaptation (IMF, 2024^[26]).

ODA continues to be a catalyst for financing sustainable production transformation in LAC. Between 2014 and 2023, almost USD 24 billion in ODA was channelled to LAC's energy sector, with one-third of these funds supporting renewable energy (OECD, 2025^[12]). The energy sector now accounts for 24% of ODA directed to the productive sectors, up from merely 3% in the early 2000s, and the share of ODA to the agricultural sector has decreased significantly (Figure 4.5). Supporting investment in renewable energy and innovative agriculture will be essential to reducing emissions. In 2019, LAC accounted for 13% of total greenhouse gas (GHG) emissions in electricity generation and 25.3% of total GHG emissions in agricultural activities (OECD et al., 2022^[27]).

Figure 4.5. Official development assistance received in LAC by production sector, 2004-2023



Note: Other includes trade policies and regulations. The figure is representative of the sectors selected as part of the production sectors for this report. Sectors correspond to the sectors in the OECD CRS database.

Source: (OECD, 2025^[12]).

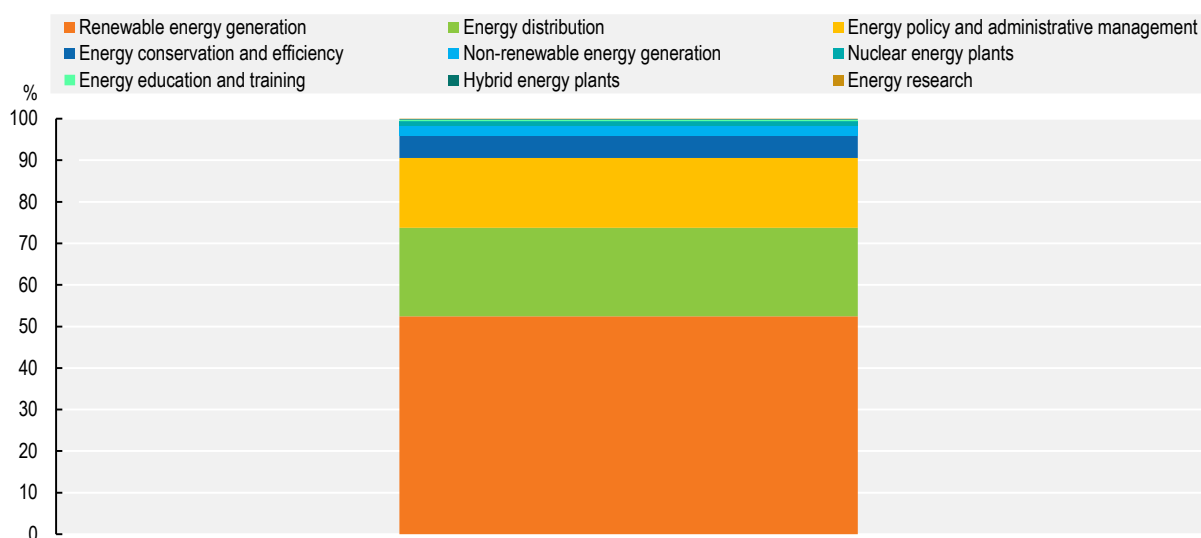
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LAC is one of the most vulnerable regions in the world with respect to climate change, and innovation in green energy and agriculture will be essential in mitigating climate shocks and protecting the region's economies. LAC is home to 13 of the world's 50 countries identified as most affected by climate change. The region's vulnerability is reflected in the extreme weather events that LAC has endured. From 1970 to 2022, 17% of the world's climate-related extreme weather events occurred in the region, with severe social and economic consequences. If global temperatures increase by 2.5°C, this could cause an estimated loss of 1.5% to 5% of the region's gross domestic product (GDP) by 2050 (OECD et al., 2022^[27]). For this reason, investment in sustainable production transformation is crucial to LAC's economic growth.

Between 2014 and 2023, ODA within the energy sector was largely focused on supporting renewable energy generation (Figure 4.6). During that period, 52% of total energy-related ODA (USD 7.9 billion) was allocated to renewable sources, including hydro, solar, wind, marine, geothermal and biofuel energy; 21% (USD 3.2 billion) went to energy distribution infrastructure, and nearly 17% (USD 2.5 billion) supported energy policy development and administrative management. This concentration of funding reflects the

capital-intensive nature of the energy sector, where substantial investment in infrastructure is required. In contrast, only USD 10 million of ODA was allocated to energy research over the past two decades, revealing a significant gap in support for innovation and technological advancement (OECD, 2025^[12]).

Figure 4.6. Total official development assistance to the LAC energy sector from 2014 to 2023



Source: (OECD, 2025^[12]).

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International development assistance plays a crucial role in helping countries achieve their development and industrial goals. However, its effectiveness depends largely on how well it aligns with national development priorities. Alignment reinforces domestic efforts, enhances impact and ownership, builds mutual accountability and ultimately ensures long-term sustainability. The importance of aligning development assistance with national priorities was formally recognised in the Rome Declaration on Harmonisation (2003) and reinforced in subsequent high-level agreements such as the Accra Agenda for Action (2008) and the Busan Global Partnership for Effective Development Co-operation (2011), as well as during meetings of the Global Partnership for Effective Development Co-operation (GPEDC), which have been held every two years since 2014. These global forums underscore that financial aid alone is insufficient and that effective development co-operation requires that donor practices prioritise alignment and partnership to support sustainable outcomes.

A case study of Brazil, Colombia and Mexico – three of the top four recipients of global ODA in LAC – can help to assess how well international aid supports national objectives for production transformation. A common thread in the development strategies of these countries is a focus on expanding renewable energy and increasing investment in R&D to boost innovation, productivity and value addition in goods and services. While ODA has strongly supported the renewable energy goals of these countries, there is a noticeable gap in funding for R&D, which is an essential enabler of sustainable development (Box 4.3).

Box 4.3. Official development assistance alignment with development and climate priorities: Brazil, Colombia, Mexico

Brazil

Brazil's Multi-Year Plan 2024-27 is built around three strategic pillars, one of which – Economic Development and Social-Environmental and Climate Sustainability – is directly tied to production transformation. Objectives in this pillar include increasing competitiveness and productivity, value addition of goods and services, environmental sustainability, scientific technological development and innovation, infrastructure and logistics, and insertion in the green and digital economy (Ministry of Planning and Budget, 2023^[28]). Brazil has set ambitious targets to support this transformation. It aims to increase the share of clean and renewable energy to 53% by 2027, up from 47% in 2022, and to increase R&D investment to 1.5% of GDP, compared to 1.14% in 2022, the baseline year. From 2014 to 2023, Brazil's energy sector received or 20% of the country's total ODA. Of this, 67% was directed to renewables and 28% to energy distribution, reflecting strong alignment between previous ODA disbursements and Brazil's current goals. However, ODA to R&D has been declining in recent years.

Colombia

Production transformation, internationalisation and climate action form one of the five pillars of Colombia's National Development Plan 2022-2026. Key objectives under this pillar include increasing investment in R&D, augmenting the share of non-mining energy goods and services in total exports, expanding electricity generation from non-conventional renewable energy sources and reducing carbon emissions from the transport sector (Departamento Nacional de Planeación, 2023^[29]). Colombia aims for a nearly eightfold increase in electricity generation from non-conventional renewable energy sources. However, from 2014 to 2023, less than 3% of ODA was directed to Colombia's energy sector. Of the USD 444 million received, 32% supported renewable energy generation and infrastructure, while 65% went to energy policy and administrative management, highlighting the need to increase commitments for renewables. In terms of R&D, Colombia plans to double its spending, from 0.3% to 0.5% of GDP. ODA for R&D has been minimal, representing less than 0.01% of ODA received from 2014 to 2023.

Mexico

Two of the four axes of Mexico's National Development Plan 2025-2030 – “moral economy and work” and “sustainable development” – place a strong emphasis on the country's productive sectors. These axes highlight areas critical to driving production transformation, such as prosperity and connectivity, and sustainable energy. The prosperity and connectivity sub-pillar focuses on increasing the value added of exports; improving productivity, competitiveness and innovation; and expanding infrastructure and logistics. The sustainable energy sub-pillar calls for significant new investments in power transmission and generation alongside an ambitious goal for Mexico's energy to come from clean sources by 2030 (Diario Oficial de la Federación, 2025^[30]). A mixed picture emerges when evaluating the alignment of past ODA disbursements with the national development plan's priorities in terms of production transformation – particularly innovation, transportation infrastructure and renewable energy. From 2014 to 2023, ODA to R&D in Mexico was only 0.3% of total ODA received over this period. The transportation sector, despite being critical for connectivity and competitiveness, received less than 0.01% of total ODA. In contrast, of the 24% of total ODA that has gone to the energy sector, more than 50% went to renewable energy generation, while almost 24% supported energy conservation and efficiency; 20% energy policy and administrative management, and 7% went to energy distribution (OECD, 2025^[12]).

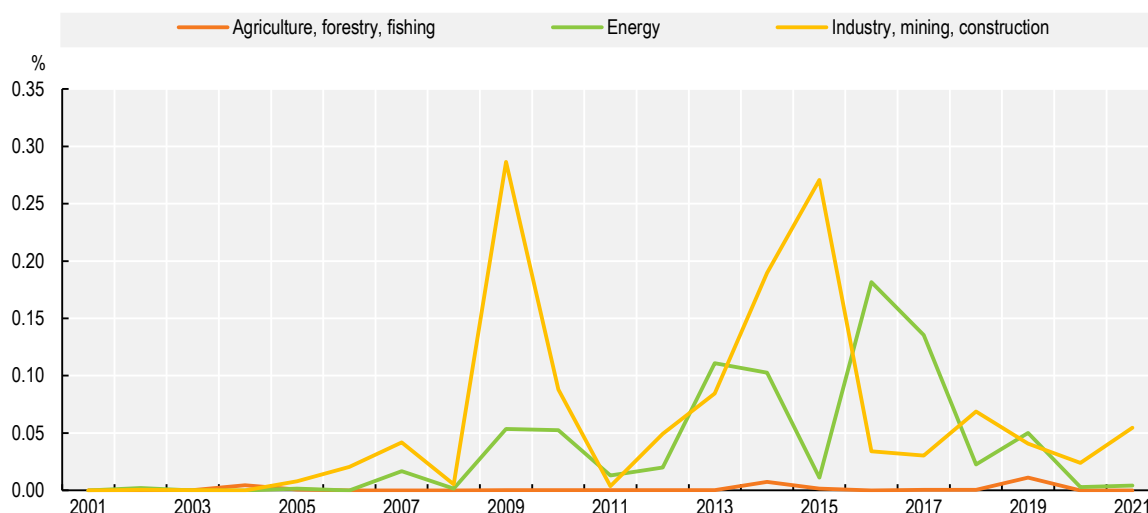
Alignment from the private sector is also crucial. After explicit recognition in the Busan Partnership in 2011 of the importance of the private sector for development, the Kampala Principles were established during the GPEDC Senior-Level Meeting in 2019. These principles promote ownership of private-sector engagement and ensure the alignment of private-sector engagement with national sustainable development objectives. The five principles are i) inclusive country ownership; ii) results and targeted impact; iii) inclusive partnership; iv) transparency and accountability; and v) leaving no one behind (GPEDC, 2025^[31]). These principles recognise the key and ever-growing role that private actors hold in meeting development goals.

Over the last decade, total private finance mobilised by official development finance interventions globally has increased more than fourfold, from USD 16 billion in 2012 to USD 67 billion in 2023. This growth has been largely driven by MDBs (OECD, 2025^[32]). However, despite these efforts, the funds mobilised remain insufficient to meet development needs, and substantial additional efforts are required to fully leverage the potential of private capital. In this context, catalytic technical assistance has emerged as an under-recognised central instrument. It expands on traditional technical assistance by focusing on systematic change to the landscape on which private investment occurs. Examples include institutional capacity building or strengthening regulations. Catalytic technical assistance's effects are future-oriented and difficult to quantify yet are essential as foundations for mobilising private finance aimed at sustainable development (Callum and Raitery, 2025^[33]).

International conferences on financing for development have offered an important platform for addressing complex development financing challenges. The Third International Conference on Financing for Development (FfD3), held in Addis Ababa in 2015, adopted the Addis Ababa Action Agenda (AAAA). This agenda asserts the importance of all sources of finance, including from the private sector, to meet development goals and emphasises the importance of blended finance mechanisms (UN, 2015^[34]). This year, the Fourth International Conference for Financing for Development in Seville established the SCALED platform to scale up blended finance. The creation of this platform was led by a coalition of countries (Canada, Denmark, France, Germany, South Africa and the United Kingdom) and financial institutions in the aim of establishing effective and scalable blended finance instruments and funds to address development challenges (UN, 2025^[35]). CAF, in collaboration with the European Commission and the Inter-American Development Bank (IDB), has closely monitored progress since the III EU–CELAC Summit, held in Brussels in July 2023, and the inaugural meeting of Ministers of Economy and Finance in Santiago de Compostela in September 2023.

Partners such as the People's Republic of China's Belt and Road Initiative (BRI), launched in 2013, have shown a new type of development co-operation focusing on leveraging investments for trade networks and infrastructure. Chinese co-operation with LAC within the production sectors is primarily focused on industry, mining and construction, and energy, while more traditional sectors such as agriculture receive limited support. Chinese co-operation is primarily carried out through the China Development Bank and the Export-Import Bank of China. Chinese flows have been volatile, peaking at more than USD 14 billion in 2015 before declining to just USD 3 billion in 2021 (Figure 4.7). Between 2005 and 2020, nearly 45% of China's loans to the region were directed to Venezuela, amounting to almost USD 60 billion, with debt repayments arranged through oil exports. However, oil production in Venezuela dropped drastically in 2010 and again in 2016, and China's investment in the region has declined. Brazil and Ecuador, which are also major oil producers, have received Chinese loans amounting to USD 31 billion and USD 18 billion, respectively, since 2007. China also financed approximately USD 17 billion in large infrastructure projects in Argentina, including railways and metro lines (IEA, 2023^[36]).

Figure 4.7. Chinese commitments to production sectors in LAC as a share of gross national income, 2001-2021

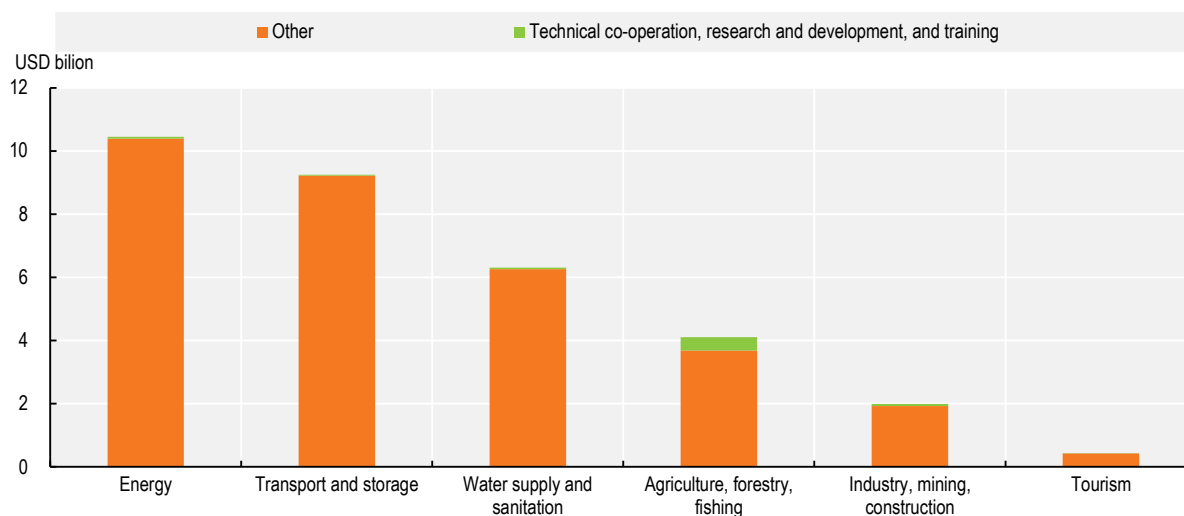


Source: (Aiddata, 2023^[37]).

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As noted above, the key sectors for production transformation in LAC are the pharmaceutical and life sciences industry, the medical devices manufacturing industry, advanced manufacturing and renewable energy (ECLAC, 2024^[38]).

Figure 4.8. Total official support for sustainable development allocated to the LAC production sectors by type of support, 2019-2023



Note: Technical co-operation includes in-kind technical co-operation expert costs, travel-related costs, services, materials, equipment and supplies, and other technical co-operation. Training refers to training offered in the donor country. Other includes projects; contributions to specific purpose programmes and funds managed by implementing partners (excluding self-benefit); budget support; and core support to non-governmental organisations, other private bodies, public-private partnerships and research institutes.

Source: (IFT, 2025^[39]).

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Developing these industries will require significant capacity building. In terms of how total official support for sustainable development is allocated, technical, R&D and training support remain very limited (Figure 4.8). This misalignment suggests a need for a strategic shift in how official support is allocated and how partnerships are designed. It is important for partners and international financial institutions to increase official support for technical co-operation and R&D in order to boost productivity and innovation, two essential factors for propelling production transformation.

Investment in the skills of the working population is essential for transitioning to high-value-added activities and overcoming the middle-income trap. Currently, LAC lags behind OECD countries in terms of employment in high-value-added sectors that require high and medium-high R&D capacity. In Chile, Ecuador and Peru, the share of employment in these sectors is less than 1%, and in Mexico, it is just under 2%, while the OECD average is 3%. In these four countries, when looking at the level of skills required by occupations, only 20% of the labour force is employed in skilled occupations on average, compared to 36% on average in OECD countries. An insufficient level of skills development is an important constraint on scaling up investment in R&D. The low skills level is often cited as a business constraint by employers (OECD, 2023^[40]). More than 37% of employers surveyed in LAC mention the skills gap as a primary obstacle to raising employment and boosting productivity. The skills gap constraint was cited by 68% of employers in Brazil, 40% in Costa Rica and 38% in both Mexico and Panama (Flórez and Jayaram, 2016^[41]).

Channelling international co-operation to key production transformation enablers

Three key enablers are essential for driving production transformation in LAC: skills development, technology adoption and infrastructure development. These pillars are critical for boosting productivity, increasing domestic value added and enabling deeper integration into global value chains. Skills development equips the workforce with the competencies needed for higher-value tasks and sectoral upgrading. Technology adoption fosters innovation and supports the shift towards more knowledge-intensive production. Infrastructure development, particularly in transport, energy and digital networks, facilitates market access and the efficient movement of goods, services and ideas. Prioritising international co-operation with these three key enablers will ensure that external funding is channelled effectively towards sectors with the highest potential to accelerate transformation and competitiveness across the region.

International support for skills can unlock LAC's production potential

Skills development is the first key enabler for production transformation. LAC faces persistent challenges related to low productivity. Over the last two decades, output per hour worked in the region has remained stagnant at USD 20 (purchasing power parity), while labour productivity increased in Eastern Asia by nearly 300% and in Eastern Europe by almost 160% (ILO, 2025^[42]). A fundamental factor behind the region's stagnant labour productivity is the underdevelopment of human capital.

In 1990, LAC's labour productivity was equivalent to 46% of the average productivity of OECD countries, while in 2023 this proportion decreased to 37%. Compared to the United States, the decline has been even more pronounced, falling from 36% to 27% over the same period. The evolution of relative productivity with respect to the group of emerging and developing countries has been even more dramatic: if in 1990 LAC's labour productivity was 2.7 times higher than that of this group, by 2023 it barely reached 1.2 times higher (CAF, 2025^[43]).

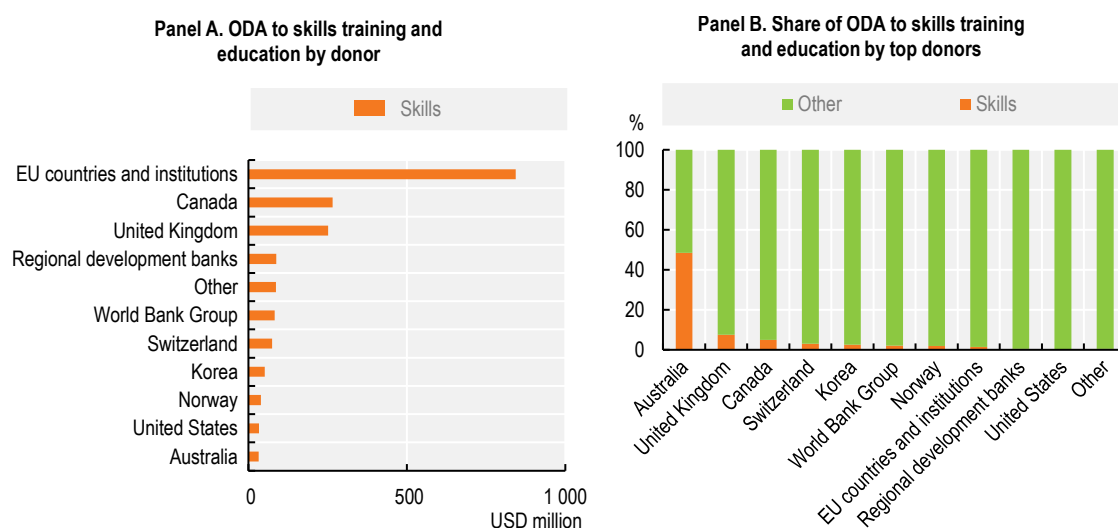
While access to education has expanded across LAC, the quality and relevance of learning outcomes have not kept pace. The higher educational attainment of children compared to their parents is not reflected in relative upward mobility in terms of educational levels or opportunities in the labour market. This may suggest that the region's economic structure is not effectively absorbing or rewarding these higher educational levels or that the educational progress achieved has not been truly sufficient (CAF, 2022^[44]). As a result, significant skill mismatches persist, hindering the region's ability to foster innovation and

upgrade its production structure (ECLAC, 2024^[38]). As countries transition from low-productivity sectors to more sophisticated industries, a skilled workforce becomes critical for adopting new technologies, fostering innovation and meeting the evolving demands of emerging sectors.

Building a skilled workforce is key not only for productivity gains but also for attracting quality investments and integrating local firms into global value chains. In LAC, the potential of human capital has not been fully realised, largely due to the low technological complexity and sophistication of the region's production structures (ECLAC, 2024^[38]). Only 32% of manufacturing value added produced in LAC is in medium- and high-tech goods. This is well below the upper-middle-income country average of 45% (UNCTAD, 2024^[45]).

This lack of sophistication in production is partly a reflection of low expenditure on R&D in LAC, where average spending on R&D has hovered between 0.5% and 0.6% of GDP for more than two decades (2000-2022). Over the same period, average expenditure on R&D increased from 0.6% to 2.0% of GDP in upper-middle-income countries and from 1.0% to 2.7% in Eastern Asia (World Bank Group, 2025^[46]). Underinvestment in R&D is reflected in the region's low levels of innovation. In 2020, only slightly more than 50 000 patent applications were filed in LAC, of which only 8 000 originated from LAC residents, while the rest were from non-residents (World Bank Group, 2025^[46]).

Figure 4.9. Top official development assistance donors for skills training and education in LAC, 2014-2023



Note: ODA = official development assistance and EU = European Union. Skills training and education includes teacher training; vocational training; advanced technical and managerial training; medical education and training; education and training in water supply and sanitation; transport and storage; information communications technology, telecommunications and media; energy; agriculture; forestry; fisheries; the environment; and multisector education and training.

Source: (OECD, 2025^[12]).

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Despite the relatively small share of international assistance for skills and training in overall ODA to LAC, the assistance received has been highly concentrated and strategically significant. Between 2014 and 2023, donors channelled nearly USD 1.9 billion to LAC in support of skills and training initiatives across diverse sectors, such as information and communications technology (ICT), energy, agriculture, water and sanitation, and environmental services. The largest donors in absolute terms were European Union Members and institutions, which provided close to USD 850 million over the period, followed by the United Kingdom, Canada, Switzerland and the World Bank (Figure 4.9, Panel A). This reflects a sustained European commitment to human capital development in the region, particularly through vocational training,

education in ICT and technical fields, and teacher training. However, ODA allocation to skills education and training represents less than 0.05% of total ODA to the region for most donors. The only exception is Australia: assistance directed to skills education and training accounts for almost 50% of its aid flows to LAC (Figure 4.9, Panel B). These statistics highlight the importance of aligning ODA with LAC's needs for workforce modernisation, especially in a context of rising demand for green and digital skills. At the same time, the concentration of aid flows among a few donors signals the need for diversification and stronger regional ownership of skills strategies.

Targeted support is relevant for many LAC countries. In Colombia, for instance, building sector-specific capabilities is key to fostering inclusive and sustainable transformation. To respond to this need, the Norwegian Agency for Development Co-operation is currently investing nearly USD 1.4 million to strengthen skills in Colombia's coffee value chain, the country's largest agricultural activity. The initiative focuses on overcoming key bottlenecks in the production and handling of coffee by providing vocational training aimed at improving quality and expanding market access. Such efforts exemplify how international co-operation can directly enhance productivity and competitiveness in strategic sectors while promoting local development (IFT, 2025^[39]). Development co-operation for skills in non-primary sectors should also be strengthened to help Colombia attract more FDI in these priority areas of activity – such as information technology, tourism and health, which along with agriculture value chains are prioritised in Colombia's 2022-30 Internationalisation Plan and Reindustrialisation Policy (DNP, 2023^[47]).

LAC is the region most affected globally by firms struggling with inadequate skills. LAC firms are 13 times more likely to face performance problems due to skills deficits than firms in East Asia. Sectors identified with the largest skills gaps include advanced manufacturing, such as the motor vehicles industry, where the probability of enterprises facing skill-performance problems is up to 160% greater than in other manufacturing industries. Advanced manufacturing has been identified as a critical sector for production transformation in LAC. The lack of skills in this highly knowledge-intensive industry creates challenges for LAC countries to diversify into the production of more sophisticated goods (Melguizo and Perea, 2016^[48]).

A good example of the skills mismatch is Chile. Many sectors urgently need workers with the digital, technical and managerial capabilities to move up the value chain, yet training programmes remain insufficiently aligned to these needs. In mining, Chile's largest export sector, roles are proliferating in automation, remote operations and data analytics, but vocational and university courses still focus on extraction and geology rather than on mechatronics, the Internet of Things (IoT) or data science. Likewise, in agri-food, the drive towards functional, high-value products requires expertise in biotechnology, food chemistry and quality-assurance systems, yet most training remains anchored in traditional agronomy and processing methods (OECD/UN, 2018^[49]).

Overall, in LAC, four out of five companies in the manufacturing sector report skills-gap challenges (World Economic Forum, 2018^[50]). Co-operation in helping to bridge the skills gaps in advanced manufacturing is essential for a structural transformation to more technology-intensive sectors.

Until recently, formal educational qualifications served as the primary, if not unique, indicator of an individual's skills and potential in the labour market. However, as industries evolve and the nature of work changes, traditional education credentials may not be sufficient to fully convey an individual's skills. Many graduates need to complement their formal education with additional credentials, work experience and practical demonstrations of their abilities to remain competitive. Similarly, individuals who have acquired valuable expertise through work experience, online learning or non-formal training may not have traditional degrees but possess skills that are just as relevant and in demand (OECD, 2025^[51]).

High rates of informality and low labour productivity contribute to making this a pressing issue in LAC. International development co-operation often seeks to address this mismatch. Recent initiatives by the Organisation of American States (OAS) include the Youth Academy, which provided training and certifications in transformative technologies to 38 000 registered participants. Another OAS initiative, Prospecta Americas, enabled 7 LAC countries to launch a thematic Centre of Excellence in areas such as

artificial intelligence, robotics, blockchain, nanomaterials, ocean technologies and biotech, benefitting over 25 000 researchers and experts from the scientific community of the Americas. Another example of localised interventions includes CAF providing USD 150 million for the Specialised Higher Technical Institute in Panama, aimed at aligning vocational training with labour market needs (CAF, 2019^[52]). Similarly, CAF granted USD 150 million to Ecuador to modernise its education system, a project expected to benefit approximately 3 million students and nearly 52 000 teachers (CAF, 2023^[53]).

Renewable energy is also a key sector for structural transformation in LAC. While there is high demand for green skills, supply is lacking within the region, with universities offering few degrees in clean energy. Fewer than 10% of degrees granted in 2019 in the energy sector were in renewable energy, with the remaining degrees (over 90%) awarded in fossil fuels. International donors have put a heavy focus on financing the energy transition, providing finance for green energy technologies and grid expansion, but little focus has been given to education in renewable energy. It is essential to increase funding for renewable energy education, which is significantly underfinanced (World Economic Forum, 2024^[54]). It is estimated that jobs in renewable energy in LAC will increase from 57 million in 2020 to 134 million by 2050. To meet the increased demand, substantial efforts will be required for training programmes and job reskilling due to the high qualifications required to manage and operate renewable energy technologies (Hwang and Diez, 2024^[55]).

The German Co-operation Agency (GIZ) has put a strong emphasis on developing green skills in Brazil. Between 2016 and 2021, approximately 800 teachers and more than 7 800 qualified technicians were trained to support the dissemination of solar and wind energy as well as energy efficiency in the construction and industry sectors. GIZ also worked with the government and technical and vocational education and training (TVET) networks to help modernise TVET programmes and adapt them to company needs. Initiatives like these are essential to respond to skills shortages in the labour market and improve Brazil's TVET system, which ranked 96th out of 141 countries in the 2019 Global Competitiveness Index (GIZ, 2022^[56]).

Skills development is a cross-cutting priority for partners like the European Union. The European Commission, which is embedded in bilateral ODA as well as regional programmes, recently launched the Inclusive Societies Initiative to strengthen social cohesion through targeted training and capacity building. The initiative unites the European Union and six Member States – France, Germany, Italy, Luxembourg, Spain and Sweden – with GIZ and other agencies (European Commission, 2025^[16]). The LAC Energy Transition Academy 2024, supported by CAF and organised by Uno.Cinco, OLADE and the University of Chile, has established itself as a regional reference platform for strengthening technical capacities and fostering networks in the field of a just and sustainable energy transition. CAF's involvement in this initiative is aligned with its strategic objective of promoting institutional and human capital development to advance towards a sustainable, inclusive and resilient energy system in LAC (OLADE, 2025^[57]).

Similarly, the OAS Development Cooperation Fund established the Program on Climate Action for the years 2024-2027, aimed at 15 LAC countries. Within four project themes – the circular economy, climate and environmental education, the development of climate-smart skills, and climate change impact on women and underserved communities – the initiative will primarily focus on skills and capacity development to contribute to an inclusive and transparent green transition (OAS, 2025^[58]; Cancillería de Colombia, 2025^[59]). Other local projects led and executed by the OAS include the Cross-border Circular Economy Initiative in the Border Integration Zone Colombia-Peru, funded by the IDB; the Quality Infrastructure's Contribution to the Transformation Towards a Circular Economy in LAC, funded by the German National Metrology Institute; and Fostering Water Security in the Trifinio Region (GEF, 2018^[60]). All these initiatives contribute to strengthening both local and institutional capacity to enable sustainable, inclusive and innovation-driven change. Green skills for climate-smart agricultural adaptation are also crucial, given the devastating effects of climate change on farming. In Guyana, where the agricultural sector accounts for 20% of GDP, the negative effects of climate change are a significant threat to the country's

economy. More than 90% of the Guyanese population lives in coastal regions, where the land is fertile but rising sea levels heighten the risk to farmers of flooding. There has been strong international co-operation to build technical capacity for climate-smart agriculture by the IDB, GIZ and the United Nations Food and Agriculture Organization (FAO), among others (ILO, 2019^[61]).

The private sector is also a critical actor in building workforce skills. In Colombia, Costa Rica and the Dominican Republic, foreign firms are more likely than domestic firms to offer employee training, from on-the-job training to certified programmes. In Colombia, a French renewable energy company has established formal partnerships with local universities, such as Universidad Javeriana and Universidad del Rosario, to offer certified training programmes to its employees. In Costa Rica, medtech companies have contributed to the creation of a highly skilled talent pool (Box 4.1). This demonstrates how foreign companies can play a pivotal role in skills development. Overall, USD 2 billion in greenfield FDI went to education and training in LAC between 2014 and 2024. This includes the creation of technical institutes, vocational schools and international training centres, all essential for upgrading skills and aligning them with labour market demand (OECD, Forthcoming^[4]). The majority of these investments in education and training have been attracted by Mexico (42%), Colombia (31%) and Brazil (8%). The investments mainly originate from the European Union (32%) and LAC (22%) (OECD, Forthcoming^[4]).

Technology adoption can accelerate LAC's transition to a knowledge-based production model

The second key enabler for production transformation is technology adoption. LAC economies face persistent productivity gaps, high levels of informality, uneven quality of infrastructure and limited diversification into higher-value-added sectors. In this context, the acquisition and diffusion of new technologies will enable countries to increase their productivity, foster innovation and transition towards more complex and competitive economic activities – essential elements for production transformation in LAC. Digital technologies such as automation, artificial intelligence and data analytics are reshaping global production structures and creating new avenues for growth. For LAC countries, investing in technological capabilities is important not only for catching up with global technological frontiers but also for generating local solutions.

Technology serves as a key lever for achieving inclusive and sustainable development and for preparing for the green and digital transitions. South Korea provides a strong example of the transformative impact of sustained investment in technology and innovation, particularly through R&D. The country's rapid economic growth, often referred to as part of the Asian Miracle, has been closely linked to its innovation-driven development strategy, with R&D being a key driver of productivity growth across Korean industries (Lee, 2016^[62]).

Governments in less advanced economies can accelerate growth by promoting investment and encouraging the adoption of existing technologies. Policies for technological adoption could involve supporting digitalisation among small and medium-sized enterprises (SMEs), strengthening public-private technology extension services and connectivity and incentivising technology adoption through targeted policies. As countries advance, the policy focus should shift to building innovation ecosystems, for example, by supporting R&D through grants and tax incentives and improving university-industry linkages (Acemoglu, Aghion and Zilibotti, 2006^[63]). For instance, the Brazilian Agency for Industrial Research and Innovation (EMBRAPPI) facilitates technology transfers between research institutions and enterprises to increase the competitiveness of Brazilian firms (Braga de Andrade, 2020^[64]). Colombia's path forward calls for greater adoption of new technologies and a well-developed and financed R&D agenda (OECD/UN/UNIDO, 2019^[65]).

Enhancing international co-operation for technology transfer and innovation is critical to fostering mutually beneficial solutions and creating virtuous cycles of learning and capability building. In order for countries in LAC to transition towards more knowledge-intensive and competitive production structures, a strong

focus on technology adoption and building robust R&D networks is required. In this context, the EU-LAC Digital Alliance, launched in 2023 with a budget of EUR 172 million, represents a pivotal initiative for accelerating human-centred digital transformation across the region and translating the Global Gateway Strategy into reality within the digital field. The EU-LAC Digital Alliance also serves as framework for all bi-regional digital co-operation initiatives, thanks to the Joint Declaration on a Digital Alliance adopted by heads of state and government of both regions during the III EU-CELAC Summit in Brussels in July 2023 (European Commission, 2023^[66]). By convening a broad coalition of stakeholders, including governments, the private sector, academic and research institutions, and civil society, the alliance enhances policy dialogue and supports efforts in connectivity (both satellite and cables), digital innovation, entrepreneurship and space technologies (European Commission, 2025^[67]).

Among its flagship activities, the EU-LAC Digital Alliance is advancing the implementation of a regional Copernicus strategy that extends the EU Earth Observation programme to LAC, with regional Copernicus LAC data centres in Chile and Panama. This strategy includes supporting disaster risk management and environmental monitoring. The data centres will serve as hubs for receiving and processing satellite data. Through the Building the Europe Link to Latin America (BELLA 2.0) initiative, fibre-optic cable will be expanded to improve digital connectivity and collaboration among research and education communities in LAC and the European Union, including on high-performance computing and artificial intelligence. Meanwhile, the EU-LAC Digital Accelerator will help to accelerate at least 40 joint ventures for bi-regional innovation and digital transformation (European Commission, 2025^[67]).

The Digital Alliance is currently working on setting up an EU-LAC Supercomputing Network for AI based on access to cutting-edge technologies enabled by the European High-Performance Computing (HPC) infrastructure and expertise of the EuroHPC Joint Undertaking (JU), which is crucial for scientific discoveries and for the strengthening of the HPC community in the region. Lastly, the Digital Alliance is also aiming to create a bi-regional initiative to enhance cybersecurity co-operation through mutual assistance, incident response and knowledge sharing called EU-LAC SHIELD, which will involve both public and private stakeholders of both regions. Other initiatives by the European Union to promote R&D in LAC include the Joint Initiative for Research and Innovation, facilitating the academic collaboration and exchange of knowledge between the regions, as well as the global Horizon Europe, which provides funding for research and innovation (European Commission, 2025^[68]; European Council, 2025^[69]).

Re-tooling micro, small and medium-sized enterprises through innovation and technology, advancing innovative reskilling for the tourism sector and regional economies and fostering scientific and technological innovation are crucial to strengthening resilience. The Programme on Inclusive Resilience for an Effective Recovery, developed through the OAS Development Cooperation Fund, seeks to equip SMEs with these tools, enabling them to build the capacities needed to withstand future shocks (AICD, 2020^[70]).

Addressing the full digital value chain requires integrating i) hard infrastructure (national fibre optic backbones, state-of-the-art data centres, Tier III and IV facilities and strategic submarine cables connecting LAC internally and with other continents); ii) enabling services (interoperability platforms, e-government systems, digital identity solutions and cloud-based public service platforms); iii) human capital development (large-scale digital skills programmes, training in artificial intelligence and data analytics, and targeted capacity-building for SMEs); and iv) innovative financing (blended finance instruments, venture capital for tech start-ups and funds for green and digital infrastructure). CAF has made digital transformation a core strategic priority, integrating these four pillars and mobilising USD 2.78 billion between 2019 and 2024 for operations with connectivity and digital transformation components through 41 credit operations and USD 17 million in 85 technical co-operation initiatives, directly benefitting 16 countries (CAF, 2025^[71]).

The IDB and CAF are key actors in supporting technological innovation in LAC. The IDB Lab, the innovation and venture capital arm of the IDB Group, leverages financing, knowledge and connections to support

early-stage entrepreneurship and foster innovation. It has an active portfolio of 453 operations totalling USD 595 million. In the first three quarters of 2024, 37 projects were financed, for USD 61 million (IDB Lab, 2024^[72]) (Table 4.1).

Table 4.1. Examples of tech small and medium-sized enterprises in LAC

SME	Country	Description	Partner
Andonix	Mexico	Andonix's SaaS solution, Smart Work Station (SWS), automates frontline work in labour-intensive companies by enabling remote guidance and support, connecting workers with the rest of the organisation, and improving safety, quality, and productivity levels. Companies can quickly train workers using adaptive e-learning and microlearning, automate workflows with step-by-step guidance, and capture a wealth of previously hidden data.	CAF
Aprova Digital	Brazil	An innovative technology company whose purpose is directly linked to increasing the efficiency of the public sector, especially municipalities in Brazil. The company aims to reach 100 municipalities, with the potential to replicate the model in other Latin American countries (Colombia and Mexico).	CAF
Cubo Technologies	El Salvador	A fintech company that provides digital payment solutions for micro and small businesses, with micro-entrepreneurs representing 90% of users. With IDB Lab's support, Cubo expanded its operations into Costa Rica, Guatemala, and Panama, and Costa Rica supporting financial inclusion for 70 000 businesses, 40% of which are led by women.	IDB Lab
DoctorOne	Paraguay	A Telemedicine service in Ecuador which aims to improve healthcare access in remote areas. It received USD 2 million in funding from IDB Lab.	IDB Lab
EthicHub	Mexico	Fintech platform that connects investors with unbanked rural farmers, primarily coffee producers in Mexico. Using blockchain technology, EthicHub facilitates access to affordable loans, enabling farmers to improve their productivity and livelihood.	IDB Lab
Andonix	México	Andonix's SaaS solution, Smart Work Station (SWS), automates frontline work in labor-intensive companies by enabling remote guidance and support, connecting workers with the rest of the organisation, and improving safety, quality, and productivity levels. Companies can quickly train workers using adaptive e-learning and microlearning, automate workflows with step-by-step guidance, and capture a wealth of previously hidden data.	CAF

Source: (IDB, 2023^[73]), (Impactalpha, 2024^[74]), (IDB, n.d.^[75]) and (ZoomAgri, 2025^[76]).

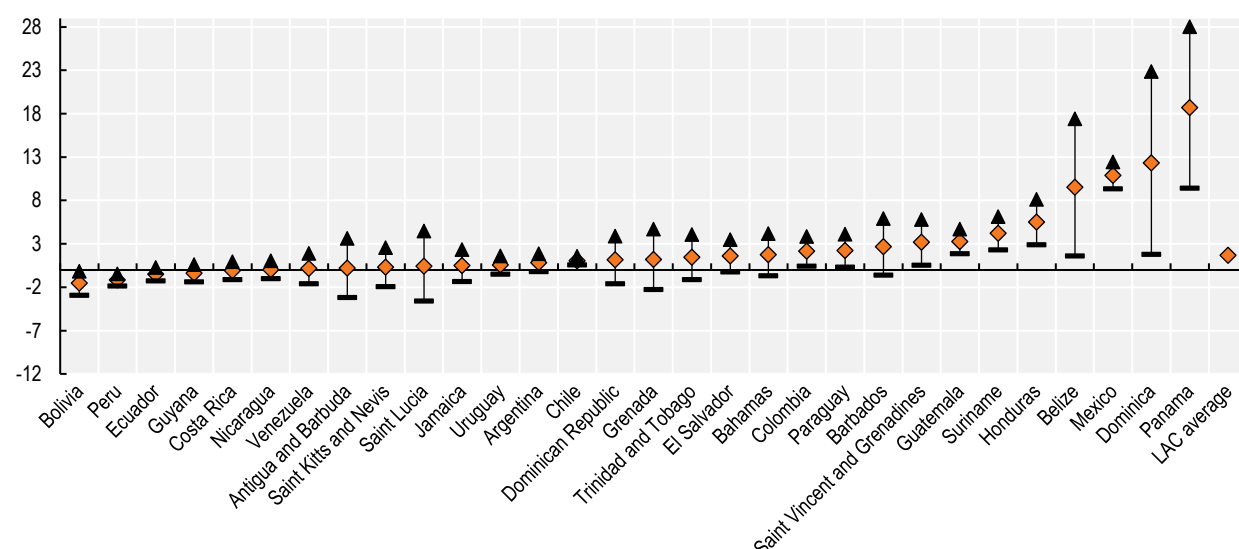
The private sector also plays a role in enhancing R&D. For example, agri-businesses in Brazil have been heavily investing in R&D. Major companies involved include the American and Swiss seed companies Corteva and Syngenta, the American tractor manufacturer John Deere and the Norwegian fertiliser producer Yara. Furthermore, Germany's Bosch and Sweden's Husqvarna have chosen Brazil as a global hub for the development of agricultural machinery. Brazil's ability to attract R&D in the agricultural sector can be attributed to the fact that its farmers are open to innovation and its researchers are highly creative, making the country a global hub for agricultural technology development (Konchinski, 2025^[77]). However, LAC is still highly dependent on public financing for R&D, leaving room for growth in private sources of financing, including companies, higher education institutions, foreign funds and private non-profit organisations (OECD et al., 2024^[2]).

Foreign firms beyond the agricultural sector are also investing in R&D within LAC. This is relevant for growth because R&D activities are strongly associated with higher-quality employment and economic upgrading. R&D activities from foreign-owned firms often result in spillovers to non-R&D-active firms in areas such as productivity, contributing to industrial transformation and regional development (Spithoven and Merlevede, 2023^[78]). Foreign firms, defined as firms with at least 10% foreign ownership, are generally more likely to spend on R&D than domestic firms in the region (Figure 4.10). Nonetheless, FDI directed towards R&D activities in LAC remains limited. Between 2003 and 2024, only 1.5% of greenfield FDI, or just USD 30 billion, was directed to R&D activities. The United States and the European Union are the

largest sources for FDI related to R&D, with 46% and 26% of total investments, respectively, from 2014 to 2024 (OECD, Forthcoming^[4]).

Figure 4.10. Spending on research and development in LAC by foreign vs. domestic firms

Are foreign firms more likely to spend on R&D? (yes>0; no<0)



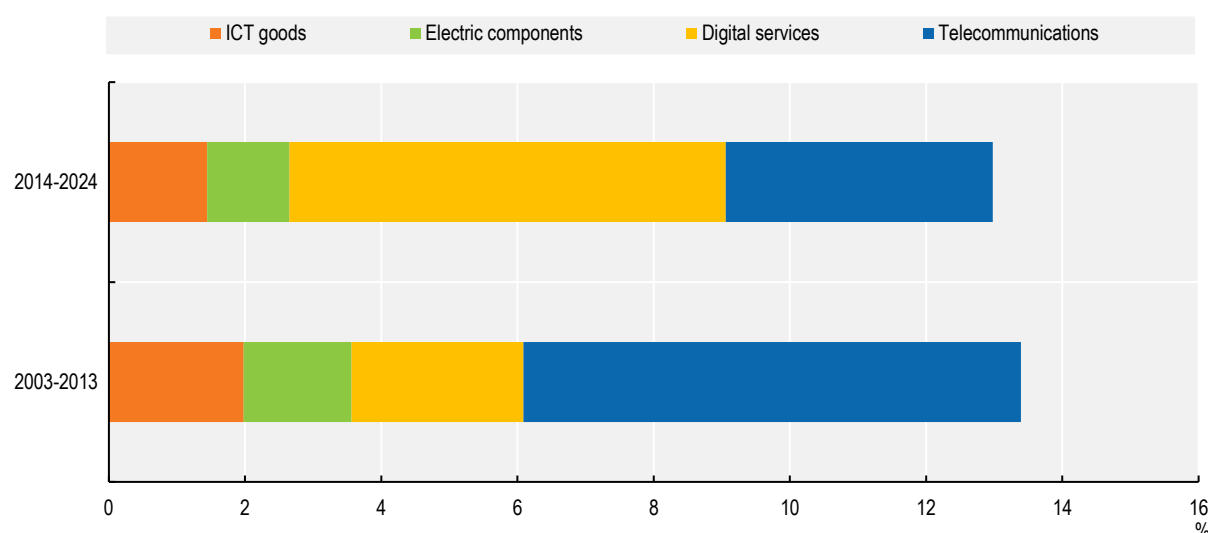
Note: The indicators show the relative gap between the average outcomes of foreign and domestic firms. Positive values indicate that foreign firms outperform domestic firms, while negative values suggest the opposite. Reference years vary across countries, ranging from 2010 to 2023. Diamonds represent coefficients while confidence intervals are represented by bars and arrows.

Source: Authors' elaboration based on (OECD, Forthcoming^[4]).

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FDI has also served as a crucial lever in developing the digital sector in LAC. Between 2003 and 2024, more than USD 260 billion in greenfield FDI was invested in digital sectors, representing 13% of total greenfield investments in the region (Figure 4.11). Half of these flows targeted telecommunications between 2003 and 2013. But in the subsequent decade, these investments shifted to target mainly digital services, such as computer programming, data processing and hosting, and information services. This reflects digital advancements in the region, with the increasing emergence of sophisticated and service-based solutions contributing to digital transformation and a shift to service-based and knowledge-intensive activities (OECD, Forthcoming^[4]). In parallel, FDI has also created many jobs within the digital sector, particularly in digital services. Over the period 2014-2024, nearly 600 000 jobs in digital sectors were generated, up nearly 25% from the previous decade (OECD, Forthcoming^[4]).

Figure 4.11. Share of LAC's greenfield foreign direct investment targeting digital sectors, 2003-2024



Note: Information and communications technology (ICT) goods include electronics, computer equipment, etc.; electric components include batteries, electrical equipment, wiring devices, etc.; digital sectors include computer programming, data processing and hosting, information services, and other digital services; and telecommunications include wired and wireless telecommunications and satellite activities.

Source: (OECD, Forthcoming^[4]).

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Better co-ordination is essential for upgrading regional infrastructure

Infrastructure development is the third critical enabler for production transformation in LAC. Reliable transportation, energy and digital infrastructure reduce transaction costs, improve access to markets and facilitate the movement of goods, services and knowledge. These are essential elements for upgrading productive capacities and for integrating into global value chains. Unreliable infrastructure systems limit the productivity of businesses, and costly infrastructure services increase production costs and undermine business competitiveness (Thacker et al., 2019^[79]). Infrastructure is also an important component of sustainable development. Yet the region continues to face significant infrastructure gaps that limit productivity and growth potential.

This infrastructure gap is impacting the competitiveness of the region's economies. An analysis of LAC's six largest economies – Argentina, Brazil, Chile, Colombia, Mexico and Peru – investigated the top five competitors for each country's top five exports. Results revealed that Chile was the only country with infrastructure that could compete with its trading rivals (Suarez-Aleman, Serebrisky and Perelman, 2019^[80]). LAC requires an estimated USD 2.2 trillion to finance the infrastructure gap, with 59% of the funds needed for new infrastructure and 41% for maintaining existing infrastructure. This investment corresponds to 3.12% of the region's projected GDP every year until 2030. Infrastructure for transportation, electricity and telecommunications alone requires USD 577 billion, USD 971.1 billion and USD 293.7 billion, respectively (IDB, 2021^[81]).

The development of new trade relationships is dependent on the adequacy of the available transport infrastructure. Poor land connectivity between countries sharing borders can represent a significant barrier to regional trade, particularly for productive integration and the establishment of regional value chains. Transportation faces widespread problems in the region, mainly in its land component, hindering the development of new trade relationships. South America faces intraregional export transport costs that are 15% higher than those of the European Union, providing further evidence of the role transport costs play as a determinant of the low level of intraregional trade. However, at the extraregional level, no significant

cost differences are observed between South America and the European Union. This suggests that the poor performance of transport infrastructure mainly affects intraregional trade, where land transport plays a predominant role (CAF, 2021^[82]).

In this context, international partners have stepped in to support infrastructure development. China is a prominent player through the BRI, to which 22 LAC countries are signatories (Roy, 2025^[83]). Between 2005 and 2022, China carried out 228 infrastructure projects in LAC, generating more than 721 000 jobs, with a total expenditure of USD 104.2 billion. Of these infrastructure projects, 90 were in transportation, 77 in energy (48 in renewable energy), 13 in telecommunications and 12 in other areas. From 2020 to 2022 alone, China financed 90 projects, 57 of them in transportation (Peters, 2023^[84]).

Improving connectivity through infrastructure is essential for the region's insertion into global value chains. China's largest infrastructure investment in LAC is the Chancay mega port in Peru, inaugurated in November 2024. Building this port cost more than USD 3.6 billion. It serves as a major gateway between South America and Asia, with China being South America's largest trading partner (Dahl, 2024^[85]). The port is expected to generate USD 4.5 billion annually and create 8 000 jobs (Global Times, 2024^[86]). Within the first three months of the port's operations, more than USD 290 million worth of goods were processed. The port will serve as an important hub in LAC and increase regional economic and trade co-operation, as well as accelerating integration within the region (Global Times, 2025^[87]). CAF is currently providing technical assistance to the Peruvian government to develop a comprehensive vision for the development phases of the Chancay-Callao hub, prioritise key infrastructure projects and enabling actions, as well as propose a governance model that facilitates the execution of strategic projects and investments to strengthen national productive chains and regional integration (CAF, 2025^[88]). China has also funded major green energy projects, such as the largest solar plant in Latin America, located in Jujuy, Argentina; the Puta Sierra wind farm in Coquimbo, Chile; and the biggest hydroelectric plant in Ecuador (Roy, 2025^[83]). While such initiatives provide much-needed financing, concerns over financing clauses, project transparency, environmental impacts and governance have also emerged, with 35% of China's Belt and Road Initiative projects globally facing implementation issues (Dahl, 2024^[85]).

To fully bridge the region's infrastructure gap, it is crucial to move beyond isolated national efforts and adopt a more integrated regional approach. Building on initiatives such as the Initiative for the Integration of South American Regional Infrastructure (IIRSA) and the South American Council of Infrastructure and Planning (COSIPLAN), Brazil initiated a discussion calling for a renewed approach to infrastructure that prioritises regional connectivity, productive integration and environmental sustainability. It advocates for infrastructure as a strategic tool for structural transformation, emphasising cross-border co-ordination, regional planning and financing mechanisms tailored to South America's development needs (FUNAG, 2023^[89]).

Moving towards regional infrastructure projects is especially urgent in the case of electricity. LAC's electricity demand has grown steadily over the past three decades, driven by structural economic changes, rapid urbanisation and rising living standards (IEA, 2023^[36]). The region has the potential to increase regional electricity production by improving institutional and regulatory mechanisms. Overall, a shift from isolated national strategies to a unified regional electricity market would allow LAC to fully harness its comparative advantages, lower transition costs and accelerate the shift towards a low-carbon and interconnected energy future (Box 4.4).

Box 4.4. Towards regional electricity production, a cornerstone for sustainable energy

Production of electricity in LAC still depends largely on non-renewable sources even as demand rises. Fifty-seven per cent of electricity in the region is generated from renewable sources, a figure significantly higher than the global average of 36% (CAF, 2024^[90]). The situation varies among countries; some, such as Costa Rica, Paraguay and Uruguay, stand out for having a high share of renewables in their electricity generation mix. While industry remains the largest electricity-consuming sector, demand from buildings and commercial and public services has risen significantly, reflecting the expansion of the services sector. Electricity consumption in agriculture and transport is also increasing, indicating broader electrification trends across economic activities. Meeting this growing and diversified demand requires a resilient and sustainable electricity mix. Yet electricity generation remains heavily concentrated in fossil fuels, particularly gas and coal, which represent nearly half of the region's total output. Hydropower continues to be a cornerstone of the energy system, but its reliability is increasingly challenged by climate variability (IEA, 2023^[36]; EMBER, 2024^[91]).

The region has a unique opportunity to build a sustainable and competitive electricity system by scaling up renewable energy. Abundant natural resources, including solar energy, wind corridors and untapped hydro reserves, position LAC as a global leader in clean energy development (OECD et al., 2022^[27]). Realising this potential requires more than investment, however: it demands regulatory certainty and robust regional co-operation to modernise grid infrastructure and foster energy innovation. Despite the existence of physical interconnections and the efforts of regional institutions, electricity integration across LAC remains limited and fragmented. Cross-border electricity trade is still marginal, constrained by siloed national markets and bilateral agreements that fall short of enabling a broader, more co-ordinated system (OLADE, 2024^[92]).

The core barriers to integration are institutional and regulatory. Divergent legal frameworks, unaligned operational standards and the absence of a regional regulatory authority hinder effective co-ordination. As a result, infrastructure that could enable electricity sharing is often underutilised. This fragmented landscape prevents the region from optimising its electricity generation mix, balancing renewable sources more efficiently and reducing system-wide emissions and costs. Despite the efforts made by multilateral integration organisations, in practice, the process of electrical integration in the region has mainly materialised from a bilateral perspective (OLADE, 2024^[92]). Establishing a regional framework with common rules on pricing, dispatch and risk management, supported by dedicated infrastructure funding and a regional co-ordinating body, could transform electricity systems into engines of regional integration.

Table 4.2. Regional electricity integration initiatives in LAC

Initiative	Subregion	Participating countries	Recent achievements
SIEPAC (Electrical Interconnection of Central America)	Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama	Operational, Commercial and Regional Coordinator Regulations signed (2024)
SINEA (Andean Electrical Interconnection System)	South America	Bolivia, Chile, Colombia, Ecuador, Peru	
SIESUR (Energy Integration System of the Southern Cone Countries)	South America	Argentina, Brazil, Chile, Paraguay, Uruguay	The 2023-2032 roadmap was approved
Arco Norte	South America	Brazil, French Guiana, Guyana, Suriname	

Source: (OLADE, 2024^[92]).

Drawing on successful models from other regions, political commitment and structured dialogue will be essential to building trust and enabling long-term co-operation. The European Union's Internal Energy Market is the most advanced model of regional electricity integration. It is built on a foundation of shared legal and regulatory frameworks, co-ordinated network planning and market coupling mechanisms that enable real-time electricity trading across borders (European Union, 2025^[93]). The European Union and its Member States are currently promoting an initiative to support regional electricity integration in LAC, in co-operation with national governments, international financing institutions and private companies. The North American electricity market, particularly between Canada, parts of Mexico and the United States, offers another instructive example. Here, cross-border trade is facilitated by interconnection agreements and co-ordinated operations between national and regional transmission operators, such as the North American Electric Reliability Corporation. While regulatory harmonisation is less developed than in the European Union, the North American experience illustrates the benefits of pragmatic co-operation built around technical standards and mutual reliability concerns (Pontenagel, 2025^[94]).

Partnerships for regional production transformation and insertion into global value chains

Regional integration initiatives – such as the Southern Common Market (MERCOSUR), the Pacific Alliance, the Central American Integration System (SICA) and the Caribbean Community and Common Market (CARICOM) – have fostered progress in regulatory co-operation and trade facilitation. However, their contribution to production transformation and the development of cross-border value chains remains uneven. The institutional architecture of integration in LAC has expanded significantly over time, with overlapping memberships and growing coverage beyond trade to include investment, labour and political co-ordination. However, economic outcomes have not kept pace with institutional ambitions.

Regional production integration can help to attract investments

LAC's history of regional integration spans more than six decades. Initial attempts, such as the Central American Common Market (CACM) and the Latin American Free Trade Area (LAFTA), laid the groundwork for arrangements such as the Latin American Integration Association (ALADI), the Andean Community (CAN) and CARICOM. The 1990s marked a turning point with the emergence of “new regionalism”, leading to deeper integration processes including MERCOSUR and the Pacific Alliance (IDB, 2018^[95]). More recently, broader frameworks – such as the Union of South American Nations (UNASUR) and the CELAC – have emerged, signalling a shift towards political co-ordination, though with varying degrees of effectiveness and continuity (Table 4.3).

Table 4.3. LAC regional trade agreements and integration mechanisms

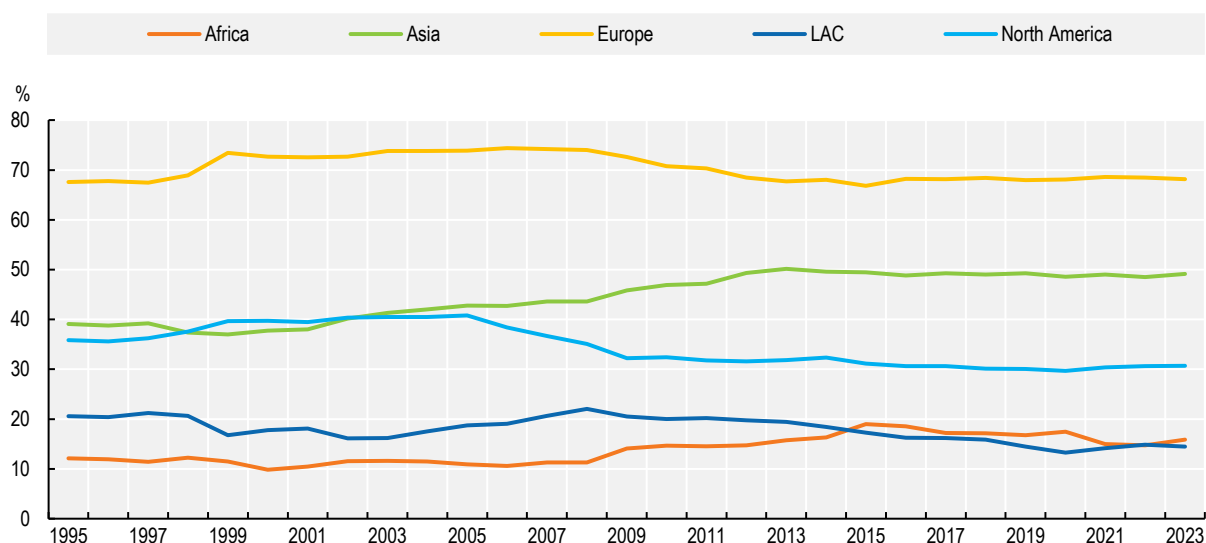
Bloc	Members	Type	Coverage	Entry into force
ALADI	Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela	Partial scope agreement	Goods	1980
CAN	Bolivia, Colombia, Ecuador, Peru, Venezuela	Customs union	Goods	1987
CARICOM	Antigua and Barbuda, Barbados, Belize, Dominica, Guyana, Grenada, Jamaica, Haiti, Saint Vincent and the Grenadines, Trinidad and Tobago, Saint Lucia, Suriname	Customs union and economic integration agreement	Goods and services	1973
CELAC	All 33 LAC countries	Intergovernmental regional organisation	Political commitment	2011
MERCOSUR	Argentina, Brazil, Paraguay, Uruguay	Customs union and economic integration agreement	Goods and services	1991

CACM	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama	Customs union	Goods	1960
Pacific Alliance	Chile, Colombia, Mexico, Peru	Free trade agreement and economic integration agreement	Goods and services	2016
SELA	Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela	Intergovernmental regional organisation	Political commitment	1975
SICA	Belize, Costa Rica, Dominican Republic, Guatemala, El Salvador, Honduras, Nicaragua, Panama	Economic integration agreement	Goods and services	1993
UNASUR	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela	Intergovernmental regional organisation	Political commitment	2008

Source: Authors' elaboration based on (WTO, 2025^[96]).

Despite the dense institutional landscape, intraregional trade has stagnated. LAC remains one of the least integrated regions globally in terms of intraregional trade. Between 1995 and 2023, the share of intraregional exports in total exports hovered at 15-20%, well below levels observed in Asia or Europe (Figure 4.12). After a moderate increase in the early 2000s, LAC's intraregional exports have flattened and even declined slightly in the past decade. This performance contrasts with other regions, such as Asia and Europe, that have maintained or strengthened intraregional trade over time.

Figure 4.12. Intraregional exports as a share of total exports by world region, 1995-2023

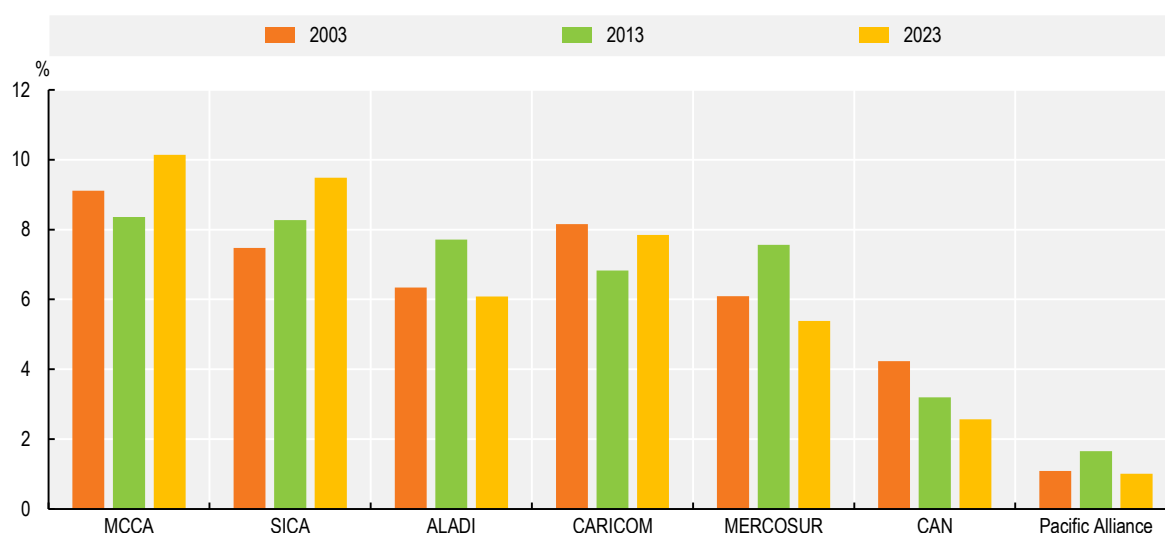


Source: (UNCTAD, 2024^[45]).

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Central America stands out as an exception to this trend. Between 2003 and 2023, members of CACM and SICA recorded consistent growth in intrabloc trade, suggesting that greater regulatory convergence, proximity and productive complementarities have reinforced regional exchange (Figure 4.13). In contrast, blocs such as CAN and MERCOSUR have shown more volatile or declining intrabloc trade, revealing the challenges of maintaining integration momentum amid political and economic asymmetries. The Pacific Alliance, despite its focus on open regionalism and services, still accounts for a very limited share of intrabloc exports.

Figure 4.13. LAC intrabloc exports as a share of total exports, 2003-2023



Note: MCCA = Central American Common Market, SICA = Central American Integration System, ALADI = Latin American Integration Association, CARICOM = Caribbean Community and Common Market, MERCOSUR = Southern Common Market and CAN = Andean Community.

Source: (UN Comtrade, 2025^[97]).

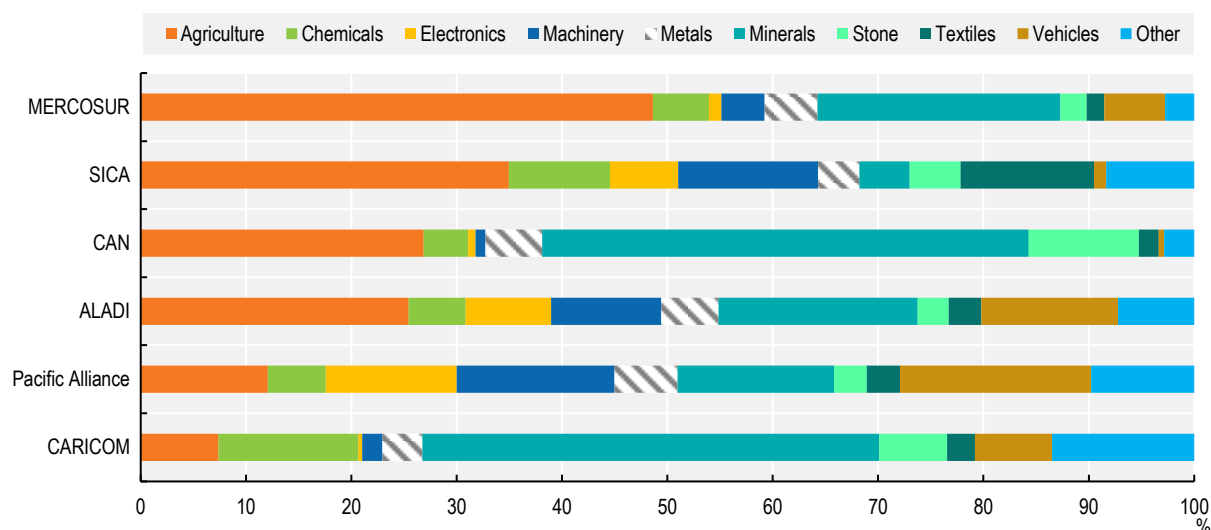
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Trade concentration also reinforces vulnerability, especially in volatile times. Many of LAC's regional blocs continue to rely on a few extraregional partners. For example, the United States receives 43% of exports from ALADI, 45% from SICA and more than 60% from the Pacific Alliance, although mostly driven by Mexico (UN Comtrade, 2025^[97]). MERCOSUR shows a somewhat more diversified profile, with a significant share of its exports directed towards Canada, China and the European Union, yet more than half of its exports go to countries outside the bloc's main partners. This high dependence on a narrow group of markets limits the region's resilience to external shocks and constrains its potential to develop stronger regional value chains.

The export composition of major LAC regional integration blocs varies considerably, with structural differences in trade specialisation and limited diversification across most blocs (Figure 4.14). MERCOSUR and CAN show a high concentration in agriculture and minerals, with agriculture alone representing nearly half of MERCOSUR's exports. CAN stands out for its substantial share of minerals, indicating continued dependence on the extractive sectors. SICA has a more diversified export profile, with notable contributions from textiles, vehicles and electronics, suggesting a stronger engagement in light manufacturing and assembly-based trade, particularly linked to global value chains. The export composition of the Pacific Alliance and ALADI is relatively balanced, while CARICOM remains the least diversified bloc. However, CARICOM is the regional bloc with the largest share of chemical exports, a category of high production sophistication requiring high R&D intensity.

Figure 4.14. Exports of selected LAC regional integration blocs by type of product, 2023

Share of total exports



Note: The figure excludes unspecified exports. It uses the product classification Harmonised System HS92 four-digit level.

Source: Authors' elaboration based on (UN Comtrade, 2025^[97]), (Harvard University, 2024^[98]) and (OECD, 2025^[99]).

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Deepening trade integration in LAC is essential to unlock the region's economic potential and foster production transformation. Regional markets offer a strategic space for firms to scale production, diversify exports and integrate into value chains with lower entry barriers than global markets. Yet weak intraregional infrastructure – unfinished highways, congested ports and uneven digital connectivity – remains a critical obstacle that limits cross-border linkages and raises transaction costs (ECLAC, 2023^[100]). Trade integration supports the development of regional value chains by enhancing the connectivity between firms and industries across borders, facilitating knowledge spillovers and promoting investment in logistics, infrastructure and services. For SMEs in particular, access to regional markets can be a stepping stone towards internationalisation and technological upgrading. Building on the existing institutional landscape, CAF promotes the Comprehensive Border Management Program (PROGIF), a multisectoral initiative aimed at enhancing cross-border connectivity in LAC, reducing trade times and costs and unlocking the productive potential of border areas. The programme integrates interventions in infrastructure, customs and sanitary operations, regulatory harmonisation, and territorial development, complemented by actions to improve access to basic services and strengthen local SMEs. It also fosters co-ordination among public and private stakeholders and the use of diagnostic and planning tools to develop more efficient, inclusive and competitive border corridors (CAF, 2025^[101]).

Moreover, a more integrated regional trade space strengthens resilience against external shocks by reducing overdependence on a few extraregional partners and enabling greater flexibility in times of instability. Regional trade integration can also foster policy convergence in areas such as competition, standards and sustainability, generating a more predictable and attractive environment for investment. Beyond boosting the economy, regional integration can serve as a platform to promote common priorities – including decarbonisation, digitalisation and industrial innovation – through co-ordinated strategies and joint initiatives. In a context of global uncertainty and shifting geopolitical dynamics, advancing trade integration in LAC is a necessity for building more inclusive, competitive and sustainable economies.

Regional integration in LAC is also a critical lever for enhancing the region's attractiveness to investment. Fragmented markets, inconsistent regulations and limited connectivity have long constrained the ability of firms to scale operations and manage supply chains efficiently across borders (ECLAC, 2024^[102]). By reducing trade barriers, harmonising standards and investing in shared infrastructure, regional integration can create a larger, more predictable and more competitive investment environment. Integrated markets offer economies of scale, lower transaction costs and greater certainty – key factors for investors seeking stable, long-term returns. Moreover, in the context of global efforts to build resilient and sustainable supply chains, LAC can position itself as a strategic production hub, particularly in sectors such as clean energy, agri-food and pharmaceuticals. Co-ordinated regional strategies signal political commitment and policy coherence, elements that are increasingly valued by international investors navigating complex geopolitical and climate-related risks.

Regional trade as a facilitator of diversification and integration

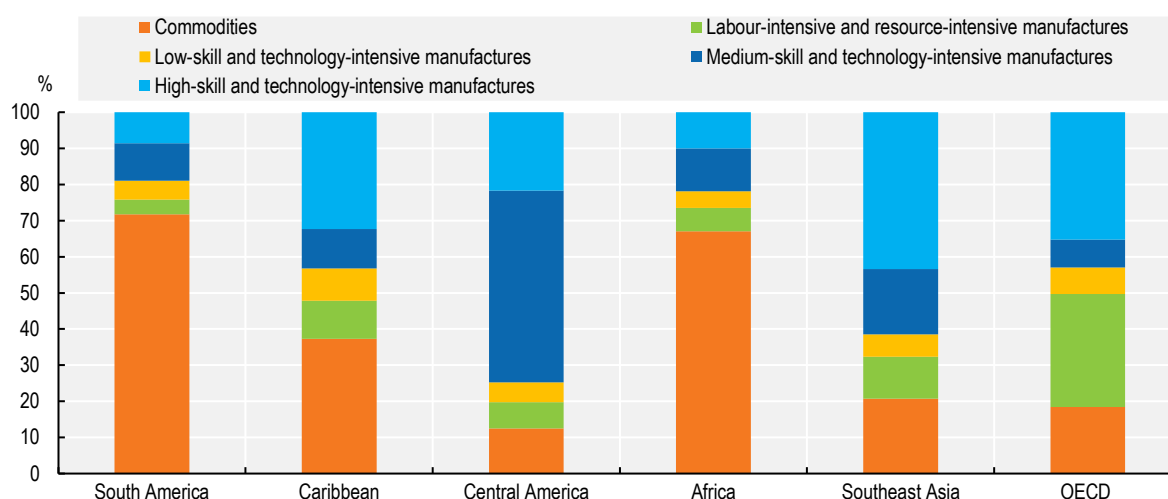
Efforts to enhance trade facilitation in LAC are gaining traction and represent a critical lever to support broader regional integration. However, the transformative potential of these reforms remains constrained by the region's underlying structural challenges, particularly the limited diversification of its productive base. While improvements in trade facilitation help to reduce trade costs and streamline cross-border operations, their full impact on competitiveness and regional integration is hindered by persistent gaps in productive capabilities, technological absorption and sectoral upgrading. These challenges are compounded by growing uncertainty and volatility in the global economy, including geopolitical tensions, trade disruptions and the tightening of financial conditions, which reinforce the urgency for LAC to build more diversified and innovation-driven production and trade systems.

Improving diversification of the region's basket of exports is essential for growth

Initiatives intended to deepen regional integration in LAC have made limited progress due to the region's poorly diversified productive base. LAC's basket of exports is highly concentrated in low value-added sectors, including commodities and low-skilled manufacturing (Figure 4.15). South America stands out for its heavy dependence on commodities, which account for more than 60% of total exports – similar to levels in Africa and far exceeding any other region. The share of exports of medium-skilled, highly skilled and technology-intensive manufactured products is far higher in regions like Southeast Asia, Asia more broadly and the OECD, underlining their stronger integration into complex global value chains and higher levels of industrial sophistication. The Caribbean, while less commodity-dependent than South America, shows limited participation in highly skilled manufacturing and maintains a significant share of low-skilled exports. Central America demonstrates a more diversified structure than the rest of LAC, with a notable presence of medium-skilled and highly skilled manufacturing, although it still lags far behind OECD countries.

The fact that countries in LAC have made limited moves beyond resource-based exports and low-technology manufacturing is a structural constraint that hinders technological upgrading, value addition and more robust participation in dynamic segments of global trade. Productivity remains stagnant due to a dual economy in which a small number of large, technologically advanced firms – often operating in natural resource sectors or oriented to global markets – coexist with a majority of small firms with low productivity, limited technological capabilities, and weak access to skills and finance (OECD et al., 2021^[103]). This fragmented structure constrains formal employment, depresses wages and demand and limits incentives for innovation, ultimately reinforcing a cycle of low productivity and volatile growth. The region's international insertion, driven by a few large exporters, offers limited space for broader industrial transformation or participation in high-value segments of global value chains.

Figure 4.15. Exports by type of product and manufacturing level, 2023



Source: (UNCTAD, 2024^[45]).

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A more effective integration process could help to overcome these challenges. Integration mechanisms can boost export diversification and insertion in value chains by facilitating economies of scale, enabling the regionalisation of supply chains and supporting investment in shared infrastructure and innovation systems. The Capricorn Bioceanic Corridor is an example of how a cross-country infrastructure initiative enhances connectivity across South America. The corridor links the Atlantic and Pacific oceans through a multimodal transport network. It traverses Brazil, Paraguay, Argentina and Chile, integrating road, rail and port facilities to facilitate trade and economic integration. This improved connectivity is expected to reduce freight transport costs by 30-40% and shipping times by up to 15 days, fostering new value chains in mining and agro-industry (OECD, 2025^[104]). Another example is the Paraguay-Paraná Waterway, a strategic fluvial corridor essential for the transport of goods across Argentina, Bolivia, Brazil, Paraguay and Uruguay, where CAF has provided technical and financial support to improve navigability and enhance port infrastructure (CAF, 2002^[105]). These initiatives aim to reduce transport times and costs, improve safety and facilitate trade flows.

Strengthening trade within the region and fostering more balanced integration, both geographically and sectorally, will be essential to support regional production transformation that is more resilient, inclusive and able to provide competitive links to global markets. Other regions, such as Southeast Asia, offer valuable lessons regarding export diversification (Box 4.5).

Box 4.5. How regional integration can drive export diversification: The case of the Association of Southeast Asian Nations

Regional integration in East Asia and Southeast Asia has played a transformative role in reshaping trade structures and driving export diversification over the last three decades. Through institutional mechanisms such as the Free Trade Area of the Association of Southeast Asian Nations (ASEAN), the ASEAN Economic Community and, more recently, the Regional Comprehensive Economic Partnership (RCEP), the regions have progressively reduced barriers to trade, harmonised rules and standards, and created an enabling environment for cross-border investment and industrial collaboration.

These regional frameworks have led to the emergence of deeply integrated production networks, particularly in high-growth sectors such as electronics, machinery, automotive parts and, increasingly, digital services. Countries such as Malaysia, Thailand and Viet Nam have successfully inserted themselves into regional value chains, becoming strategic nodes for the assembly and export of intermediate and final goods. This specialisation has not only increased export volumes but also catalysed a shift in the composition of exports towards higher-value-added and more technologically sophisticated products.

In parallel, the expansion of intraregional trade has reduced ASEAN's reliance on traditional markets in Europe and North America. Trade within Asia now accounts for more than 50% of total ASEAN trade, underpinned by improvements in logistics, regulatory harmonisation and the standardisation of rules of origin under RCEP. This bears witness to the role of regional supply chains, infrastructure connectivity and shared production standards. RCEP is expected to consolidate these gains by streamlining rules of origin and expanding market access across its 15 Member countries, which collectively represent nearly 30% of global GDP.

The ASEAN case highlights that regional integration, when aligned with domestic industrial strategies and long-term investment in capabilities, can be a powerful driver of export diversification and structural transformation. However, the experience also underscores the importance of complementary policies. Countries that have invested in skills development, trade facilitation and innovation capacity – such as Korea, Singapore and, more recently, Viet Nam – have been better positioned to benefit from integration. Conversely, economies with lower institutional capacity or with infrastructure bottlenecks have struggled to diversify meaningfully or climb up the value chain.

Source: (ADB, 2025^[106]).

Reversing the trend of low diversification and reliance on commodities requires productive policies with a regional dimension. Such policies involve strategic interventions aimed at shaping the structure of the economy by promoting targeted sectors, facilitating technological change and addressing market failures that inhibit production transformation (Bonvillian, 2024^[107]). Incorporating a regional dimension into productive policies allows the promotion of productive linkages, technological upgrading and investment in sustainability. A good example is the regional biotechnology platform BIOTECSUR, a co-operative initiative between the European Union and MERCOSUR that promotes collaborative research, supports the creation of public-private linkages and encourages the harmonisation of regulatory frameworks to facilitate the commercialisation of biotechnology products. By advancing regional integration in a knowledge-intensive sector, BIOTECSUR exemplifies how pragmatic co-operation can foster regional capabilities in frontier sectors and support more inclusive and sustainable development (IDB, 2023^[108]). Another example is the GGIA EU-LAC Initiative for Regional Health Resilience, which works towards improving the exchange of scientific knowledge and of policy and regulatory expertise between actors in Europe and LAC while de-risking investment (through the European Fund for Sustainable Development+) and providing catalytic finance to encourage R&D on vaccine production (European Commission, 2022^[109]).

Co-ordinated actions such as shared technical standards, joint infrastructure, regional financing mechanisms, and common frameworks for trade, investment and skills development are essential for boosting productivity and production in key industries (ECLAC, 2024^[38]). It is also worth considering the common training framework (a common set of minimum knowledge, skills and competences needed to practice a specific profession). Individuals that hold a qualification that meets the framework's conditions can get it automatically recognised in participating countries. This is the case within the European Union (European Commission, 2025^[110]). Within LAC, all 16 Member States of CARICOM participate in the Caribbean Vocational Qualification (CVQ) framework, approved by the Community of Caribbean Ministers of Education in 2010. The CVQ defines common competency standards and five qualification levels and

guarantees that a CVQ issued in one Member State is recognised across countries (CARICOM, 2020^[111]). Similarly, the Pacific Alliance also reached two strategic milestones in the last four years in the certification of professional competencies: i) the first system of homologation of skills validation certificates with potential to favouring labour mobility in the region, and ii) a catalogue of green skills jointly built by the countries to accelerate the development of green job profiles for the clean energy industry, construction, water and sanitation, among others.

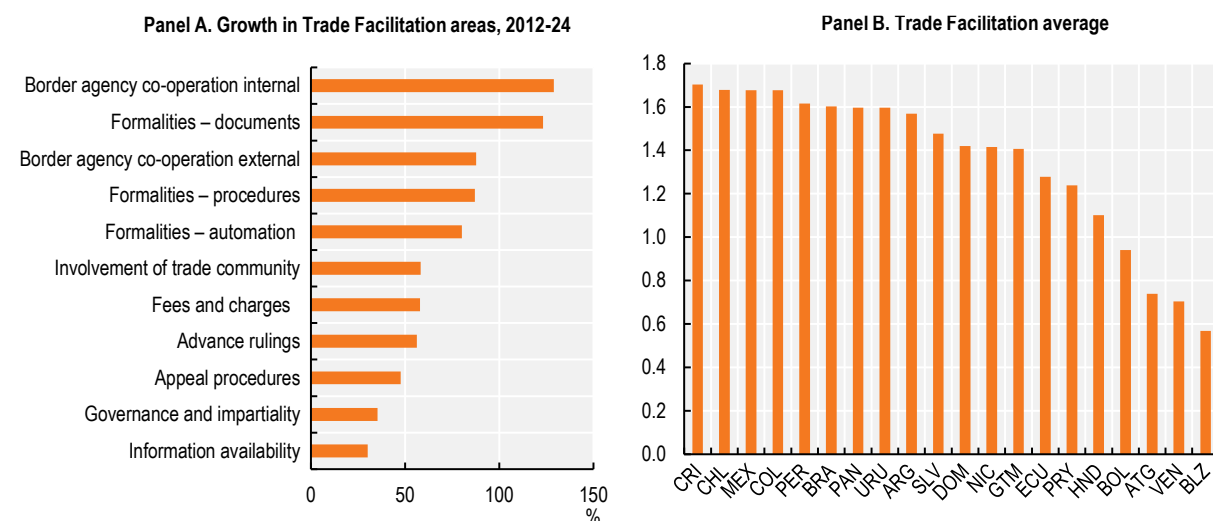
Facilitation measures and non-tariff barriers can reduce trade costs

Trade facilitation includes policy measures aimed at minimising the cost, time and uncertainty associated with engaging in international trade. These measures intend to address bottlenecks impeding export and import activities both at the border and behind the border. The OECD Trade Facilitation Indicators (TFIs) are a set of measures that streamline and simplify the technical and legal procedures for intermediate or final products to be traded internationally (Moisé and Sorescu, 2013^[112]). These indicators cover information availability; harmonisation and simplification of documents; automated processes and risk management; streamlining of border procedures; and good governance and impartiality. Other instruments include CAF's Trade Facilitation Tool (HFC), designed to identify trade bottlenecks and propose solutions aligned with countries' commitments under the World Trade Organization Trade Facilitation Agreement (TFA). The tool can be applied at different territorial levels and supports countries in enhancing their competitiveness.

LAC countries have made notable progress in trade facilitation over the last decade. Between 2012 and 2024, they have particularly improved in areas requiring institutional co-ordination and document simplification (Figure 4.16). The categories “border agency co-operation” and “formalities – documents” experienced the highest percentages of improvements, reflecting significant efforts to reduce duplication and harmonise procedures. More limited progress is observed in areas linked to legal and procedural safeguards, such as “governance and impartiality” and “information availability”. Brazil, Chile, Colombia, Costa Rica, Mexico and Peru exhibit the highest average performances across TFIs, indicating relatively advanced implementation of trade facilitation reforms.

Figure 4.16. OECD Trade Facilitation Indicators in LAC

Percentage change by TFI area (2012-2024) and average TFI by country



Note: TFI = Trade Facilitation Indicator.

Source: Authors' elaboration based on (OECD, 2025^[113]) and (OECD, 2025^[114]).

StatLink  <https://stat.link/3arbqg>

Despite this progress, non-tariff barriers (NTBs) represent a major impediment for intraregional trade. These measures encompass barriers that limit trade flows, such as sanitary and phytosanitary standards, technical barriers to trade and quantitative restrictions. NTBs create inefficiencies, raise costs and hinder market access for producers and exporters in the region (Dolabella and Duran Lima, 2021^[115]). Trade authorities in LAC countries frequently cite NTBs as a key constraint on export growth. Unlike tariffs, which are more transparent and easier to address, NTBs are often less visible and vary greatly from one market to another. LAC countries would benefit significantly more from reductions in NTBs than from further tariff reductions, and this could significantly boost intraregional trade (IMF, 2017^[116]).

NTBs impose an estimated additional trade cost of 3.9% on intraregional trade in LAC, with average additional costs of 7.1% on primary products, 3.9% on light manufacturing and 3.9% on heavy manufacturing. Sectors that face the highest additional trade costs due to NTBs are agriculture, hunting and fishing (8.4%); processed foods, beverages and tobacco (5.6%); and petrochemicals (4.4%). Brazil and Mexico impose the highest NTBs on imports, with an average of 8.2% and 6.3%, respectively. Bolivia is the country most affected (14.3%, particularly in the chemical and petrochemical sector), followed by Trinidad and Tobago (9.6%), Uruguay (5.6%), Venezuela (5.4%), Honduras (4.9%) and Argentina (4.8%) (Dolabella and Duran Lima, 2021^[115]).

Trade agreements that incorporate provisions to reduce NTBs therefore hold considerable potential to boost intraregional trade and economic welfare. For example, NTBs often require exporters to comply with duplicative or inconsistent regulations across different markets, which increases costs and administrative burdens. An example is Chile, where exporters ranging from avocado producers to salmon farmers must navigate separate and cumbersome food-safety processes for every export market (The Economist, 2024^[117]). This fragmentation creates substantial inefficiencies and prevents exporters from fully exploiting regional opportunities. To address these challenges, initiatives have been taken in the region to reduce NTBs. Chile, Mexico and Peru signed the Trans-Pacific Partnership in 2015. This trade agreement includes provisions on harmonising technical standards, simplifying regulatory procedures and increasing co-operation on sanitary and phytosanitary measures (World Bank Group, 2016^[118]). More regional initiatives are required to ease NTBs.

The global trade landscape is being reshaped by ongoing trade tensions coupled with a broader trend of protectionist policies. The traditional model of open trade and deep integration into global value chains – once central to the development paths of advanced economies and emerging markets in Southeast Asia – is becoming a less reliable engine for growth (OECD, 2025^[119]). In this new context, where major economies are increasingly prioritising domestic production and strategic autonomy, LAC countries can no longer depend solely on export-led strategies anchored in preferential access to large markets. Instead, they must actively diversify trade and co-operation partnerships, while also prioritising domestic and regional strategies – so-called “new generation” industrial policies – that promote inclusive and sustainable growth, including through regional integration, investment in productive capacities and support for sectors with higher-value-added potential.

Towards new generation productive development policies: What role for regional integration and international co-operation?

Productive development policies are re-emerging as a central tool for achieving long-term development goals and navigating the green and digital transitions (Chapter 2). This “new generation” of policies is distinct from 20th century policies in both form and function. Rather than prioritising import substitution or horizontal market corrections, productive development policies are increasingly mission-oriented, sustainability-driven and reliant on public-private collaboration (WEF/UNIDO, 2024^[120]). They reflect a pragmatic understanding that states must play an active role in shaping markets, fostering innovation and ensuring that industrial capabilities align with broader social objectives, such as decarbonisation, inclusion and resilience. The Draghi

report, which outlines a vision of the future of European competitiveness, goes in this direction (Draghi, 2024^[121]). This evolution is shaped by lessons from past failures and successes. The 20th century experience of industrial policies in East Asia, particularly South Korea and Chinese Taipei, demonstrated that selective, well-co-ordinated interventions, when embedded in robust institutions and accountability mechanisms, could nurture globally competitive industries (Rodrik, Juhasz and Lane, 2024^[122]).

The new generation of productive development policies is aimed at decoupling growth from environmental degradation. This shift is essential, as industry accounts for nearly 40% of global energy consumption and more than 30% of global GHG emissions (WEF, 2022^[123]). In practice, this means prioritising sectors with green potential, such as renewable energy, circular manufacturing or electric mobility, and aligning industrial strategies with climate targets and national development priorities. Moreover, global production is undergoing a spatial reconfiguration, where sustainability (powershoring), resilience (nearshoring) and diversification are prioritised alongside efficiency (CAF, 2022^[124]; Green Initiative, 2025^[125]; JLL, 2024^[126]).

International support is critical for the promotion of sustainable industrial policies that will help countries to meet their climate targets. The majority of Nationally Determined Contributions (NDCs) include industry in their scope, and almost two-thirds now include detailed industry transition measures, showing progress in the coverage of industry transition (UNIDO, 2023^[127]). They also increasingly reference partnerships for green industrial policies, particularly in the context of implementing climate commitments and achieving emission reduction targets. For instance, NDCs commonly emphasise partnerships to advance climate-aligned industrial transformation through sectoral collaboration.

Many NDCs highlight cross-sectoral partnerships to decarbonise industries through technology transfer, capacity building and financial co-operation. Such partnerships could involve, for example, energy, agriculture and manufacturing. Chile's NDC, updated in 2020, is a good example, as it includes references to partnerships in promoting a green hydrogen economy, clearly connecting climate goals with new industrial sectors (NDC Partnership, 2020^[128]). Likewise, Colombia's NDC, updated in 2020, calls for international support for sustainable mobility and clean energy industrial initiatives, linking climate action to production transformation (NDC Partnership, 2020^[129]). However, explicit plans facilitating support to green productive development policies are rare and not systematically detailed, impeding partners and investors from making more effective investment decisions. New productive development policies that appear in national development plans, green growth strategies or sectorial plans would benefit from enhanced partnerships if they were more systematically embedded in NDCs (OECD/IEA, 2024^[130]).

This context creates a window of opportunity for LAC countries to position themselves as competitive, sustainable and trusted production partners. A few guiding principles, based on lessons from past industrial policies, can help to increase the likelihood of success of productive development policies. Key features include focusing on technology adoption, increasing competition, avoiding trade-restricting measures, and promoting transparency and monitoring (Ohnsorge, Raiser and Leiyu Xie, 2024^[131]). For instance, promoting sustainable practices in the critical raw materials sector across LAC is among the top priorities for partners like the European Union. In partnership with the IBD, this initiative aims to enhance environmental, social and governance standards in the extraction and processing of essential minerals, aligning with global sustainability goals and supporting the region's socio-economic development. By fostering responsible production methods, the initiative seeks to ensure that the growth of the raw materials sector contributes to inclusive and sustainable progress in the region (IDB, 2024^[132]).

A new generation of productive development policies in LAC requires a strategic emphasis on regional co-operation, with six building blocks supporting integration and transformation (Figure 4.17).

Figure 4.17. Building blocks for regional co-operation in new productive development policies



Source: Authors' elaboration based on (ECLAC, 2024^[38]), (Ohnsorge, Raiser and Leiyu Xie, 2024^[131]) and (Lebdioui, 2022^[133]).

First, *integrated regional supply chains* are central to this effort. Regional integration can enhance competitiveness and support the transition to cleaner and more stable production structures. By fostering cross-border production networks, countries in the region can take advantage of economies of scale, reduce input costs and improve resilience in the face of global disruptions. The region could take advantage of initiatives already advanced, such as institutions for regional electricity production (OLADE, 2024^[92]).

Second, *skills development and research collaboration* – the development of shared training systems, regional certification schemes and collaborative R&D initiatives – can narrow capability gaps across countries and accelerate innovation, particularly in emerging green and digital sectors (CAF, 2024^[90]).

Third, *facilitating the adoption of digital and low-carbon technologies* is of critical importance. The integration of digital technologies in industrial production requires a clear understanding of data's central role in both the digital and the green economy, alongside the development of policies that strengthen the entire data value chain, from data collection to analysis and application. These trends call for the alignment of productive policy with national digital strategies, especially in developing countries, where governments can support firms that are latecomers to the digital revolution (OECD et al., 2024^[134]). Regional co-operation can promote access to shared infrastructure, facilitate the dissemination of technologies and support the development of regional platforms that reduce duplication and transaction costs. Regional initiatives, such as the e-LAC Digital Agenda for Latin America and the Caribbean, and bi-regional partnerships like the EU-LAC Digital Alliance already provide steps in this direction (ECLAC, 2024^[135]; European Commission, 2025^[67]).

Fourth, the *protection and sustainable use of shared environmental resources* must also be at the core of regional strategies. Cross-border biodiversity assets such as the Amazon basin, mangrove ecosystems and marine corridors require co-ordinated conservation frameworks. The Eastern Tropical Pacific Marine Corridor, involving Colombia, Costa Rica, Ecuador and Panama, provides an example of how biodiversity protection and economic development can be pursued in parallel through regional collaboration (Lebdioui, 2022^[133]). LAC countries could strengthen their productive development policies by formulating shared

agendas on issues of common interest, such as the sustainable exploitation and processing of natural resources and the strengthening of value chains that can take advantage of the scale that the regional market would allow (ECLAC, 2024^[38]).

Fifth, *regulatory harmonisation* supports the development of regional markets. Common environmental, technical and labour standards reduce barriers to trade and investment, enhance policy coherence and build trust among stakeholders.

Finally, *rules-based international trade agreements* promote transparency, stability and predictability in regional and global markets. When aligned with industrial and environmental objectives, trade agreements can reinforce national policy agendas, facilitate access to new technologies and encourage the cross-border flow of knowledge and capital (Ohnsorge, Raiser and Leiyu Xie, 2024^[131]). In the region, various organisations and agreements, including CARICOM, MERCOSUR, Pacific Alliance and SICA, as well as bilateral agreements, such as those between the European Union and Chile, Mexico, Central America or Andean countries, have been reducing barriers and promoting international trade, showcasing the success of existing partnerships (European Commission, 2025^[136]).

Policy recommendations

LAC stands at a critical moment where the convergence of production transformation, green and digital transitions and regional integration can redefine its development trajectory. The new generation of productive development policies that is emerging is mission driven, sustainability oriented, inclusive and anchored in public-private collaboration. These strategies reflect a pragmatic shift away from traditional industrial policy approaches, aiming instead to foster sectors aligned with global climate goals and technological frontiers. However, the success of these policies hinges on the region's ability to co-ordinate at scale, strengthen institutional frameworks and embed industrial strategies within broader international partnerships and financing ecosystems.

FDI, ODA and international co-operation remain critical to advancing the three key enablers of production transformation in LAC: skills development, technology adoption and infrastructure development. Although FDI has increasingly targeted the service and renewable energy sectors, its potential to support regional value chains and technology spillovers remains underexploited. ODA flows, though limited relative to the region's needs, have played an important role in financing skills development, particularly vocational and digital training, and in strengthening institutional capacity for infrastructure planning and governance. However, support is often fragmented and insufficiently aligned with national or regional productive development priorities. Enhanced co-operation is essential to close co-ordination gaps, scale up blended finance instruments and foster sectoral partnerships that accelerate the diffusion of advanced technologies and green infrastructure. Leveraging FDI and ODA in a more strategic and coherent manner can help to bridge structural gaps and ensure that investment flows contribute meaningfully to long-term transformation.

Regional integration has emerged as both a challenge and a strategic lever. Despite decades of trade agreements, intraregional trade in LAC remains among the lowest globally due to weak infrastructure, similar export structures and underdeveloped regional value chains. Yet promising areas for integration exist, particularly in electricity, agro-industrial transformation and health-related manufacturing. The renewed interest in cross-border energy systems, regional electricity integration and powershoring – relocating industries to countries with cleaner and more stable energy sources – signals growing alignment between competitiveness and sustainability. Strengthening regional co-operation mechanisms and regulatory harmonisation is essential to unlock these opportunities and reduce the cost of doing business across borders.

Box 4.6. Key policy recommendations

Promoting partnerships and international co-operation in key enablers of production transformation

- Strengthen international co-operation flows to strategic production transformation sectors in LAC. These flows remain limited despite the growing relevance of FDI and private-sector mobilisation. Efforts towards private-sector mobilisation should be fostered mainly in sectors that promote inclusive and sustainable productive development policies.
- Deepen and align international and regional partnerships with key actors, especially in priority sectors for production transformation, including manufacturing, renewable energy and digital services.
- Scale up support for critical enablers of production transformation, particularly skills development, technology adoption and infrastructure, which remain underrepresented in current co-operation efforts and can encourage further private-sector investment in LAC.
- Ensure that international co-operation and FDI mobilisation explicitly integrate support for enablers of transformation to reinforce long-term impacts and good governance arrangements.
- Support investment climate and FDI attraction, a critical enabler of R&D and digital-sector growth, which are important drivers of production transformation.
- Prioritise FDI and private-sector mobilisation through processes that reflect the development strategies of LAC countries, while considering common interests with international partners.

Fostering regional integration and global value chain insertion

- Promote deeper regional and global value chain integration as a key pathway to productive upgrading in LAC and a source of new partnership opportunities. Focus on key strategic sectors promoting regional integration, such as regional infrastructure.
- Leverage regional trade agreements more strategically, ensuring that they incorporate and advance key sectors with the potential of decent job creation in the long term.
- Improve the coherence and alignment of regional and international partnerships with national and regional priorities aimed at achieving inclusive and sustainable development.
- Explore options for building platforms that can discuss support by partners for a new generation of productive development policies in LAC, at the national and regional levels.

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5 Country notes

Reader's guide

The statistical tables follow key areas identified in the *Latin American Economic Outlook (LEO)*: 1) social development; 2) productivity and innovation; 3) investment and private financing; 4) citizens' perceptions and institutions; 5) digital and green transition; and 6) fiscal position.

The Latin America and the Caribbean (LAC) average is a simple average of the largest set of LAC countries for which latest data were available as of July 2025.

The Organisation for Economic Co-operation and Development (OECD) average is a simple average of the largest set of all OECD member countries for which latest data were available as of July 2025.

To ensure comparability between years, countries for which data are not available for both years of comparison have been excluded from the averages. Exceptions to this are mentioned in the notes.

Applying the same criteria as in previous LEO editions, data selection from international sources prioritises comparability across LAC countries and shows the latest comparable data available at the report's publication date. For this reason, discrepancies with national data may occur.

Social development

Extreme poverty¹: refers to the share (%) of the population whose average per capita income is below the extreme poverty line, as specified by the United Nations Economic Commission for Latin America and the Caribbean. Method of computation: "n" is defined as the total number of persons, and "i" is the number of people whose per capita income is below the extreme poverty line; the percentage of people living in extreme poverty is expressed as $I=(i/n) \times 100$ (known as "headcount index"). The average per capita income is calculated by dividing the total income of each household by the number of people forming it. Data from *CEPALSTAT: Statistical Data Portal and Publications*, <https://statistics.cepal.org/portal/cepalstat/>.

Poverty¹: refers to the share (%) of the population whose average per capita income is below the poverty line, as specified by the United Nations Economic Commission for Latin America and the Caribbean. Method of computation: "n" is the total number of people, and "p" is the number of people whose per capita income is below the poverty line; the percentage of people living in poverty is expressed as $P=(p/n) \times 100$. This indicator includes people under the extreme poverty line, by definition. The average per capita income is calculated by dividing the total income of each household by the number of people forming it. Data from *CEPALSTAT: Statistical Data Portal and Publications*, <https://statistics.cepal.org/portal/cepalstat/>.

Gini index²: measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of zero represents perfect equality; an index of 100 represents perfect inequality. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/SI.POV.GINI>.

Share of total population in informal households³: provides the distribution of the total population living in informal households. An informal household has all its workers in informal work. Data from OECD, *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* (database), www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm.

Share of total population in mixed households: provides the distribution of the total population living in mixed households. A mixed household has both formal and informal workers. Data from from OECD, *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* (database), www.oecd.org/dev/key-indicators-informality-individuals-household-kiibih.htm.

Social Institutions and Gender Index (SIGI): measures discrimination against women in social institutions (e.g. formal and informal laws, social norms, and practices). Lower values indicate lower levels of discrimination in social institutions: the SIGI ranges from 0% for no discrimination to 100% for very high discrimination. Data from *OECD Data Explorer*, <https://stats.oecd.org/Index.aspx?DataSetCode=SIGI2023>.

PISA score in science⁴: indicates the mean score in science performance as measured by the Programme for International Student Assessment (PISA) for each country. Scientific performance measures the scientific literacy of a 15-year-old in the use of scientific knowledge to identify questions, acquire new knowledge, explain scientific phenomena, and draw evidence-based conclusions about science-related issues. Data from *OECD Data Indicators*, “Science performance (PISA),” <https://data.oecd.org/pisa/science-performance-pisa.htm#indicator-chart>.

Productivity and innovation

Export complexity: Measures the diversity and sophistication of a country’s exports to assess its productive capabilities. The indicator used reflects a country’s ranking on the global scale of export complexity, where 1 = most complex economy. Lower rankings suggest reliance on basic or undifferentiated exports; higher rankings indicate diversified, high-value export structures. Data from Harvard Growth Lab, *The Atlas of Economic Complexity*.

Labour productivity: estimation that measures output per hour worked as a percentage of OECD output per hour worked (in 2022 international dollars, converted using purchasing power parity). Data from The Conference Board, *Total Economy Database*, <http://www.conference-board.org/data/economydatabase/total-economy-database-productivity>.

High-technology exports⁵: measures exports of products with high research and development intensity as a percentage of total manufactured exports. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS>.

Patent applications per million people: measures worldwide patent applications filed through the Patent Cooperation Treaty procedure or with a national patent office for exclusive rights for an invention, expressed per million people. Authors’ calculations are based on data from *World Bank Open Data*, <https://data.worldbank.org/indicator/IP.PAT.RESD>.

Research and development expenditure (R&D)⁶: measures capital and current expenditures as a percentage of GDP in four main sectors: business enterprise, government, higher education and private non-profit. R&D covers basic research, applied research and experimental development. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS>.

Investment and private financing

Total investment⁷: measures gross fixed capital formation (GFCF) as a percentage of GDP. GFCF includes land improvements; plants, machinery and equipment purchases; and the construction of roads, railways and the like (including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings). According to the 1993 SNA, net acquisitions of valuables are also considered capital formation. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS>.

Foreign direct investment (FDI) net inflows as a % of GDP: measures the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor as a percentage of GDP. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign

investors and is divided by GDP. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS>.

Domestic credit to private sector by banks (% of GDP): measures financial resources, as a percentage of GDP, provided to the private sector by other depository corporations (deposit-taking corporations except central banks), such as through loans, purchases of nonequity securities and trade credits, and other accounts receivable, that establish a claim for repayment. For some countries, these claims include credit to public enterprises. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS>.

Market capitalisation: measures the share price times the number of shares outstanding (including their several classes) for listed domestic companies, as a percentage of GDP. Investment funds, unit trusts and companies whose only business goal is to hold shares of other listed companies are excluded. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS>.

Citizens' perceptions and institutions

Satisfaction with educational system: measures the percentage of the population who are satisfied with the educational system or schools in the city or area where they live. This metric responds to the question: "Are you satisfied or dissatisfied with the educational system or the schools in the city or area where you live?". Data from Gallup Analytics, *Education and families, Educational System*, <https://ga.gallup.com/Charts/>.

Satisfaction with healthcare system: measures the percentage of the population who are satisfied with the availability of quality healthcare in the city or area where they live. This metric responds to the question: "Are you satisfied or dissatisfied with the availability of quality healthcare in the city or area where you live?". Data from Gallup Analytics, *Health, City: Quality Healthcare* <https://ga.gallup.com/Charts/>.

Satisfaction with standard of living: measures the percentage of people satisfied with their standard of living. This metric responds to the question: "Are you satisfied or dissatisfied with your standard of living, all the things you can buy and do?". Data from Gallup Analytics, *Business and Economics, Standard of Living*, <https://ga.gallup.com/Charts/>.

Confidence in judicial system: measures the percentage of the population that expresses confidence in the judicial system and courts within their country. This metric responds to the survey question: "In this country, do you have confidence in each of the following, or not? How about the judicial system and courts?". Data from Gallup Analytics, *Law and order, Confidence in Judicial System*, <https://ga.gallup.com/Charts/>.

Corruption Perception Index: measures citizens' perceptions of the levels of local corruption in their country, where 0 is completely corrupt and 100 is totally clean. Data from Transparency International, *Corruption Perception Index*, <http://www.transparency.org/en/cpi/2023>.

Tax morale: measures the share (%) of the adult population who find some degree of justification in evading taxes, excluding those who believe tax evasion is not justifiable at all. Data from Latinobarómetro, *Opinión Pública Latinoamericana*, <http://www.latinobarometro.org/latOnline.jsp>.

Security risks Indicator: considers the security threats to a state, such as bombings, attacks and battle-related deaths, rebel movements, mutinies, coups or terrorism. The Security Apparatus Index also considers serious criminal factors, such as organised crime and homicides, and the perceived trust of citizens in domestic security. 0 means low security risks and 10 means high security risks. Data from The Fund for Peace, *Fragile States Index* (database), <https://fragilestatesindex.org/global-data/>.

Digital and green transition

Share of internet users⁸: measures individuals who have used the Internet (from any location) in the last three months. The Internet can be used via a computer, mobile phone, personal digital assistant, games machine, digital TV, etc. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/IT.NET.USER.ZS>.

Fixed broadband subscriptions⁹: measures fixed subscriptions to high-speed access to the public Internet (a TCP/IP connection), at downstream speeds equal to or greater than 256 kbit/s. This includes cable modem, DSL, fibre-to-the-home/building, other fixed (wired) broadband subscriptions, satellite broadband and terrestrial fixed wireless broadband. This total is measured irrespective of the method of payment. It excludes subscriptions that have access to data communications (including the Internet) via mobile-cellular networks. It should include fixed WiMAX and any other fixed wireless technologies. It includes both residential subscriptions and subscriptions for organisations. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/IT.NET.BBND.P2>.

Environmentally related tax revenue¹⁰: measures the revenues from environmentally related taxes as a percentage of GDP. It includes taxes on greenhouse gas (GHG) emissions, fuel taxes, taxes on road use, forestry taxes and revenue from auctioned permits of emission trading systems for GHGs. Data from OECD Data Explorer, *Environmentally related tax revenue*, <https://stats.oecd.org/Index.aspx?DataSetCode=ERTR>.

Per capita greenhouse gas emissions (excluding land use changes) (t CO₂e/capita): measures the total annual emissions of six greenhouse gases (CO₂, CH₄, N₂O, HFCs, PFCs, SF₆) from energy, industry, waste and agriculture, adjusted to carbon dioxide equivalents and divided by the population. It excludes emissions from land use changes and forestry due to higher uncertainties. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/EN.GHG.ALL.PC.CE.AR5>.

Renewable energy consumption: measures the share of renewable energy sources within total final energy consumption, expressed as a percentage. Data from *World Bank Open Data*, <https://data.worldbank.org/indicator/EG.FEC.RNEW.ZS>.

Fiscal position

Total tax revenues¹¹: measures total tax revenues as a percentage of GDP. Data from OECD, *Revenue Statistics in Latin America and the Caribbean 2025*, [Revenue Statistics in Latin America and the Caribbean 2025 | OECD](#).

Share of VAT (value added tax)¹¹: measures VAT as a percentage of GDP. Data from OECD, *Revenue Statistics in Latin America and the Caribbean 2025*, [Revenue Statistics in Latin America and the Caribbean 2025 | OECD](#).

Share of PIT (personal income tax)¹¹: measures taxes on the income, profits and capital gains of individuals as a percentage of GDP. Data from OECD, *Revenue Statistics in Latin America and the Caribbean 2025*, [Revenue Statistics in Latin America and the Caribbean 2025 | OECD](#).

Share of CIT (corporate income tax)¹¹: measures taxes on the income, profits and capital gains of corporations as a percentage of GDP. Data from OECD, *Revenue Statistics in Latin America and the Caribbean 2025*, [Revenue Statistics in Latin America and the Caribbean 2025 | OECD](#).

Public debt service: measures public debt service as a percentage of tax revenue. Public debt service is calculated as general government primary lending/borrowing minus general government net lending/borrowing. Authors' calculations are based on data from International Monetary Fund, *World Economic Outlook Database* <https://www.imf.org/en/Publications/WEO/weo-database/2025/april> and

OECD, *Revenue Statistics in Latin America and the Caribbean 2025*, [Revenue Statistics in Latin America and the Caribbean 2025 | OECD](#).

Social expenditure¹²: measures public social spending as a percentage of GDP. The main social policy areas are old age, survivors, incapacity-related benefits, health, family, active labour market programmes, unemployment, housing, and other social policy areas. For OECD countries, data refer to *Social expenditure* from *OECD Data Explorer*, https://stats.oecd.org/Index.aspx?DataSetCode=SOEX_AGG; for LAC countries, data refer to *CEPALSTAT Statistical Data Portal and Publications*, “Social public expenditure” <https://statistics.cepal.org/portal/cepalstat/dashboard.html>.

Notes

¹ Poverty and extreme poverty: All data are national-level data, except for Argentina, for which only urban-level data are available (as such, Argentina is excluded from the LAC averages). For the LAC average in 2016, data for Chile is from 2015. For the LAC average in 2023, data for Chile and Mexico is from 2022. Weighted LAC averages for poverty and extreme poverty can be consulted in Chapter 1.

² Gini index: For the OECD and LAC averages in 2016, data for Chile is from 2015. For the LAC average in 2022, data for Bolivia is from 2021, and for Panama is from 2023. For the OECD average in 2022: data for Iceland are from 2017; data for Australia, Canada and Switzerland are from 2018; data for Germany and Norway are from 2019; data for Austria, Belgium, Czechia, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Korea, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Serbia, Slovenia, Spain, Sweden, Türkiye, United Kingdom and United States, are from 2021.

³ Informality indicators: For the averages of informality: in 2009, data for Argentina, Costa Rica, Colombia, Mexico and Peru are from 2010; data for El Salvador and Honduras are from 2014; and data for Uruguay is from 2008. For the averages in 2023, data for Chile, Guatemala, Mexico and Suriname are from 2022. Countries for which data are not available for both years of comparison have not been excluded from the averages for the indicators on the share of total population in informal households.

⁴ PISA score in science: average for LAC and OECD countries is simple and not weighted.

⁵ High-technology exports: For the LAC average in 2016, data for Belize are from 2017. For the LAC average in 2022, data for St. Kitts and Nevis are from 2017; data for Bahamas and St. Lucia are from 2020, data for Honduras and St. Vincent and the Grenadines are from 2021.

⁶ Research and development expenditure: For the OECD average in 2016, data for Australia, Switzerland and New Zealand are from 2017. For the OECD average in 2022, data for Australia are from 2019; data for Chile and Colombia are from 2020, and data for Austria, Belgium, Costa Rica, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Netherlands, New Zealand, Norway, Poland, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Türkiye, United Kingdom and United States are from 2021. For the LAC average in 2022, data for Brazil, Chile and Colombia are from 2020, and data for Argentina, Costa Rica, Cuba, El Salvador, Guatemala, Paraguay, Trinidad and Tobago, and Uruguay are from 2021.

⁷ Total investment: For the LAC average in 2022, data for Panama are from 2017 and data for Jamaica are from 2019.

⁸ Share of internet users: For the OECD and LAC averages in 2016, data for Chile is from 2015. For the LAC average in 2022, data for Bahamas, Belize, Bolivia, Chile, Cuba, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Mexico, Panama, and St. Lucia are from 2021. For the OECD average in 2022: data for United Kingdom, United

States, Switzerland, Slovak Republic, New Zealand, Mexico, Japan, Iceland, Ireland, Israel, Canada, Chile, and Australia are from 2021.

⁹ Fixed broadband subscriptions: For the LAC average in 2022, data for Antigua and Barbuda, Belize, Bermuda, Bolivia, Dominica, Grenada, Guyana, Haiti, St. Kitts and Nevis and St. Lucia are from 2021.

¹⁰ Environmental tax revenue: For the LAC average, data for Colombia are from 2020. For the OECD average, data for Colombia, Greece and Switzerland are from 2020.

¹¹ Tax revenues: For the OECD average of total tax revenues in 2021, data for Australia and Japan are from 2020. For the OECD averages of the shares of VAT/PIT/CIT in 2021, data for Australia, Greece and Japan are from 2019.

¹² Social expenditure: For the LAC average in 2021, data for Bolivia, Cuba and Panama are from 2020. For the OECD average in 2021, data for Australia, Mexico and Türkiye are from 2019, and data for Canada, Costa Rica and Japan are from 2020.

Argentina

Promoting and financing production transformation

Regarding **policies for production transformation**, Argentina has undertaken a first series of structural reforms aimed at stabilising the economy and fostering long-term growth since December 2023. A fiscal consolidation and the cessation of monetary financing have significantly reduced inflation since 2024. Stabilisation efforts included targeted fiscal adjustments to enhance public spending efficiency, notably through discretionary cuts in capital expenditure. As a result, Argentina recorded primary budget surpluses almost every month in 2024 – the first time since 2010. Labour market reforms were introduced through the “Bases Law,” approved in June 2024, aiming to balance formal job creation with worker protection. Key changes include the removal of mandatory reinstatement after dismissal disputes and extended probationary periods – up to one year for small firms. To further boost productivity, Argentina has streamlined business regulations and reduced trade barriers, leading to notable improvements in the business environment. The energy sector has emerged as a strategic pillar of production transformation, with developments in the Vaca Muerta shale formation and new pipeline infrastructure positioning Argentina as a future net energy exporter. In 2024, the sector began generating trade surpluses.

Regarding **policies for public financing mechanisms for production transformation**, Argentina has introduced several reforms. A key component is the ongoing tax reform, which includes measures to reduce corporate tax compliance costs. In September 2024, the government launched a preferential regime for large-scale investment projects, offering tax, customs, and foreign exchange incentives for investments exceeding USD 200 million, guaranteed for 30 years. The broader fiscal adjustment, combined with significant exchange rate valuation effects, has led to a substantial reduction in gross federal government debt as a share of GDP. These reforms are particularly relevant given Argentina’s historically low levels of foreign direct investment, which remain concentrated in highly protected manufacturing sectors. By improving macroeconomic stability and incentivising large-scale investment, Argentina is laying the groundwork for a more dynamic and diversified production base.

In terms of **international partnerships for production transformation**, Argentina has established co-operation agreements with a wide range of actors. In co-operation with Japan, the KT+ Project 2025-27 offers technical assistance, training and impact measurement tools to promote MSME competitiveness in Argentina. The country also leads the Fund for South-South and Triangular Cooperation (FO.AR), which enables relevant expertise exchanges in fields such as agro-industry, technology innovation and health. The second phase of the triangular co-operation project with Germany, Kenya and the United Republic of Tanzania was launched in November 2024. The initiative brings together Argentina’s INTA, Kenya’s KALRO, Tanzania’s TALIRI and Germany’s GIZ to strengthen food security, promote sustainable livestock production and deepen bilateral ties.

Argentina: Key indicators

			Argentina						LAC						OECD					
Social development			2016			2023			2016			2023			2016			2022		
Poverty	Extreme poverty		21.5	2.90	30.1	4		25.8	8	22.5	7.4		N/A	N/A						
Gini index			42.3			42.4			46.3			40.9			33.9			34.5		
Share of total population in informal households (%)			34.5 (2010)			35.5			47.9 (2009)			42.3			N/A			N/A		
Share of total population in mixed households (%)			26.1 (2010)			26.3			23.2 (2009)			24.0			N/A			N/A		
Social Institutions & Gender Index (SIGI)			N/A			17.7			25.4 (2019)			21.2			17.5 (2019)			15.3 (2023)		
PISA score in science			406 (2012)			406 (2022)			411 (2015)			408 (2022)			489 (2015)			485		
Productivity and innovation			2016			2023			2016			2023			2016			2023		
Export complexity (position on a global scale where 1 is most complex economy)			80			86			81.5			89			40.6			44.6		
Labour productivity (% of OECD)			58			46 (2024)			42			40 (2024)			100			100		
High-tech exports (% of manufactured exports)			9			5.4			8.5			8			16.5			18.1		
Patent applications per million people			20.3			8.9 (2021)			13.8			12.8 (2021)			631.2			572.8 (2021)		
R&D expenditures (% of GDP)			0.6			0.55 (2022)			0.3			0.3 (2022)			1.8			2.1 (2022)		
Investment and private financing			2016			2024			2016			2024			2016			2024		
Total investment, gross fixed capital formation (% of GDP)			14.3			15.8			20.7			19.8			21.9			21.7		
Foreign direct investment (FDI), net capital inflow (% of GDP)			0.6			1.8			4.3			4.3			N/A			N/A		
Domestic credit to private sector (% of GDP)			13.5			15.2			45.2			44.1			86.8			71.7		
Market capitalisation (% of GDP)			8.8 (2019)			8.4 (2022)			50.2 (2019)			37.3			69.5 (2019)			66.4		
Citizens' perceptions and institutions			2011			2024			2011			2024			2011			2024		
Satisfaction with educational system (% of population)			66			57			67			67			66			65		
Satisfaction with healthcare system (% of population)			65			49			55			54			70			64		
Share of people satisfied with their standard of living (%)			75			66			70			73			73			77		
Confidence in judicial system (% of population)			40			31			33			38			50			56		
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			36 (2016)			37			41.2 (2016)			40.6			67.3 (2016)			66.79		
Tax morale (% of adult population who have heard of people who pay less taxes)			36.1			55.2 (2023)			50.6			55.3 (2023)			N/A			N/A		
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			4 (2016)			4			5.9 (2016)			5.3			2.8 (2016)			2.2		
Digital and green transition			2016			2023			2016			2023			2016			2023		
Share of internet users (% of population)			71			89.2			54.5			77.7			81.8			91.8		
Fixed broadband subscriptions (per 100 inhabitants)			16.5			25.4			11.2			17			30.6			36		
Environmentally related tax revenue (% of GDP)			1.2			0.8 (2022)			1			0.7			1.7			1.3		
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			8.6			8.03			5.3			4.9			10.7			8.7		
Renewable energy consumption (% of total final energy consumption)			9.4			9.2 (2021)			28.9			33.9 (2021)			12.5			14.9 (2021)		
Fiscal position			2016			2023			2016			2023			2016			2023		
Total tax revenues (% of GDP)			30.7			27.8			20.9			21.3			33.5			33.9		
Share of VAT PIT CIT			7.1	2.1	2.9	7.7	2.2	2.2	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)			6.2			9.2			11.3			13.5			5.4			4		
Social expenditure (% of GDP)			14.2			12.6			11			11.5			20.2			21.2 (2024)		

Note: See the Reader's guide for definitions and sources.

Barbados

Promoting and financing production transformation

Regarding **policies for production transformation**, Barbados is prioritising key strategic sectors for its sustainable development strategy. Tourism has been identified as the top priority. The main objectives include improving air transport, strengthening the operational and regulatory framework for aviation and tourism and implementing information systems for management and regulation, with the support of the government, the private sector and international organisations such as the Inter-American Development Bank. In second place, the energy transition is guided by the Barbados National Energy Policy 2019-2030, which aims to achieve net-zero emissions by 2035 through clean technologies, electrification of transport, and efficiency in buildings and agriculture, with investments estimated at USD 9.5 billion and a governance structure co-ordinated by various government institutions and international partners. Third, the agricultural sector prioritises sustainable agriculture, food security and agribusiness, implementing a digital agricultural framework and climate-smart practices, with technical and financial support from international and regional agencies. In addition, the Agriculture and Fisheries Disaster Management Plan 2025 takes a comprehensive approach to protect food security and the environment. Fourth, the blue economy sector promotes science-based marine development through coastal upgrades, marine asset valuation, and digital shipping systems to enhance sustainability and compliance.

Regarding **public financing mechanisms for production transformation**, they are mainly articulated through corporate tax incentives and business development funds. Tax instruments include corporate income tax credits, which function as tax expenditures (uncollected tax revenues) and take the form of deductions from the tax base or credits against tax due. These incentives can be income-based or expenditure-based and are applied, for example, to the promotion of research and development, employment generation, tourism development and cultural industries. Their impact is monitored through corporate tax returns under the Income Tax Act. There are also public financial institutions such as the Micro, Small and Medium Enterprises (MSME) Development Fund and the Enterprise Growth Fund under the Amended National MSME Development Policy 2025, that promotes the Caribbean Community (CARICOM) Single Market integration, empowering persons with disabilities, and leveraging artificial intelligence and e-commerce, for example, GovTech Barbados Ltd, to expand market access. The policy is anchored on four thematic pillars: business continuity and resilience, sustainability, digital transformation, and innovation.

In terms of **international partnerships for production transformation**, Barbados participates in the Joint Initiative on Investment Facilitation for Development Agreement under the World Trade Organization, which sets standards to make investment regulations more transparent and efficient, promoting sustainability and strengthening the ability to attract high-quality foreign direct investment. This initiative, led by Invest Barbados, the Ministry of Foreign Affairs and Business Barbados, has the potential to foster innovation and diversify the investment base in the economy. In parallel, Barbados is regionally integrated through CARICOM and bilateral agreements with LAC countries, which facilitate the free movement of goods, services, capital and skilled labour, creating a favourable environment for production transformation.

Barbados: Key indicators

			Barbados						LAC						OECD					
Social development			2016			2023			2016			2023			2016			2022		
Poverty	Extreme poverty		N/A	N/A		N/A	N/A		25.8	8		22.5	7.4		N/A		N/A			
Gini index			34.1			N/A			46.3			40.9			33.9			34.5		
Share of total population in informal households (%)			43.2			N/A			47.9 (2009)			42.3			N/A			N/A		
Share of total population in mixed households (%)			21.8			N/A			23.2 (2009)			24.0			N/A			N/A		
Social Institutions & Gender Index (SIGI)			N/A			N/A			25.4 (2019)			21.2			17.5 (2019)			15.3 (2023)		
PISA score in science			N/A			N/A			411 (2015)			408 (2022)			489 (2015)			485		
Productivity and innovation			2019			2023			2016			2023			2016			2023		
Export complexity (position on a global scale where 1 is most complex economy)			N/A			N/A			81.5			89			40.6			44.6		
Labour productivity (% of OECD)			N/A			N/A			42			40 (2024)			100			100		
High-tech exports (% of manufactured exports)			13.7			18.4			8.5			8			16.5			18.1		
Patent applications per million people			3.6(2014)			258.7(2021)			13.8			12.8 (2021)			631.2			572.8 (2021)		
R&D expenditures (% of GDP)			N/A			N/A			0.3			0.3 (2022)			1.8			2.1 (2022)		
Investment and private financing			2016			2024			2016			2024			2016			2024		
Total investment, gross fixed capital formation (% of GDP)			N/A			N/A			20.7			19.8			21.9			21.7		
Foreign direct investment (FDI), net capital inflow (% of GDP)			10.4			4.2			4.3			4.3			N/A			N/A		
Domestic credit to private sector (% of GDP)			74.3			64.2			45.2			44.1			86.8			71.7		
Market capitalisation (% of GDP)			58.08			53.8 (2020)			50.2 (2019)			37.3			69.5 (2019)			66.4		
Citizens' perceptions and institutions			2016			2024			2011			2024			2011			2024		
Satisfaction with educational system (% of population)			N/A			N/A			67			67			66			65		
Satisfaction with healthcare system (% of population)			N/A			N/A			55			54			70			64		
Share of people satisfied with their standard of living (%)			N/A			N/A			70			73			73			77		
Confidence in judicial system (% of population)			N/A			N/A			33			38			50			56		
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			61 (2016)			68			41.2 (2016)			40.6			67.3 (2016)			66.79		
Tax morale (% of adults who find some degree of justification in evading taxes)			N/A			N/A			50.6			55.3 (2023)			N/A			N/A		
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			4.4			4.1			5.9 (2016)			5.3			2.8 (2016)			2.2		
Digital and green transition			2016			2023			2016			2023			2016			2023		
Share of internet users (% of population)			72.2			80			54.5			77.7			81.8			91.8		
Fixed broadband subscriptions (per 100 inhabitants)			31.07			37.48 (2022)			11.2			17			30.6			36		
Environmentally related tax revenue (% of GDP)			0			0.7			1			0.7			1.7			1.3		
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			3.4			3.5			5.3			4.9			10.7			8.7		
Renewable energy consumption (% of total final energy consumption)			2.8			5.5 (2022)			28.9			33.9 (2021)			12.5			14.9 (2021)		
Fiscal position			2016			2023			2016			2023			2016			2023		
Total tax revenues (% of GDP)			28.1			28.1			20.9			21.3			33.5			33.9		
Share of VAT PIT CIT			8.3	4.6	2.3	8.0	3.3	4.1	5.9	2	3	6.0	2.0	3.8	6.6	7.8	3	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)			11.2 (2018)			18.4			11.3			13.5			5.4			4		
Social expenditure (% of GDP)			15.5			13.6			11			11.5			20.2			21.2 (2024)		

Note: See the Reader's guide for definitions and sources.

Brazil

Promoting and financing production transformation

Regarding **policies for production transformation**, the *Estratégia Brasil 2050* outlines a long-term development vision to address key structural challenges, such as climate adaptation and technological transformation. The strategy is supported by comprehensive sectoral plans, including *Nova Indústria Brasil* (NIB) and the National Plan for Energetic Transition (PNTE). *NIB 2024-2033* provides a concrete action plan to strengthen the competitiveness, sustainability and innovation capacity of Brazilian industry, offering financial and technical tools to advance decarbonisation and digitalisation. *PNTE 2024-2034* focuses on reshaping the energy matrix by expanding renewable energy sources and developing green hydrogen hubs. In parallel, the *Programa de Aceleração do Crescimento* (PAC) seeks to drive economic growth through investments in physical and digital infrastructure for production transformation. Further relevant policy frameworks include the *Política Nacional de Desenvolvimento Regional*, which encourages value addition and economic diversification across Brazil's regions, and the *Estratégia Nacional de Bioeconomia*, which promotes sustainable development through the responsible use of biodiversity.

Regarding **public financing mechanisms for productive transformation**, the NIB launched the *Plano Mais Produção*, introducing a range of financial instruments for businesses, backed by USD 50 billion in funding for the period 2024-2026. These instruments include both direct and indirect financing for the acquisition of technological equipment, the expansion of research and development projects, and technical support for digitalisation, mainly provided through the *Banco Nacional de Desenvolvimento*. The bank offers programmes to support micro, small and medium-sized enterprises (MSMEs) and promote sustainability and modernisation, including subsidised loans, credit lines, grants for innovation and fiscal incentives. In parallel, the PAC has earmarked more than USD 250 billion for infrastructure investments, with a focus on green projects and digital inclusion. The *Fundo Nacional de Desenvolvimento Industrial e Tecnológico*, established in 2025, supports strategic industrial, scientific and technological projects in Brazil through grants and low-interest loans. Finally, public innovation agencies such as *Financiadora de Estudos e Projetos* and *Empresa Brasileira de Pesquisa e Inovação Industrial* continue to provide technical and financial support to companies, offering capacity building, subsidised credit and non-reimbursable funding for innovative initiatives.

In terms of **international partnerships for production transformation**, Brazil has established financial co-operation with the Climate Investment Funds, a global initiative supporting low-carbon transitions in developing countries. Among 26 countries, Brazil was chosen to implement a USD 230 million industrial plan focused on developing low-carbon technologies. At the 2024 United Nations Climate Change Conference, Brazil and the United Kingdom launched a strategic partnership through the Industrial Decarbonisation Hub to support industrial policy and promote knowledge exchange. Other key initiatives include the Partnership for the New Industrial Revolution with the BRICS forum of emerging economies and co-operation with Canada's National Research Council and Chinese public agencies to enhance MSME competitiveness. In 2023, Brazil signed a co-operation agreement with the German Brazilian Chamber of Commerce and Industry to promote research in bioeconomy and green technology.

Brazil: Key indicators

		Brazil					LAC					OECD							
Social development		2016		2023			2016		2023			2016		2022					
Poverty	Extreme poverty	20.9	5.3	16.1	3.5		25.8	8	22.5	7.4		N/A		N/A					
Gini index		53.4		51.6			46.3		40.9			33.9		34.5					
Share of total population in informal households (%)		37.7 (2009)		25.7			47.9 (2009)		42.3			N/A		N/A					
Share of total population in mixed households (%)		28.3 (2009)		28.5			23.2 (2009)		24.0			N/A		N/A					
Social Institutions & Gender Index (SIGI)		21.2 (2019)		21.6			25.4 (2019)		21.2			17.5 (2019)		15.3 (2023)					
PISA score in science		401 (2015)		403 (2022)			411 (2015)		408 (2022)			489 (2015)		485					
Productivity and innovation		2016		2023			2016		2023			2016		2023					
Export complexity (position on a global scale where 1 is most complex economy)		54		93			81.5		89			40.6		44.6					
Labour productivity (% of OECD)		38		38 (2024)			42		40 (2024)			100		100					
High-tech exports (% of manufactured exports)		16		9.8			8.5		8			16.5		18.1					
Patent applications per million people		25.1		21.8 (2021)			13.8		12.8 (2021)			631.2		572.8 (2021)					
R&D expenditures (% of GDP)		1.3		1.1 (2020)			0.3		0.3 (2022)			1.8		2.1 (2022)					
Investment and private financing		2016		2024			2016		2024			2016		2024					
Total investment, gross fixed capital formation (% of GDP)		15.5		17			20.7		19.8			21.9		21.7					
Foreign direct investment (FDI), net capital inflow (% of GDP)		4.1		3.3			4.3		4.3			N/A		N/A					
Domestic credit to private sector (% of GDP)		62.2		75.8			45.2		44.1			86.8		71.7					
Market capitalisation (% of GDP)		63.4 (2019)		30.2			50.2 (2019)		37.3			69.5 (2019)		66.4					
Citizens' perceptions and institutions		2011		2024			2011		2024			2011		2024					
Satisfaction with educational system (% of population)		55		66			67		67			66		65					
Satisfaction with healthcare system (% of population)		36		48			55		54			70		64					
Share of people satisfied with their standard of living (%)		77		79			70		73			73		77					
Confidence in judicial system (% of population)		46		44			33		38			50		56					
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])		40 (2016)		34			41.2 (2016)		40.6			67.3 (2016)		66.79					
Tax morale (% of adults who find some degree of justification in evading taxes)		45.4		44.8 (2023)			50.6		55.3 (2023)			N/A		N/A					
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])		6.4 (2016)		5.9			5.9 (2016)		5.3			2.8 (2016)		2.2					
Digital and green transition		2016		2023			2016		2023			2016		2023					
Share of internet users (% of population)		60.9		84.2			54.5		77.7			81.8		91.8					
Fixed broadband subscriptions (per 100 inhabitants)		13.2		22.9			11.2		17			30.6		36					
Environmentally related tax revenue (% of GDP)		0.9		0.7 (2022)			1		0.7			1.7		1.3					
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)		6.2		6.2			5.3		4.9			10.7		8.7					
Renewable energy consumption (% of total final energy consumption)		45.4		46.5 (2021)			28.9		33.9 (2021)			12.5		14.9 (2021)					
Fiscal position		2016		2023			2016		2023			2016		2023					
Total tax revenues (% of GDP)		31.6		32.0			20.9		21.3			33.5		33.9					
Share of VAT PIT CIT		6.6	2.6	3.2	6.5	3	3.7	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)		20.5		17.4			11.3		13.5			5.4		4					
Social expenditure (% of GDP)		16.7		16.1			11		11.5			20.2		21.2 (2024)					

Note: See the Reader's guide for definitions and sources.

Chile

Promoting and financing production transformation

Regarding **policies for production transformation**, Chile has developed the *Programa Desarrollo Productivo Sostenible* (DPS), an interministerial budgetary programme structured around three objectives: promote just decarbonisation, foster climate resilience and increase the sophistication of sustainable production. The DPS supports scientific or technological knowledge aimed at making production more sophisticated and advancing human capital, including technical training and support for micro, small and medium-sized enterprises (MSMEs). More than 100 initiatives and 780 companies, universities and research centres nationwide have benefited. The strategy includes the *Plan de Acción de Hidrógeno Verde 2023-2030* and the *Estrategia Nacional del Litio*, both aimed at equipping these industries with sustainable practices, modern technologies, and inclusive stakeholder engagement. The *Estrategia de transformación digital: Chile Digital 2035* focuses on digitalising production processes, particularly among MSMEs, with targets for e-commerce adoption set at 35% by 2025, 50% by 2030, and 70% by 2035.

Regarding **public financing mechanisms for production transformation**, the main funding source is the Chilean public development agency, the *Corporación de Fomento de la Producción* (CORFO). The resources it receives from sales of lithium are directed to the DPS, which received more than USD 172 million in 2023. The budgetary programme offers several financial instruments, including subsidies for innovation and technological development, guarantees and second-tier credits, investments in technologies enabling sustainable production, and the development of strategic capacities for implementation of the policies. These resources are complemented by international funds such as a USD 1 billion line of credit, approved by the Inter-American Development Bank in December 2022 and targeted at investment projects promoting sustainable development. The bank directed an additional USD 400 million to improve the productivity of MSMEs, with more than 170 000 companies benefiting.

In terms of **international partnerships for production transformation**, the most notable field of co-operation is the green hydrogen (GH2) sector. The Team Europe Initiative for the Development of Renewable Hydrogen in Chile, established with the European Union, aims to support the decarbonisation of the Chilean economy and the creation of green jobs and business opportunities. The Global Gateway Renewable Hydrogen Fund for Chile was created within this framework, with funds of up to USD 200 million from the European Investment Bank and the German Development Bank to promote the Chilean hydrogen market. Agreements for expertise exchange on GH2 were also signed with the Netherlands (2023) and the United Kingdom (2024), with the latter expected to unlock more than USD 6.5 billion in UK export credit support. In terms of technology, the MACHI Technology Platform was created in Chile as a part of the FIRST project, an initiative of the European Commission to foster research into future Internet technologies. Finally, the European Union-Latin America and Caribbean Digital Alliance (2023) is incentivising strategic co-operation in the fields of digitalisation and space.

Chile: Key indicators

		Chile						LAC						OECD					
Social development		2015			2023			2016			2023			2016			2022		
Poverty	Extreme poverty	13.2		1.7	8.1		2.1	25.8		8	22.5		7.4	N/A			N/A		
Gini index		45.3			43			46.3			40.9			33.9			34.5		
Share of total population in informal households (%)		24.5 (2009)			18.3 (2022)			47.9 (2009)			42.3			N/A			N/A		
Share of total population in mixed households (%)		23.6 (2009)			19.7 (2022)			23.2 (2009)			24.0			N/A			N/A		
Social Institutions & Gender Index (SIGI)		36.1 (2019)			27.2			25.4 (2019)			21.2			17.5 (2019)			15.3 (2023)		
PISA score in science		447			444 (2022)			411 (2015)			408 (2022)			489 (2015)			485		
Productivity and innovation		2016			2023			2016			2023			2016			2023		
Export complexity (position on a global scale where 1 is most complex economy)		87			88			81.5			89			40.6			44.6		
Labour productivity (% of OECD)		59			60 (2024)			42			40 (2024)			100			100		
High-tech exports (% of manufactured exports)		8.4			10.7			8.5			8			16.5			18.1		
Patent applications per million people		21.3			20.6 (2021)			13.8			12.8 (2021)			631.2			572.8 (2021)		
R&D expenditures (% of GDP)		0.4			0.36 (2021)			0.3			0.3 (2022)			1.8			2.1 (2022)		
Investment and private financing		2016			2024			2016			2024			2016			2024		
Total investment, gross fixed capital formation (% of GDP)		24.1			23.5			20.7			19.8			21.9			21.7		
Foreign direct investment (FDI), net capital inflow (% of GDP)		4.6			3.8			4.3			4.3			N/A			N/A		
Domestic credit to private sector (% of GDP)		80			103.4			45.2			44.1			86.8			71.7		
Market capitalisation (% of GDP)		146.5 (2019)			79.3			50.2 (2019)			37.3			69.5 (2019)			66.4		
Citizens' perceptions and institutions		2011			2024			2011			2024			2011			2024		
Satisfaction with educational system (% of population)		44			56			67			67			66			65		
Satisfaction with healthcare system (% of population)		39			44			55			54			70			64		
Share of people satisfied with their standard of living (%)		69			74			70			73			73			77		
Confidence in judicial system (% of population)		24			26			33			38			50			56		
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])		66 (2016)			63			41.2 (2016)			40.6			67.3 (2016)			66.79		
Tax morale (% of adults who find some degree of justification in evading taxes)		41.3			40.9 (2023)			50.6			55.3 (2023)			N/A			N/A		
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])		2.9 (2016)			3.9			5.9 (2016)			5.3			2.8 (2016)			2.2		
Digital and green transition		2016			2023			2016			2023			2016			2023		
Share of internet users (% of population)		83.6			94.5			54.5			77.7			81.8			91.8		
Fixed broadband subscriptions (per 100 inhabitants)		15.9			23			11.2			17			30.6			36		
Environmentally related tax revenue (% of GDP)		1.2			0.8 (2022)			1			0.7			1.7			1.3		
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)		7			6.2			5.3			4.9			10.7			8.7		
Renewable energy consumption (% of total final energy consumption)		24.6			24.2 (2021)			28.9			33.9 (2021)			12.5			14.9 (2021)		
Fiscal position		2016			2023			2016			2023			2016			2023		
Total tax revenues (% of GDP)		20.2			20.6			20.9			21.3			33.5			33.9		
Share of VAT PIT CIT		8.3	1.8	4.2	8.6	1.9	5.2	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)		1.4			1.7			11.3			13.5			5.4			4		
Social expenditure (% of GDP)		16.2			18.3			11			11.5			20.2			21.2 (2024)		

Note: See the Reader's guide for definitions and sources.

Colombia

Promoting and financing production transformation

Regarding **policies for production transformation**, Colombia has adopted the *Política Nacional de Reindustrialización 2024-2034*, issued through the CONPES 4129 of 2023, to shift from an extraction-based model to a more productive, sustainable, inclusive and knowledge-driven economy. The policy combines horizontal strategies (infrastructure, human capital, financing, innovation) with vertical approaches targeting strategic sectors –agro-industrialisation, health, defence, a just energy transition and territorially based development. A key complement is the *2023 Hoja de Ruta para la Transición Energética Justa*, implemented by the Ministry of Mines and Energy, which seeks to diversify the productive matrix and reduce reliance on the energy sector while strengthening social inclusion, community participation and affordable energy for vulnerable households. Colombia's strategy also supports small and medium-sized enterprises and the popular economy through development-bank schemes, credit guarantees prioritising rural and conflict-affected areas, the promotion of fintech and digital solutions, financial education for micro-entrepreneurs, and targeted support for the businesses of women, Indigenous peoples and Afro-descendants. In parallel, the NDP 2022-2026 established ZASCA reindustrialisation centres in 26 departments to provide technical assistance, access to advanced machinery, technology and business services in agribusiness, manufacturing – such as textiles, apparel and metalworking – and technology, with differentiated support for youth and people deprived of liberty. Furthermore, Colombia has adopted the *Plan Sectorial de Turismo 2022-2026* to promote sustainable tourism as a driver of regional development, with targets of 7.5 million non-resident visitors and 300 000 tourism-related jobs by 2026.

Regarding **public financing mechanisms for production transformation**, Colombia facilitates the implementation of strategic projects through the infrastructure private-public entity *Financiera de Desarrollo Nacional* by providing structured financing mechanisms and by supporting the legal, technical and financial structuring of these projects. Among the most important initiatives are the reactivation of the railway sector, aimed at modernising intermodal transport and reducing logistics costs, and the 5G Programme, which has mobilised USD 12.3 million to improve road, rail, river and airport connectivity. These initiatives elevate the importance of transport as a key economic asset due to its capacity for job creation, its contribution to industrial added value and its potential to stimulate local production chains with a technological orientation. These projects mobilise public and private investment with the backing of national entities such as the *Agencia Nacional de Infraestructura* and international support from the Inter-American Development Bank (IDB), the Development Bank of Latin America and the Caribbean, the European Union and the United Kingdom.

In terms of **international partnerships for production transformation**, Colombia has developed strategies to strengthen the attraction of foreign direct investment such as: i) the One-Stop Investment Window (VUI), designed with support from the IDB, which centralises, streamlines and digitalises the establishment processes for foreign investors; ii) the Foreign Direct Investment Facilitation Service (SIED), which works to manage and resolve requests from foreign investors and improve the investment climate; and iii) the SIED Committee, whose purpose is to analyse, guide, propose, co-ordinate and monitor Colombia's IED policy.

Colombia: Key indicators

				Colombia				LAC				OECD							
Social development				2016		2023		2016		2023		2016		2022					
Poverty	Extreme poverty	30	11	32.6	16	26	8	22.5	7	N/A	N/A								
Gini index				50.6		53.9		46.3		40.9		33.9		34.5					
Share of total population in informal households (%)				62.6 (2010)		53.0		47.9 (2009)		42.3		N/A		N/A					
Share of total population in mixed households (%)				21.1 (2010)		17.2		23.2 (2009)		24.0		N/A		N/A					
Social Institutions & Gender Index (SIGI)				15 (2019)		23.5		25.4 (2019)		21.2		17.5 (2019)		15.3 (2023)					
PISA score in science				416 (2015)		411 (2022)		411 (2015)		408 (2022)		489 (2015)		485					
Productivity and innovation				2016		2023		2016		2023		2016		2023					
Export complexity (position on a global scale where 1 is most complex economy)				65		65		81.5		89		40.6		44.6					
Labour productivity (% of OECD)				38		39 (2024)		42		40 (2024)		100		100					
High-tech exports (% of manufactured exports)				10.2		8.6		8.5		8		16.5		18.1					
Patent applications per million people				11.4		8.4 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)					
R&D expenditures (% of GDP)				0.3		0.3 (2020)		0.3		0.3 (2022)		1.8		2.1 (2022)					
Investment and private financing				2016		2024		2016		2024		2016		2024					
Total investment, gross fixed capital formation (% of GDP)				22.1		16.5		20.7		19.8		21.9		21.7					
Foreign direct investment (FDI), net capital inflow (% of GDP)				4.9		3.4		4.3		4.3		N/A		N/A					
Domestic credit to private sector (% of GDP)				47		39.6		45.2		44.1		86.8		71.7					
Market capitalisation (% of GDP)				40.9 (2019)		17.4		50.2 (2019)		37.3		69.5 (2019)		66.4					
Citizens' perceptions and institutions				2011		2024		2011		2024		2011		2024					
Satisfaction with educational system (% of population)				71		71		67		67		66		65					
Satisfaction with healthcare system (% of population)				49		46		55		54		70		64					
Share of people satisfied with their standard of living (%)				76		75		70		73		73		77					
Confidence in judicial system (% of population)				32		32		33		38		50		56					
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])				37 (2016)		39		41.2 (2016)		40.6		67.3 (2016)		66.79					
Tax morale (% of adults who find some degree of justification in evading taxes)				53		61.1 (2023)		50.6		55.3 (2023)		N/A		N/A					
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])				7 (2016)		6.5		5.9 (2016)		5.3		2.8 (2016)		2.2					
Digital and green transition				2016		2023		2016		2023		2016		2023					
Share of internet users (% of population)				58.1		77.3		54.5		77.7		81.8		91.8					
Fixed broadband subscriptions (per 100 inhabitants)				12.5		17		11.2		17		30.6		36					
Environmentally related tax revenue (% of GDP)				0.8		0.5 (2022)		1		0.7		1.7		1.3					
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)				4.1		4.3		5.3		4.9		10.7		8.7					
Renewable energy consumption (% of total final energy consumption)				30.5		29.7 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)					
Fiscal position				2016		2023		2016		2023		2016		2023					
Total tax revenues (% of GDP)				19.1		22.2		20.9		21.3		33.5		33.9					
Share of VAT PIT CIT		4.8	1	4.9	6.1	2	7.2	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)				10.1		17		11.3		13.5		5.4		4					
Social expenditure (% of GDP)				12.5		12.2		11		11.5		20.2		21.2 (2024)					

Note: See the Reader's guide for definitions and sources.

Costa Rica

Promoting and financing production transformation

Regarding **policies for production transformation**, Costa Rica launched its *Plan de Descarbonización* in 2019 with the aim of achieving net-zero emissions by 2050 through the promotion of a modern, green and sustainable economy. The plan is based on ten sectoral pillars, including industry, transport, energy, construction and agriculture. For the industrial sector, the strategy aims to develop innovative productive models based on circular principles and to decouple growth from emissions by 2050. Regarding energy, the core target is to have 100% renewable electricity by 2030. The agricultural efforts are centred around livestock, coffee, sugarcane, rice, pineapple and musaceae crops. Another central programme is *Crecimiento Verde* (11th edition), a platform offered by the Trade and Investment Promotion Agency of Costa Rica to foster green production transformation in micro, small and medium-sized enterprises (MSMEs) specialising in exports. Over 370 companies have already benefited from the programme, with 46% led by women and 51% demonstrating export potential – 49% of which are already engaged in international trade. This has led to a 38% increase in export market diversification. Finally, the *Estrategia Nacional de Bioeconomía 2020-2030* establishes a comprehensive framework for sustainable, inclusive and high-value-added production, aligning development with the conservation of biodiversity.

Regarding **public financing mechanisms for production transformation**, the main source of funding is the *Sistema de Banca para el Desarrollo* (SBD), a system of banking for development made up of public and private entities that finance technically and economically feasible projects, particularly those aimed at increasing the productivity of MSMEs. The SBD is the main financing source of *Crecimiento Verde*, offering non-reimbursable capital funds to companies and a technical assistance grant covering 90% of total programme costs. The amount available is USD 17 000 for medium-sized enterprises and USD 13 800 for micro and small companies. Through *Crecimiento Verde*, MSMEs have been granted a total of USD 4.7 million. The SBD also funds its own initiatives in areas such as inclusion, transformative innovation and productive investment. It offers grants of more than USD 59 000 for innovation processes, loans of nearly USD 2 000 for agricultural development and venture capital funds of nearly USD 9 900 for business promotion.

In terms of **international partnerships for production transformation**, the European Union-Costa Rica Cooperation Facility 2023-27, with a capacity of USD 12 million, was launched at the Global Gateway Forum. The facility notably targets decarbonisation, digital transformation and innovation. In addition, the Costa Rica Country Partnership Framework 2024-28 from the World Bank aims to strengthen human capital and promote economic growth. In June 2025, a new country programme was established with the United Nations Industrial Development Organisation focused on developing technical skills and supporting the green transition. Costa Rica also has a USD 725 million arrangement with the International Monetary Fund (2022) to foster economic resilience and decarbonisation, and another worth USD 450 million with the Inter-American Development Bank and the Agence Française de Développement to support implementation of the National Decarbonisation Plan.

Costa Rica: Key indicators

			Costa Rica					LAC					OECD							
Social development			2016		2023			2016		2023			2016		2022					
Poverty	Extreme poverty		16.5	4	15.9	4	25.8	8	22.5	7.4			N/A		N/A					
Gini index			48.7		45.8 (2024)			46.3		40.9			33.9		34.5					
Share of total population in informal households (%)			26.9 (2010)		26.3			47.9 (2009)		42.3			N/A		N/A					
Share of total population in mixed households (%)			27.2 (2010)		19.0			23.2 (2009)		24.0			N/A		N/A					
Social Institutions & Gender Index (SIGI)			27.9 (2019)		10.9			25.4 (2019)		21.2			17.5 (2019)		15.3 (2023)					
PISA score in science			420 (2015)		411 (2022)			411 (2015)		408 (2022)			489 (2015)		485					
Productivity and innovation			2016		2023			2016		2023			2016		2023					
Export complexity (position on a global scale where 1 is most complex economy)			60		59			81.5		89			40.6		44.6					
Labour productivity (% of OECD)			55		64 (2024)			42		40 (2024)			100		100					
High-tech exports (% of manufactured exports)			18.4		20.4 (2022)			8.5		8			16.5		18.1					
Patent applications per million people			1.8		2.9 (2021)			13.8		12.8 (2021)			631.2		572.8 (2021)					
R&D expenditures (% of GDP)			0.4		0.34 (2022)			0.3		0.3 (2022)			1.8		2.1 (2022)					
Investment and private financing			2016		2024			2016		2024			2016		2024					
Total investment, gross fixed capital formation (% of GDP)			18.8		15.8			20.7		19.8			21.9		21.7					
Foreign direct investment (FDI), net capital inflow (% of GDP)			4.5		5.5			4.3		4.3			N/A		N/A					
Domestic credit to private sector (% of GDP)			57.8		52			45.2		44.1			86.8		71.7					
Market capitalisation (% of GDP)			3.4 (2019)		3.2 (2022)			50.2 (2019)		37.3			69.5 (2019)		66.4					
Citizens' perceptions and institutions			2011		2024			2011		2024			2011		2024					
Satisfaction with educational system (% of population)			79		79			67		67			66		65					
Satisfaction with healthcare system (% of population)			63		70			55		54			70		64					
Share of people satisfied with their standard of living (%)			79		84			70		73			73		77					
Confidence in judicial system (% of population)			32		49			33		38			50		56					
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			58 (2016)		58			41.2 (2016)		40.6			67.3 (2016)		66.79					
Tax morale (% of adults who find some degree of justification in evading taxes)			43.7		41.9 (2023)			50.6		55.3 (2023)			N/A		N/A					
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			3.3 (2016)		3.1			5.9 (2016)		5.3			2.8 (2016)		2.2					
Digital and green transition			2016		2023			2016		2023			2016		2023					
Share of internet users (% of population)			65.9		85			54.5		77.7			81.8		91.8					
Fixed broadband subscriptions (per 100 inhabitants)			13.1		22.5			11.2		17			30.6		36					
Environmentally related tax revenue (% of GDP)			2.4		2			1		0.7			1.7		1.3					
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			3.2		3.2			5.3		4.9			10.7		8.7					
Renewable energy consumption (% of total final energy consumption)			34.1		34.2 (2021)			28.9		33.9 (2021)			12.5		14.9 (2021)					
Fiscal position			2016		2023			2016		2023			2016		2023					
Total tax revenues (% of GDP)			23.5		24.9			20.9		21.3			33.5		33.9					
Share of VAT PIT CIT			4.4	1	2.3	4.9	1	2.6	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)			11.8		19.3			11.3		13.5			5.4		4					
Social expenditure (% of GDP)			11.9		10			11		11.5			20.2		21.2 (2024)					

Note: See the Reader's guide for definitions and sources.

Dominican Republic

Promoting and financing production transformation

Regarding **policies for production transformation**, the *Estrategia Nacional de Desarrollo 2030* was established to promote an inclusive, innovative and sustainable economy by integrating technology into industry, developing skills for a dynamic labour market and strengthening innovation capacity. To co-ordinate these efforts, the Cabinet of Innovation and Digital Development was created. Particularly noteworthy among its initiatives are the *Política Nacional de Innovación 2030* (PNI) and the *Estrategia Nacional de Inteligencia Artificial* (ENIA), both launched in 2022. The PNI focuses on enriching human capital and investing in innovation through projects such as the Centres of Excellence in Research and Development, the Digital Transformation Training Programme and the National Network of Public-Private Incubators. The ENIA aims to position the country as a regional leader in artificial intelligence through three main initiatives: the Smart Government Programme, the Talent and Innovation Hub, and the Data Hub.

Regarding **public financing mechanisms for production transformation**, the innovation cabinet created the *Fondo de Apoyo a la Innovación* (FAI) to co-finance technology transfers, technical assistance and patents for programmes of the PNI. The FAI uses funding from the state and the private sector as well as international financial assistance. The *Fondo Nacional de Innovación y Desarrollo Científico y Tecnológico*, meanwhile, allocates funding from the Ministry of Higher Education, Science and Technology to promote scientific knowledge in universities and research centres. Among international financing sources, the Inter-American Development Bank provided a loan of USD 300 million to boost productivity and innovation in the Dominican Republic, and the United States International Development Finance Corporation approved more than USD 240 million in loans to boost small, sustainable or women-led companies. Finally, the Caribbean Council secured USD 6.5 billion for infrastructure modernisation in the country.

In terms of **international partnerships for production transformation**, the United Nations Industrial Development Organization's Country Programme for the Dominican Republic 2025-2028 provides a roadmap for promoting industrial transformation with inclusivity and support for micro, small and medium-sized enterprises (MSMEs). An agreement with the World Intellectual Property Organization established two intellectual property training institutions in the country as well as further support for MSMEs. With the European Union (EU), the government of Germany and the Central American Bank for Economic Integration, the *DINÁMICA II Initiative*, part of the Global Gateway framework, is providing more than half a million dollars in seed capital to 49 enterprises with high growth potential, focusing on digitalisation and sustainability. In addition, the European Union-Dominican Republic partnership has allocated more than USD 1.2 billion in the last 30 years to foster inclusive and sustainable development. The EU-LAC Digital Alliance promotes the productive digitalisation of the country.

Dominican Republic: Key indicators

			Dominican Republic					LAC					OECD							
Social development			2016		2023			2016		2023			2016		2022					
Poverty	Extreme poverty		26.7	7	18.2	5	25.8	8	22.5	7		N/A		N/A						
Gini index			45.7		38.4			46.3		40.9			33.9		34.5					
Share of total population in informal households (%)			N/A		42.3 (2018)			47.9 (2009)		42.3			N/A		N/A					
Share of total population in mixed households (%)			N/A		25.2 (2018)			23.2 (2009)		24.0			N/A		N/A					
Social Institutions & Gender Index (SIGI)			18.2 (2019)		14.8			25.4 (2019)		21.2			17.5 (2019)		15.3 (2023)					
PISA score in science			332 (2015)		360 (2022)			411 (2015)		408 (2022)			489 (2015)		485					
Productivity and innovation			2016		2023			2016		2023			2016		2023					
Export complexity (position on a global scale where 1 is most complex economy)			61		53			81.5		89			40.6		44.6					
Labour productivity (% of OECD)			42		49 (2024)			42		40 (2024)			100		100					
High-tech exports (% of manufactured exports)			4.4		6.03			8.5		8			16.5		18.1					
Patent applications per million people			2.7		0.6 (2021)			13.8		12.8 (2021)			631.2		572.8 (2021)					
R&D expenditures (% of GDP)			N/A		N/A			0.3		0.3 (2022)			1.8		2.1 (2022)					
Investment and private financing			2016		2024			2016		2024			2016		2024					
Total investment, gross fixed capital formation (% of GDP)			22.9		26.1			20.7		19.8			21.9		21.7					
Foreign direct investment (FDI), net capital inflow (% of GDP)			3.3		3.6			4.3		4.3			N/A		N/A					
Domestic credit to private sector (% of GDP)			25.6		31.9			45.2		44.1			86.8		71.7					
Market capitalisation (% of GDP)			N/A		N/A			50.2 (2019)		37.3			69.5 (2019)		66.4					
Citizens' perceptions and institutions			2011		2024			2011		2024			2011		2024					
Satisfaction with educational system (% of population)			67		71			67		67			66		65					
Satisfaction with healthcare system (% of population)			54		62			55		54			70		64					
Share of people satisfied with their standard of living (%)			68		74			70		73			73		77					
Confidence in judicial system (% of population)			29		46			33		38			50		56					
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			31 (2016)		36			41.2 (2016)		40.6			67.3 (2016)		66.79					
Tax morale (% of adults who find some degree of justification in evading taxes)			53.4		62.6 (2023)			50.6		55.3 (2023)			N/A		N/A					
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			5.5 (2016)		5.2			5.9 (2016)		5.3			2.8 (2016)		2.2					
Digital and green transition			2016		2023			2016		2023			2016		2023					
Share of internet users (% of population)			63.9		85			54.5		77.7			81.8		91.8					
Fixed broadband subscriptions (per 100 inhabitants)			7.2		11.1			11.2		17			30.6		36					
Environmentally related tax revenue (% of GDP)			1.8		1.7 (2022)			1		0.7			1.7		1.3					
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			3.9		4.3			5.3		4.9			10.7		8.7					
Renewable energy consumption (% of total final energy consumption)			15.3		14.8 (2021)			28.9		33.9 (2021)			12.5		14.9 (2021)					
Fiscal position			2016		2023			2016		2023			2016		2023					
Total tax revenues (% of GDP)			13		14.3			20.9		21.3			33.5		33.9					
Share of VAT PIT CIT			4.6	1	2	4.9	1.5	2.6	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)			19.5		22.1			11.3		13.5			5.4		4					
Social expenditure (% of GDP)			7.7		8.7			11		11.5			20.2		21.2 (2024)					

Note: See the Reader's guide for definitions and sources.

Ecuador

Promoting and financing production transformation

Regarding **policies for production transformation**, Ecuador has adopted the *Plan de Desarrollo para el Nuevo Ecuador 2024-2025*, which outlines the national development strategy around five pillars. Notably, the economic pillar aims to promote sustainable production with increased productivity, competitiveness and added value, while the infrastructure pillar aims to strengthen digital connectivity. The *Agenda de Transformación Digital del Ecuador 2022-2025* presents further actions to foster digitisation. These include building skills and innovation in science and technology (Pillar 5: Digital Culture); fostering the digitalisation of micro, small and medium-sized enterprises and supporting the creation of technology clusters (Pillar 6: Digital Transformation of the Productive Structure); and promoting research and innovation (R&I) and knowledge transfers (Pillar 8: Promotion of New Technologies in Industries). In addition, the *Estrategia Nacional de Economía Circular Inclusiva 2025-2035* has the aim of developing a circular economy based on principles such as environmental responsibility, digital transformation, a just transition and R&I. The country's Premium & Sustainable Strategy, which aims to transform Ecuador's agro-industrial production into a global benchmark of sustainability and productivity by 2030, is also noteworthy.

Regarding **public financing mechanisms for production transformation**, the most relevant funds come from the state budget (*Presupuesto General del Estado*) and public banking institutions. State budget allocations are guided by the *Plan de Desarrollo*, which earmarked more than USD 220 million for 2024-2025 to foster productivity in sustainable industries and USD 330 million to promote connectivity as a driver of economic growth. These resources are channelled to a substantial degree through public banks, including *BanEcuador*, *Corporación Financiera Nacional*, *Corporación Nacional de Finanzas Populares y Solidarias* (Conafips) and *Banco de Desarrollo del Ecuador* (BDE); these banks provide tailored financing instruments for enterprises. The BDE supports projects focused on technological development, while Conafips offers credit lines for environmentally efficient businesses, such as *Financiamiento Cambio Climático* and *Crédito Verde*. Additionally, the Inter-American Development Bank (IDB) allocated USD 500 million in 2023 to support the decarbonisation of Ecuador's energy sector.

In terms of **international partnerships for production transformation**, the Regional Fund for Triangular Co-operation, established with Chile and Germany and financed by the German Federal Ministry for Economic Co-operation and Development, promotes sustainability and productivity in agribusiness. In addition, the Inter-American Institute for Co-operation on Agriculture plans to invest USD 30 million between 2025 and 2026 in projects aimed at decarbonising agriculture. Since 2020, a partnership with the IDB has financed the development of food technology to enhance productivity and research in the sector. Finally, the European Union's Multiannual Indicative Programme 2021-24, totalling USD 46 million, targets sustainable trade, green productivity and innovation in Ecuador in particular.

Ecuador: Key indicators

			Ecuador					LAC					OECD							
Social development			2016		2023			2016		2023			2016		2022					
Poverty	Extreme poverty		24.3	8	24.7	7.1	25.8	8	22.5	7		N/A		N/A						
Gini index			45		44.6			46.3		40.9			33.9		34.5					
Share of total population in informal households (%)			N/A		N/A			47.9 (2009)		42.3			N/A		N/A					
Share of total population in mixed households (%)			N/A		N/A			23.2 (2009)		24.0			N/A		N/A					
Social Institutions & Gender Index (SIGI)			28.9 (2019)		17			25.4 (2019)		21.2			17.5 (2019)		15.3 (2023)					
PISA score in science			N/A		N/A			411 (2015)		408 (2022)			489 (2015)		485					
Productivity and innovation			2016		2023			2016		2023			2016		2023					
Export complexity (position on a global scale where 1 is most complex economy)			129		126			81.5		89			40.6		44.6					
Labour productivity (% of OECD)			29		29 (2024)			42		40 (2024)			100		100					
High-tech exports (% of manufactured exports)			9.2		7.27			8.5		8			16.5		18.1					
Patent applications per million people			2.7		2 (2021)			13.8		12.8 (2021)			631.2		572.8 (2021)					
R&D expenditures (% of GDP)			N/A		N/A			0.3		0.3 (2022)			1.8		2.1 (2022)					
Investment and private financing			2016		2024			2016		2024			2016		2024					
Total investment, gross fixed capital formation (% of GDP)			20.7		18.4			20.7		19.8			21.9		21.7					
Foreign direct investment (FDI), net capital inflow (% of GDP)			0.8		0.3			4.3		4.3			N/A		N/A					
Domestic credit to private sector (% of GDP)			29.4		56.2			45.2		44.1			86.8		71.7					
Market capitalisation (% of GDP)			N/A		N/A			50.2 (2019)		37.3			69.5 (2019)		66.4					
Citizens' perceptions and institutions			2011		2024			2011		2024			2011		2024					
Satisfaction with educational system (% of population)			75		68			67		67			66		65					
Satisfaction with healthcare system (% of population)			56		43			55		54			70		64					
Share of people satisfied with their standard of living (%)			70		75			70		73			73		77					
Confidence in judicial system (% of population)			26		24			33		38			50		56					
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			31 (2016)		32			41.2 (2016)		40.6			67.3 (2016)		66.79					
Tax morale (% of adults who find some degree of justification in evading taxes)			53.5		53.6 (2023)			50.6		55.3 (2023)			N/A		N/A					
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			6.5 (2016)		6.1			5.9 (2016)		5.3			2.8 (2016)		2.2					
Digital and green transition			2016		2023			2016		2023			2016		2023					
Share of internet users (% of population)			54.1		77.2 (2024)			54.5		77.7			81.8		91.8					
Fixed broadband subscriptions (per 100 inhabitants)			9.8		16.1			11.2		17			30.6		36					
Environmentally related tax revenue (% of GDP)			0.4		0.3 (2022)			1		0.7			1.7		1.3					
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			4.4		4.1			5.3		4.9			10.7		8.7					
Renewable energy consumption (% of total final energy consumption)			14.8		18.9 (2021)			28.9		33.9 (2021)			12.5		14.9 (2021)					
Fiscal position			2016		2023			2016		2023			2016		2023					
Total tax revenues (% of GDP)			19.9		20.6			20.9		21.3			33.5		33.9					
Share of VAT PIT CIT			6	N/A	N/A	6.8	N/A	N/A	5.9	2	3	6.0	2.0	3.9	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)			7.7		4.2			11.3		13.5			5.4		4					
Social expenditure (% of GDP)			9		11.3			11		11.5			20.2		21.2 (2024)					

Note: See the Reader's guide for definitions and sources.

El Salvador

Promoting and financing production transformation

Regarding **policies for production transformation**, El Salvador recently implemented the *Plan de Desarrollo Industrial 2025-2029*, designed to transform the productive matrix across 26 industrial sectors. This plan succeeds two previous policies. The first, the *Política de Fomento, Diversificación y Transformación Productiva 2014-2024*, aimed to address structural deficiencies in the economy by strengthening sectors with comparative advantages, diversifying export markets and fostering high-value-added activities. The second, *Plan Cuscatlán 2019-2024*, was a broader strategic framework for public action, with technological modernisation as a key pillar. Particularly noteworthy is the *Agenda Digital 2020-2030*, which defines specific goals for the axis “Innovation, Education and Competitiveness”, including promoting research on new technologies, fostering training and digital education to strengthen human capital and supporting innovative start-ups and technology parks. Additionally, the *Política Nacional para el Desarrollo de la Micro y Pequeña Empresa* focuses on increasing the productivity, competitiveness and sustainability of micro, small and medium-sized enterprises (MSMEs), particularly through innovation and technology. This policy is promoted by the *Política Nacional de Innovación, Ciencia y Tecnología*.

Regarding **public financing mechanisms for production transformation**, the primary sources include the state budget (*Presupuesto General del Estado*), loans from the Inter-American Development Bank (IDB) and investments from the Development Bank of Latin America and the Caribbean (CAF). In 2023, the IDB approved a USD 100 million loan to support MSMEs, while CAF investments since 2022 have exceeded USD 1.5 billion. IDB funds, along with a significant portion of the state budget, are allocated to the *Banco de Desarrollo de la República de El Salvador*, the national development bank, which provides financial and technical assistance to projects designed to enhance the productivity, competitiveness and sustainability of enterprises, particularly micro, small and medium-sized enterprises (MSMEs). The range of credit facilities includes both direct and second-tier credit lines, covering green financing, micro-entrepreneur credit, productivity enhancement and a dedicated MSME credit line.

In terms of **international partnerships for production transformation**, the Central American Bank for Economic Integration, with financial support from the European Union and Germany, has established the *DINAMICA II* and *Green MSME II* initiatives. These programmes provide credit lines and technical assistance to MSMEs, including training to enhance skills, improve competitiveness and promote sustainability. Furthermore, a Memorandum of Understanding signed with the European Union supports El Salvador’s development in key areas, including the green transition and digital transformation. Through the World Bank’s Country Partnership Framework 2023-2027, El Salvador is implementing eight projects aimed at fostering sustainable growth. Notably, the *Proyecto de Energía Geotérmica para el Desarrollo Sostenible e Inclusivo*, approved in March 2025, seeks to expand the country’s renewable energy generation capacity. In addition, the *GeoH2Verde* Triangular Co-operation Project, developed jointly with Colombia, Germany and Honduras, aims to scale up geothermal energy and promote the development of green hydrogen.

El Salvador: Key indicators

				El Salvador				LAC				OECD									
Social development				2016		2023		2016		2023		2016		2022							
Poverty	Extreme poverty			40.4	11	27.4	8	25.8	8	22.5	7	N/A		N/A							
Gini index				40		39.8		46.3		40.9		33.9		34.5							
Share of total population in informal households (%)				52.4 (2015)		51.1		47.9 (2009)		42.3		N/A		N/A							
Share of total population in mixed households (%)				21.6 (2015)		23.8		23.2 (2009)		24.0		N/A		N/A							
Social Institutions & Gender Index (SIGI)				22.9 (2019)		19.6		25.4 (2019)		21.2		17.5 (2019)		15.3 (2023)							
PISA score in science				N/A		N/A		411 (2015)		408 (2022)		489 (2015)		485							
Productivity and innovation				2016		2023		2016		2023		2016		2023							
Export complexity (position on a global scale where 1 is most complex economy)				68		62		81.5		89		40.6		44.6							
Labour productivity (% of OECD)				N/A		N/A		42		40 (2024)		100		100							
High-tech exports (% of manufactured exports)				5.4		6.4		8.5		8		16.5		18.1							
Patent applications per million people				0.6		0.3 (2021)		13.8		12.8 (2021)		631.2		572.8 (2021)							
R&D expenditures (% of GDP)				0.1		0.14 (2022)		0.3		0.3 (2022)		1.8		2.1 (2022)							
Investment and private financing				2016		2024		2016		2024		2016		2024							
Total investment, gross fixed capital formation (% of GDP)				15.5		22.2		20.7		19.8		21.9		21.7							
Foreign direct investment (FDI), net capital inflow (% of GDP)				2		2.6		4.3		4.3		N/A		N/A							
Domestic credit to private sector (% of GDP)				48.7		62.5		45.2		44.1		86.8		71.7							
Market capitalisation (% of GDP)				N/A		N/A		50.2 (2019)		37.3		69.5 (2019)		66.4							
Citizens' perceptions and institutions				2011		2024		2011		2024		2011		2024							
Satisfaction with educational system (% of population)				72		76		67		67		66		65							
Satisfaction with healthcare system (% of population)				61		61		55		54		70		64							
Share of people satisfied with their standard of living (%)				62		74		70		73		73		77							
Confidence in judicial system (% of population)				29		64		33		38		50		56							
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])				36 (2016)		30		41.2 (2016)		40.6		67.3 (2016)		66.79							
Tax morale (% of adults who find some degree of justification in evading taxes)				33.7		53.7 (2023)		50.6		55.3 (2023)		N/A		N/A							
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])				7 (2016)		5.7		5.9 (2016)		5.3		2.8 (2016)		2.2							
Digital and green transition				2016		2023		2016		2023		2016		2023							
Share of internet users (% of population)				29		68		54.5		77.7		81.8		91.8							
Fixed broadband subscriptions (per 100 inhabitants)				6.4		10.7 (2022)		11.2		17		30.6		36							
Environmentally related tax revenue (% of GDP)				0.6		0.4 (2022)		1		0.7		1.7		1.3							
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)				2		2.1		5.3		4.9		10.7		8.7							
Renewable energy consumption (% of total final energy consumption)				20.7		21.9 (2021)		28.9		33.9 (2021)		12.5		14.9 (2021)							
Fiscal position				2016		2023		2016		2023		2016		2023							
Total tax revenues (% of GDP)				20.5		22.8		20.9		21.3		33.5		33.9							
Share of VAT PIT CIT				7.5	3	3.2	9.0	3	3.9	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)				14.2		19.9		11.3		13.5		5.4		4							
Social expenditure (% of GDP)				7.8		8.4		11		11.5		20.2		21.2 (2024)							

Note: See the Reader's guide for definitions and sources.

Guatemala

Promoting and financing production transformation

Regarding **policies for production transformation**, the *Política Nacional de Competitividad 2018-2032* establishes competitiveness as a national priority, to be achieved with increased productivity, human capital and economic growth. A key element of the strategy is value addition across productive chains, focusing on 11 economic clusters identified as having the highest potential for job creation across 9 priority territories. In parallel, the *Política para el Desarrollo de la Micro, Pequeña y Mediana Empresa 2024-2032* introduces a plan to foster sustained growth, innovation and productivity among micro, small and medium-sized enterprises. The policy provides technical and financial assistance to support capacity building, sustainability, digitalisation and innovation of enterprises. Furthermore, the *Guatemala No Se Detiene* strategy seeks to strengthen national infrastructure, human capital and productivity to attract foreign investment and promote economic development. Notably, the strategy focuses on promoting agro-industrial transformation by adopting modern technologies and by enhancing workforce skills with targeted training programmes.

Regarding **public financing mechanisms for production transformation**, in 2025, Guatemala implemented Law 31-2004 for the integration of the primary and agricultural sectors, creating and regulating special simplified taxation regimes for agricultural, livestock, hydrobiological, beekeeping and handicraft products. In 2024, the Ministry of Economy launched the *Fondo Nacional para la Innovación*, allocating USD 225 million to support access to modern technologies and the promotion of sustainable, innovative practices. The fund's initiatives include the distribution of electronic devices, the creation of training centres and the implementation of community-based renewable energy projects. Additionally, the *Fondo Nacional de Ciencia y Tecnología* provides funding to support scientific research, technology development and academic training in specialised fields.

In terms of **international partnerships for production transformation**, Guatemala engages in several strategic initiatives. During the Fourth International Conference on Financing for Development, Guatemala joined a global initiative to invest in care for equality and prosperity. The European Union, through *MIP 2021-27* aligned with the *Política General de Gobierno 2020-2024*, supports production transformation in agriculture by strengthening smallholder and co-operative access to markets through nutrition and gender-sensitive value chains, promoting sustainable and diversified crop production. In addition, the Hand-in-Hand Initiative of the United Nations Food and Agriculture Organisation is now integrated into the national investment system. Regarding trade facilitation, Guatemala has signed the Central American Common Market General Treaty of Economic Integration and the Central American Strategy for Trade Facilitation and Competitiveness. In 2017, the country joined the World Trade Facilitation Agreement alongside 154 other countries, as well as the Central American Strategy for Trade Facilitation and Competitiveness together with Costa Rica, El Salvador, Honduras, Nicaragua and Panama.

Guatemala: Key indicators

			Guatemala						LAC						OECD							
Social development			2016			2023			2016			2023			2016			2023				
Poverty	Extreme poverty		N/A			N/A			25.8		8		22.5		7		N/A			N/A		
Gini index			N/A			45.2			46.3			40.9			33.9			34.5 (2022)				
Share of total population in informal households (%)			N/A			60.8 (2022)			47.9 (2009)			42.3			N/A			N/A				
Share of total population in mixed households (%)			N/A			21.3 (2022)			23.2 (2009)			24.0			N/A			N/A				
Social Institutions & Gender Index (SIGI)			28.6 (2019)			25.7			25.4 (2019)			21.2			17.5 (2019)			15.3				
PISA score in science			N/A			N/A			411 (2015)			408 (2022)			489 (2015)			485 (2022)				
Productivity and innovation			2016			2023			2016			2023			2016			2023				
Export complexity (position on a global scale where 1 is most complex economy)			82			75			81.5			89			40.6			44.6				
Labour productivity (% of OECD)			22			27 (2024)			42			40 (2024)			100			100				
High-tech exports (% of manufactured exports)			5.8			5.8			8.5			8			16.5			18.1				
Patent applications per million people			0.2			0.5 (2021)			13.8			12.8 (2021)			631.2			572.8 (2021)				
R&D expenditures (% of GDP)			0.02			0.1 (2021)			0.3			0.3 (2022)			1.8			2.1 (2022)				
Investment and private financing			2016			2024			2016			2024			2016			2024				
Total investment, gross fixed capital formation (% of GDP)			13.9			16.1			20.7			19.8			21.9			21.7				
Foreign direct investment (FDI), net capital inflow (% of GDP)			1.3			1.6			4.3			4.3			N/A			N/A				
Domestic credit to private sector (% of GDP)			35.1			36.8			45.2			44.1			86.8			71.7				
Market capitalisation (% of GDP)			N/A			N/A			50.2 (2019)			37.3			69.5 (2019)			66.4				
Citizens' perceptions and institutions			2011			2024			2011			2024			2011			2024				
Satisfaction with educational system (% of population)			72			73			67			67			66			65				
Satisfaction with healthcare system (% of population)			55			60			55			54			70			64				
Share of people satisfied with their standard of living (%)			70			80			70			73			73			77				
Confidence in judicial system (% of population)			38			50			33			38			50			56				
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			28 (2016)			25			41.2 (2016)			40.6			67.3 (2016)			66.79				
Tax morale (% of adults who find some degree of justification in evading taxes)			49.9			60.7 (2023)			50.6			55.3 (2023)			N/A			N/A				
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			7.3 (2016)			5.8			5.9 (2016)			5.3			2.8 (2016)			2.2				
Digital and green transition			2016			2023			2016			2023			2016			2023				
Share of internet users (% of population)			34.5			56			54.5			77.7			81.8			91.8				
Fixed broadband subscriptions (per 100 inhabitants)			3.1			5.1			11.2			17			30.6			36				
Environmentally related tax revenue (% of GDP)			0.9			0.8 (2022)			1			0.7			1.7			1.3				
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			2.5			2.4			5.3			4.9			10.7			8.7				
Renewable energy consumption (% of total final energy consumption)			63.2			62.1 (2021)			28.9			33.9 (2021)			12.5			14.9 (2021)				
Fiscal position			2016			2023			2016			2023			2016			2023				
Total tax revenues (% of GDP)			13.2			14			20.9			21.3			33.5			33.9				
Share of VAT PIT CIT			4.8	0.4	2.9	5.6	0.5	3.0	5.9	2	3	6.0	2.0	4	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)		
Public debt service (% of total tax revenue)			11.6			11.6			11.3			13.5			5.4			4				
Social expenditure (% of GDP)			7.2			7.9			11			11.5			20.2			21.2 (2024)				

Note: See the Reader's guide for definitions and sources.

Mexico

Promoting and financing production transformation

Regarding **policies for production transformation**, Mexico has implemented *Plan México 2024-2030*, which seeks to transform the country's production model by increasing national value added, fostering regional development, strengthening science and technology, accelerating the energy transition and improving infrastructure. Its goals include making Mexico the world's 10th largest economy by 2030, keeping investment levels above 25% of GDP, creating 1.5 million jobs in strategic sectors, increasing national content in global value chains by 15% and promoting sustainable investments. The federal government, development banks, sectoral institutions and subnational governments are involved, with implementation until 2030.

Regarding **public financing mechanisms for production transformation**, Mexico currently uses a combination of fiscal and financial schemes. These include tax benefits, such as a 100% income tax reduction during the first three years of a company's operation within the *Polos de Desarrollo para el Bienestar del Istmo de Tehuantepec* and *Polos Industriales del Bienestar Progreso I y Mérida I* in Yucatán, followed by a 50% to 90% reduction for the next three years, depending on employment levels. Additionally, there is an immediate 100% deduction allowed for investments in fixed assets. These measures are targeted at strategic sectors such as electrical and electronics, pharmaceuticals, automotive and agro-industry. They aim to promote investment, innovation and formal employment. In terms of expenditure-based incentives, an additional deduction of 25% of the increase in expenditure on worker training is allowed, as well as another deduction of 25% of the increase in expenditure on innovation during the fiscal year. The country's national development banks are also actively involved in financing production transformation. They include *Nacional Financiera*, *Banco Nacional de Comercio Exterior*, *Sociedad Hipotecaria Federal*, *FIRA* and *Banobras*. These institutions mainly provide direct loans, credit through financial intermediaries, guarantees and sustainable bond issuance. Their support focuses on sectors such as industry, foreign trade, affordable housing and sustainable infrastructure, and agriculture. The national development banks mobilise resources worth USD 1-5 billion, aligned with the *National Development Plan 2025-2030*, with the aim of promoting competitiveness, inclusion and sustainability.

In terms of **international partnerships for production transformation**, Mexico strengthened its *Comité Nacional para la Agenda 2030* by engaging in the United Nations Partnership Accelerator, which maps and promotes multistakeholder international alliances to foster industrial innovation, energy transition and sustainable infrastructure aligned with the Sustainable Development Goals. In 2025, Mexico and the European Union (EU) concluded political negotiations to modernise the EU-Mexico Global Agreement, establishing an ambitious framework to deepen political dialogue, co-operation and economic relations. This updated agreement aims to create new economic opportunities by boosting trade and supporting the green and digital transitions for both partners. In addition, the United States-Mexico-Canada Agreement incorporates economic and environmental commitments that promote innovation and sustainability in the region.

Mexico: Key indicators

			Mexico				LAC				OECD									
Social development			2016		2023		2016		2023		2016			2022						
Poverty	Extreme poverty		37.6	8	28.5 (2022)	6.2 (2022)	25.8	8	22.5	7	N/A			N/A						
Gini index			46.9		43.5		46.3		40.9		33.9			34.5						
Share of total population in informal households (%)			41.6 (2010)		36.4 (2022)		47.9 (2009)		42.3		N/A			N/A						
Share of total population in mixed households (%)			24.8 (2010)		27.5 (2022)		23.2 (2009)		24.0		N/A			N/A						
Social Institutions & Gender Index (SIGI)			29 (2019)		21.9		25.4 (2019)		21.2		17.5 (2019)			15.3 (2023)						
PISA score in science			416 (2015)		410 (2022)		411 (2015)		408 (2022)		489 (2015)			485						
Productivity and innovation			2016		2023		2016		2023		2016			2023						
Export complexity (position on a global scale where 1 is most complex economy)			21		17		81.5		89		40.6			44.6						
Labour productivity (% of OECD)			57		51 (2024)		42		40 (2024)		100			100						
High-tech exports (% of manufactured exports)			20.6		17.6		8.5		8		16.5			18.1						
Patent applications per million people			10.8		8.8 (2021)		13.8		12.8 (2021)		631.2			572.8 (2021)						
R&D expenditures (% of GDP)			0.4		0.3 (2022)		0.3		0.3 (2022)		1.8			2.1 (2022)						
Investment and private financing			2016		2024		2016		2024		2016			2024						
Total investment, gross fixed capital formation (% of GDP)			23.7		24.2		20.7		19.8		21.9			21.7						
Foreign direct investment (FDI), net capital inflow (% of GDP)			3.5		2.5		4.3		4.3		N/A			N/A						
Domestic credit to private sector (% of GDP)			25.1		34.7		45.2		44.1		86.8			71.7						
Market capitalisation (% of GDP)			31.7 (2019)		22.5		50.2 (2019)		37.3		69.5 (2019)			66.4						
Citizens' perceptions and institutions			2011		2024		2011		2024		2011			2024						
Satisfaction with educational system (% of population)			64		69		67		67		66			65						
Satisfaction with healthcare system (% of population)			54		56		55		54		70			64						
Share of people satisfied with their standard of living (%)			69		85		70		73		73			77						
Confidence in judicial system (% of population)			32		44		33		38		50			56						
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			30 (2016)		26		41.2 (2016)		40.6		67.3 (2016)			66.79						
Tax morale (% of adults who find some degree of justification in evading taxes)			62.6		66.9 (2023)		50.6		55.3 (2023)		N/A			N/A						
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			8 (2016)		8		5.9 (2016)		5.3		2.8 (2016)			2.2						
Digital and green transition			2016		2023		2016		2023		2016			2023						
Share of internet users (% of population)			59.5		81.2		54.5		77.7		81.8			91.8						
Fixed broadband subscriptions (per 100 inhabitants)			13		20.5		11.2		17		30.6			36						
Environmentally related tax revenue (% of GDP)			1.5		0.11 (2022)		1		0.7		1.7			1.3						
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			6.6		5.5		5.3		4.9		10.7			8.7						
Renewable energy consumption (% of total final energy consumption)			9.2		13 (2021)		28.9		33.9 (2021)		12.5			14.9 (2021)						
Fiscal position			2016		2023		2016		2023		2016			2023						
Total tax revenues (% of GDP)			16.6		17.7		20.9		21.3		33.5			33.9						
Share of VAT PIT CIT			3.9	3	3.5	4.3	4	3.9	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)			18.8		32.7		11.3		13.5		5.4			4						
Social expenditure (% of GDP)			9.6		10.3		11		11.5		20.2			21.2 (2024)						

Note: See the Reader's guide for definitions and sources.

Panama

Promoting and financing production transformation

Regarding **policies for production transformation**, the *Estrategia Nacional de Competitividad 2024-2029* (ENC) aims to promote inclusive, equitable and sustainable development in the country. The ENC identifies 12 key areas, including human capital, innovation, employment and environmental sustainability, with a particular focus on fostering research and development (R&D), strengthening human capital and diversifying the economy. Additionally, the *Plan Estratégico Nacional de Ciencia, Tecnología e Innovación 2025-2029* promotes 22 strategic science, technology and innovation projects in 6 critical sectors, including production transformation and digitalisation. The plan proposes concrete actions to modernise industry, boost investments in R&D and promote technology transfers. Finally, the *Panamá Productiva III* initiative, supported by the Development Bank of Latin America and the Caribbean (CAF), offers technical assistance and co-ordinates the joint action of companies, academia, communities and the public sector to increase productivity, diversify markets and foster innovation.

Regarding **public financing mechanisms for production transformation**, a primary source of funding is the Inter-American Development Bank (IDB), which has allocated more than USD 190 million to Panama since 2018. The IDB has funded four development programmes in the country, targeted at supporting micro, small and medium-sized enterprises, promoting R&D and innovation, enhancing human capital and fostering transport decarbonisation. Public banking institutions, including the *Banco Nacional de Panamá* (BNP), *Caja de Ahorros* (CA) and *Banco de Desarrollo Agropecuario*, propose specific credit lines to increase the productivity and sustainability of business. For instance, the BNP offers green technology financing and specialised advice for the implementation of sustainable technologies, while the CA provides leasing for companies to acquire high-value machinery, vehicles or technological equipment.

In terms of **international partnerships for production transformation**, the regional data centre CopernicusLAC Panama part of the EU-LAC Digital Alliance, was established under the European Union's Global Gateway to foster digital innovation. In addition, the European Union's Euroclima programme has assisted Panama in developing human capital and regulatory frameworks to advance the green hydrogen market, in alignment with the *Estrategia Nacional de Hidrógeno Verde y Derivados de Panamá*. Furthermore, the World Bank's Country Partnership Framework (CPF) 2024-28 seeks to diversify Panama's economy, enhance human capital and facilitate job creation. The CPF comprises eight projects, including three development policy loans and a programmatic series focused on green growth. In addition, the *Proyecto Mesoamerica* supports sustainable development and regional integration among Central American countries through capacity building, technical assistance and green transition programmes.

Panama: Key indicators

			Panama					LAC					OECD							
Social development			2016		2023			2016		2023			2016		2022					
Poverty	Extreme poverty		16.7	7.4	14	6	25.8	8	22.5	7.4		N/A		N/A						
Gini index			50.4		48.9			46.3		40.9			33.9		34.5					
Share of total population in informal households (%)			N/A		N/A			47.9 (2009)		42.3			N/A		N/A					
Share of total population in mixed households (%)			N/A		N/A			23.2 (2009)		24.0			N/A		N/A					
Social Institutions & Gender Index (SIGI)			N/A		15.2			25.4 (2019)		21.2			17.5 (2019)		15.3 (2023)					
PISA score in science			365 (2018)		388 (2022)			411 (2015)		408 (2022)			489 (2015)		485					
Productivity and innovation			2016		2023			2016		2023			2016		2023					
Export complexity (position on a global scale where 1 is most complex economy)			29		103			81.5		89			40.6		44.6					
Labour productivity (% of OECD)			N/A		N/A			42		40 (2024)			100		100					
High-tech exports (% of manufactured exports)			1.2		1			8.5		8			16.5		18.1					
Patent applications per million people			16.9		8 (2021)			13.8		12.8 (2021)			631.2		572.8 (2021)					
R&D expenditures (% of GDP)			0.1		0.2 (2022)			0.3		0.3 (2022)			1.8		2.1 (2022)					
Investment and private financing			2016		2023			2016		2024			2016		2024					
Total investment, gross fixed capital formation (% of GDP)			38.4		32.3			20.7		19.8			21.9		21.7					
Foreign direct investment (FDI), net capital inflow (% of GDP)			9.1		3.8			4.3		4.3			N/A		N/A					
Domestic credit to private sector (% of GDP)			79.1		100.2 (2020)			45.2		44.1			86.8		71.7					
Market capitalisation (% of GDP)			24.8 (2019)		21.2 (2024)			50.2 (2019)		37.3			69.5 (2019)		66.4					
Citizens' perceptions and institutions			2011		2024			2011		2024			2011		2024					
Satisfaction with educational system (% of population)			73		61			67		67			66		65					
Satisfaction with healthcare system (% of population)			65		47			55		54			70		64					
Share of people satisfied with their standard of living (%)			77		82			70		73			73		77					
Confidence in judicial system (% of population)			32		45			33		38			50		56					
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			38 (2016)		33			41.2 (2016)		40.6			67.3 (2016)		66.79					
Tax morale (% of adults who find some degree of justification in evading taxes)			46.7		52.4 (2023)			50.6		55.3 (2023)			N/A		N/A					
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			5.4 (2016)		4.3			5.9 (2016)		5.3			2.8 (2016)		2.2					
Digital and green transition			2016		2023			2016		2023			2016		2023					
Share of internet users (% of population)			54		78			54.5		77.7			81.8		91.8					
Fixed broadband subscriptions (per 100 inhabitants)			10.7		18.1			11.2		17			30.6		36					
Environmentally related tax revenue (% of GDP)			0.7		0.4 (2022)			1		0.7			1.7		1.3					
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			4.3		4.8			5.3		4.9			10.7		8.7					
Renewable energy consumption (% of total final energy consumption)			22.1		28 (2021)			28.9		33.9 (2021)			12.5		14.9 (2021)					
Fiscal position			2016		2023			2016		2023			2016		2023					
Total tax revenues (% of GDP)			15.5		11.9			20.9		21.3			33.5		33.9					
Share of VAT PIT CIT			2.6	1.5	1.8	1.7	2	1.5	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)			10.5		21.3			11.3		13.5			5.4		4					
Social expenditure (% of GDP)			8.2		7.5			11		11.5			20.2		21.2 (2024)					

Note: See the Reader's guide for definitions and sources.

Paraguay

Promoting and financing production transformation

Regarding **policies for production transformation**, Paraguay has adopted a multisectoral approach with the *Plan Nacional de Desarrollo Paraguay 2030*. It consists of a strategic roadmap that articulates four fundamental pillars: poverty reduction, inclusive growth, global integration and institutional strengthening, with 16 specific objectives and four cross-cutting lines. Implemented by the Ministry of Economy and Finance (MEF), the plan guides the actions of the state, civil society, the private sector and the legislative and judicial branches to align their efforts. At the same time, the strategy *Impulsando el Crecimiento de Paraguay*, launched in 2025, proposes to double the size of the economy in a decade, increase the country's GDP by 7-10% and promote the creation of 500 000 jobs. The *Política Energética de la República del Paraguay al 2050* seeks to consolidate the country as a regional hub for energy integration. A key sectoral instrument is the *Marco de Políticas del Sector Agropecuario 2020-2030*, which promotes market competitiveness, equitable land tenure and enhanced public services for agriculture, aligning family farming and agribusiness with national development priorities. These initiatives mobilise institutions such as ministries, banks, national services and private-sector actors to boost the productivity of existing products, diversify sophisticated goods and promote new industries, thereby fostering competitiveness and innovation.

Regarding **public financing mechanisms for production transformation**, Paraguay relies primarily on tax incentives and credit lines channelled through national development banks. Legal regimes have been implemented to offer tax exemptions and reductions linked to company income and expenses, to promote productive investment, job creation and industrial competitiveness. Notable examples are the recently updated *Ley 60/1990*, which promotes domestic and foreign investment, and *Ley 1064/1997*, focused on transformation for export. Direct financing through the Development Finance Agency and the national development bank *Banco Nacional de Fomento* also provides medium- and long-term resources for strategic sectors, such as housing; micro, small and medium-sized enterprises; agribusiness; and manufacturing.

In terms of **international partnerships for production transformation**, international alliances include the *Programa País con la OCDE*, which establishes technical assessments and standards to harmonise investment policy with Paraguay's national priorities. At the operational level, the Investment Council and the National Council of Export Maquiladora Industries review, approve, or reject investment projects and programmes seeking tax benefits under *Ley 60/1990* and *Ley 1064/1997*. Their decisions follow eligibility criteria and alignment with national policy, having approved projects worth over USD 680 million between 2024 and 2025. The Ministry of Industry and Trade, the MEF and the Investment and Export Network co-ordinate to channel foreign investment into strategic sectors such as housing, energy and forestry, with support from Inter-American Development Bank Invest and the Taiwan International Co-operation and Development Fund. In addition, the National Trade Facilitation Committee and the *Programa de Operador Económico Autorizado* have reduced logistics times and costs through digital platforms and mutual recognition agreements with countries in Latin America, the Caribbean and MERCOSUR.

Paraguay: Key indicators

		Paraguay						LAC						OECD					
Social development		2016			2023			2016			2023			2016			2022		
Poverty	Extreme poverty	24	8	19.5	7	26	8	22.5	7	N/A	N/A								
Gini index		47.9			44.4			46.3			40.9			33.9			34.5		
Share of total population in informal households (%)		66.3 (2009)			51.6			47.9 (2009)			42.3			N/A			N/A		
Share of total population in mixed households (%)		21.3 (2009)			31.1			23.2 (2009)			24.0			N/A			N/A		
Social Institutions & Gender Index (SIGI)		32.8 (2019)			20.6			25.4 (2019)			21.2			17.5 (2019)			15.3 (2023)		
PISA score in science		N/A			N/A			411 (2015)			408 (2022)			489 (2015)			485		
Productivity and innovation		2016			2023			2016			2023			2016			2023		
Export complexity (position on a global scale where 1 is most complex economy)		88			94			81.5			89			40.6			44.6		
Labour productivity (% of OECD)		33			34 (2024)			42			40 (2024)			100			100		
High-tech exports (% of manufactured exports)		7.6			10			8.5			8			16.5			18.1		
Patent applications per million people		5.4 (2018)			1.5 (2021)			13.8			12.8 (2021)			631.2			572.8 (2021)		
R&D expenditures (% of GDP)		0.1			0.12 (2022)			0.3			0.3 (2022)			1.8			2.1 (2022)		
Investment and private financing		2016			2024			2016			2024			2016			2024		
Total investment, gross fixed capital formation (% of GDP)		19.1			21			20.7			19.8			21.9			21.7		
Foreign direct investment (FDI), net capital inflow (% of GDP)		2.2			0.9			4.3			4.3			N/A			N/A		
Domestic credit to private sector (% of GDP)		41.3			57.5			45.2			44.1			86.8			71.7		
Market capitalisation (% of GDP)		N/A			N/A			50.2 (2019)			37.3			69.5 (2019)			66.4		
Citizens' perceptions and institutions		2011			2024			2011			2024			2011			2024		
Satisfaction with educational system (% of population)		67			68			67			67			66			65		
Satisfaction with healthcare system (% of population)		63			50			55			54			70			64		
Share of people satisfied with their standard of living (%)		61			75			70			73			73			77		
Confidence in judicial system (% of population)		32			31			33			38			50			56		
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])		30 (2016)			24			41.2 (2016)			40.6			67.3 (2016)			66.79		
Tax morale (% of adults who find some degree of justification in evading taxes)		67.8			57.2 (2023)			50.6			55.3 (2023)			N/A			N/A		
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])		6.8 (2016)			5.4			5.9 (2016)			5.3			2.8 (2016)			2.2		
Digital and green transition		2016			2023			2016			2023			2016			2023		
Share of internet users (% of population)		53.4			78.1			54.5			77.7			81.8			91.8		
Fixed broadband subscriptions (per 100 inhabitants)		3.9			12.8			11.2			17			30.6			36		
Environmentally related tax revenue (% of GDP)		1			0.8 (2022)			1			0.7			1.7			1.3		
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)		6.6			6.1			5.3			4.9			10.7			8.7		
Renewable energy consumption (% of total final energy consumption)		62.5			58.8 (2021)			28.9			33.9 (2021)			12.5			14.9 (2021)		
Fiscal position		2016			2023			2016			2023			2016			2023		
Total tax revenues (% of GDP)		13.4			14.5			20.9			21.3			33.5			33.9		
Share of VAT PIT CIT		5.1	0	2	5.4	0	2.5	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)		6.6			11.4			11.3			13.5			5.4			4		
Social expenditure (% of GDP)		8.5			10			11			11.5			20.2			21.2 (2024)		

Note: See the Reader's guide for definitions and sources.

Peru

Promoting and financing production transformation

Regarding **policies for production transformation**, Peru's *Plan Nacional de Competitividad y Productividad (PNCP) 2024-2030* integrates horizontal and vertical efforts to achieve systemic change in the country's economy. This plan is the result of collaboration among 37 public and private institutions and includes 75 measures aimed at strengthening economic and social infrastructure, human capital, technological innovation, financing mechanisms and the creation of a dynamic and sustainable business environment. Among the most notable advances are the development of strategic industrial parks, the implementation of a digital collateral regime, the strengthening of start-up funds and the implementation of a tax incentive for investment in research, development and innovation projects. Since its start in 2024, 19.3% of the PNCP has been implemented.

Regarding **public financing mechanisms for production transformation**, the main mechanisms focus on financing and co-funding innovation and development projects through dedicated government programmes. In terms of tax incentives, while current tax policy guidelines emphasise the ongoing rationalisation of such benefits, targeted incentives have been introduced to support productive transformation. Notably, tax incentives for investment in research, development and innovation projects play a key role in fostering sustainable economic growth and enhancing the competitiveness of firms, particularly small and medium-sized enterprises. Additionally, sector-specific tax benefits – such as those for agriculture – remain in place. These are designed with built-in rationalisation mechanisms and are often phased out after a few years of implementation. Their impact is monitored by the *Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT)*, which publishes annual digital reports with information on beneficiaries, amounts and fiscal effects.

In terms of **international partnerships for production transformation**, Peru signed an expanded free trade agreement with China in 2024, and the inauguration of the Chancay Megaport, a major new gateway to Asian markets backed by China's Cosco Shipping, has strengthened its role as a regional trade and logistics hub. The United Kingdom, via a memorandum of understanding, launched a joint technical committee with Peru's *ProInversión* investment promotion agency to guide sustainable infrastructure and social projects according to international standards. The Inter-American Development Bank supported Peru's leadership in public-private partnerships (PPPs) by hosting the PPP Americas 2025 forum in Lima, showcasing Peru's USD 70 billion investment pipeline. In addition, the 2024-2033 roadmap between Japan and Peru outlines a strategic partnership to promote trade, innovation and sustainable production transformation through investment, technology transfer and capacity building in key sectors such as mining, energy, agriculture and renewable industries.

Peru: Key indicators

			Peru					LAC					OECD				
Social development			2016		2023			2016		2023			2016		2022		
Poverty	Extreme poverty		19.1	5.2	18.1	4		25.8	8	22.5	7		N/A	N/A			
Gini index			43.6		40.7			46.3		40.9			33.9		34.5		
Share of total population in informal households (%)			67.2 (2010)		53.3			47.9 (2009)		42.3			N/A		N/A		
Share of total population in mixed households (%)			24.2 (2010)		27.0			23.2 (2009)		24.0			N/A		N/A		
Social Institutions & Gender Index (SIGI)			24.5 (2019)		18.6			25.4 (2019)		21.2			17.5 (2019)		15.3 (2023)		
PISA score in science			397 (2015)		408 (2022)			411 (2015)		408 (2022)			489 (2015)		485		
Productivity and innovation			2016		2023			2016		2023			2016		2023		
Export complexity (position on a global scale where 1 is most complex economy)			109		123			81.5		89			40.6		44.6		
Labour productivity (% of OECD)			27		27 (2024)			42		40 (2024)			100		100		
High-tech exports (% of manufactured exports)			4.8		5			8.5		8			16.5		18.1		
Patent applications per million people			2.3		2.8 (2021)			13.8		12.8 (2021)			631.2		572.8 (2021)		
R&D expenditures (% of GDP)			0.1		0.2 (2022)			0.3		0.3 (2022)			1.8		2.1 (2022)		
Investment and private financing			2016		2024			2016		2024			2016		2024		
Total investment, gross fixed capital formation (% of GDP)			21.4		20.7			20.7		19.8			21.9		21.7		
Foreign direct investment (FDI), net capital inflow (% of GDP)			3.5		2.4			4.3		4.3			N/A		N/A		
Domestic credit to private sector (% of GDP)			42.8		45.7 (2022)			45.2		44.1			86.8		71.7		
Market capitalisation (% of GDP)			43.3 (2019)		28.4			50.2 (2019)		37.3			69.5 (2019)		66.4		
Citizens' perceptions and institutions			2011		2024			2011		2024			2011		2024		
Satisfaction with educational system (% of population)			50		52			67		67			66		65		
Satisfaction with healthcare system (% of population)			41		34			55		54			70		64		
Share of people satisfied with their standard of living (%)			62		67			70		73			73		77		
Confidence in judicial system (% of population)			15		17			33		38			50		56		
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			35 (2016)		31			41.2 (2016)		40.6			67.3 (2016)		66.79		
Tax morale (% of adults who find some degree of justification in evading taxes)			60.8		56.8 (2023)			50.6		55.3 (2023)			N/A		N/A		
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			7.3 (2016)		5.7			5.9 (2016)		5.3			2.8 (2016)		2.2		
Digital and green transition			2016		2023			2016		2023			2016		2023		
Share of internet users (% of population)			45.5		79.5			54.5		77.7			81.8		91.8		
Fixed broadband subscriptions (per 100 inhabitants)			6.9		10.4			11.2		17			30.6		36		
Environmentally related tax revenue (% of GDP)			0.4		0.4 (2022)			1		0.7			1.7		1.3		
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			3.2		2.8			5.3		4.9			10.7		8.7		
Renewable energy consumption (% of total final energy consumption)			27.2		30.6 (2021)			28.9		33.9 (2021)			12.5		14.9 (2021)		
Fiscal position			2016		2023			2016		2023			2016		2023		
Total tax revenues (% of GDP)			16.1		17.0			20.9		21.3			33.5		33.9		
Share of VAT PIT CIT			6	1.8 3.8	6.5 2 4.1	5.9 2 3	6.0 2.0 3.8	6.6 7.8 2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)						
Public debt service (% of total tax revenue)			5.8		8.6			11.3		13.5			5.4		4		
Social expenditure (% of GDP)			10.2		11.2			11		11.5			20.2		21.2 (2024)		

Note: See the Reader's guide for definitions and sources.

Uruguay

Promoting and financing production transformation

Regarding **policies for production transformation**, a Development Strategy for 2050 is currently being formulated, incorporating the contributions made during the 2015-2020 period and establishing three strategic axes for development, the first of which is sustainable production transformation. Its primary objective is to promote dynamic and technological activities across six major productive complexes, including information and communications technology, renewable energy and creative industries. Moreover, the *Agenda Uruguay Digital 2025* fosters digitalisation nationwide through five priority action areas, including digital transformation in productive sectors and new strategies for employment, such as technological training.

Regarding **public financing mechanisms for production transformation**, the *Banco de la República Oriental del Uruguay* (BROU) offers various services and credit lines for training, modernisation and the enhancement of business sustainability. Instruments include clean production consulting and loans for equipment or environmental improvements, such as issuing carbon certificates and increasing energy efficiency. Particularly noteworthy is the *BROU Sostenible* programme, which provides special rates, a percentage of financing coverage and technical evaluation for companies promoting the green transition. In addition, the *Agencia Nacional de Investigación e Innovación* offers different instruments, including funds for the purchase of scientific infrastructure, graduate scholarships for researchers and financing either for business innovation projects or for research and innovation. Furthermore, the Inter-American Development Bank has allocated USD 100 million to Uruguay through its Conditional Credit Line for Investment Projects to foster productivity, human capital and research in the country. With the support of the Joint Sustainable Development Goals Fund, the Renewable Energy Innovation Fund was created to activate large-scale financing and technical assistance for emerging green projects that are driving the second energy transition in four key areas.

In terms of **international partnerships for production transformation**, several initiatives have been established with the European Union to promote the green transition in Uruguay. Besides Euroclima, these include the *Development in Transition* project, which promotes innovative business models; the *Green Impulse* initiative, which incorporates sustainability and innovation in industry; and the *InsPYraME UE 2.0* project, which fosters sustainable production among micro, small and medium-sized enterprises. Furthermore, the World Bank's Country Partnership Framework 2023-2027 supports Uruguay's transition towards green hydrogen, electric transportation and agro-ecological production systems with more than USD 690 million in funding. The programme BIOFIN of the United Nations Development Programme promotes the design and implementation of comprehensive and sustainable financing strategies for biodiversity to ensure a protected and inclusive use of biodiversity. Finally, a memorandum of understanding was established with Brazil to foster digitalisation in both countries.

Uruguay: Key indicators

			Uruguay						LAC						OECD					
Social development			2016			2023			2016			2023			2016			2022		
Poverty	Extreme poverty		3.6	0		4.5	0.2		25.8	8		22.5	7		N/A		N/A			
Gini index			39.7			40.9			46.3			40.9			33.9			34.5		
Share of total population in informal households (%)			28.5 (2008)			16.2			47.9 (2009)			42.3			N/A			N/A		
Share of total population in mixed households (%)			27.7 (2008)			18.0			23.2 (2009)			24.0			N/A			N/A		
Social Institutions & Gender Index (SIGI)			22.2 (2019)			19.4			25.4 (2019)			21.2			17.5 (2019)			15.3 (2023)		
PISA score in science			435 (2015)			435 (2022)			411 (2015)			408 (2022)			489 (2015)			485		
Productivity and innovation			2016			2023			2016			2023			2016			2023		
Export complexity (position on a global scale where 1 is most complex economy)			72			69			81.5			89			40.6			44.6		
Labour productivity (% of OECD)			56			58 (2024)			42			40 (2024)			100			100		
High-tech exports (% of manufactured exports)			10.6			10.7			8.5			8			16.5			18.1		
Patent applications per million people			7.6			6.7 (2017)			13.8			12.8 (2021)			631.2			572.8 (2021)		
R&D expenditures (% of GDP)			0.4			0.6 (2022)			0.3			0.3 (2022)			1.8			2.1 (2022)		
Investment and private financing			2016			2024			2016			2024			2016			2024		
Total investment, gross fixed capital formation (% of GDP)			16.9			16.2			20.7			19.8			21.9			21.7		
Foreign direct investment (FDI), net capital inflow (% of GDP)			-0.9			-3			4.3			4.3			N/A			N/A		
Domestic credit to private sector (% of GDP)			25.6			31.1			45.2			44.1			86.8			71.7		
Market capitalisation (% of GDP)			N/A			N/A			50.2 (2019)			37.3			69.5 (2019)			66.4		
Citizens' perceptions and institutions			2011			2024			2011			2024			2011			2024		
Satisfaction with educational system (% of population)			62			65			67			67			66			65		
Satisfaction with healthcare system (% of population)			75			68			55			54			70			64		
Share of people satisfied with their standard of living (%)			74			75			70			73			73			77		
Confidence in judicial system (% of population)			50			47			33			38			50			56		
Corruption Perception Index (score on a scale of 0 [highly corrupt] to 100 [totally clean])			71 (2016)			76			41.2 (2016)			40.6			67.3 (2016)			66.79		
Tax morale (% of adults who find some degree of justification in evading taxes)			39.8			47.1 (2023)			50.6			55.3 (2023)			N/A			N/A		
Security risks indicator (score from 0 [low security risks] to 10 [high security risks])			3.5 (2016)			3.4			5.9 (2016)			5.3			2.8 (2016)			2.2		
Digital and green transition			2016			2023			2016			2023			2016			2023		
Share of internet users (% of population)			66.4			90			54.5			77.7			81.8			91.8		
Fixed broadband subscriptions (per 100 inhabitants)			27.3			32.4			11.2			17			30.6			36		
Environmentally related tax revenue (% of GDP)			1.6			1.4 (2022)			1			0.7			1.7			1.3		
Per capita greenhouse gas emissions (excluding land use changes) (t co2e/capita)			12.3			12.3			5.3			4.9			10.7			8.7		
Renewable energy consumption (% of total final energy consumption)			60.3			57.8 (2021)			28.9			33.9 (2021)			12.5			14.9 (2021)		
Fiscal position			2016			2023			2016			2023			2016			2023		
Total tax revenues (% of GDP)			25.5			27.4			20.9			21.3			33.5			33.9		
Share of VAT PIT CIT			7.1	3	2.6	6.9	4.0	2.8	5.9	2	3	6.0	2.0	3.8	6.6	7.8	2.9	7.0 (2022)	8.2 (2022)	3.9 (2022)
Public debt service (% of total tax revenue)			9.5			7.8			11.3			13.5			5.4			4		
Social expenditure (% of GDP)			14.7			16			11			11.5			20.2			21.2 (2024)		

Note: See the Reader's guide for definitions and sources.

Latin American Economic Outlook 2025

Promoting and Financing Production Transformation

The 18th edition of the *Latin American Economic Outlook* presents policy options for a greener, more inclusive regional production structure and examines financing mechanisms to support this transformation. It highlights the need for development strategies that promote formal job creation and strengthen local capacities and strategic sectors, while aligning production structures with global standards and demands.

The report's recommendations focus on improved implementation of productive development policies; innovative financial instruments; a renewed role for development finance institutions; and revitalised international partnerships to mobilise resources and support capacity building. Together, these priorities can drive the region's transition towards resilient, knowledge-intensive production systems that underpin inclusive and sustainable growth.



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