

Executive summary

Countries in Latin America and the Caribbean (LAC) face an ambitious agenda to ensure that the green transition is an opportunity to enhance development in the region. The global impacts of the COVID-19 pandemic and of Russia's war against Ukraine have been a reminder of LAC's weak resilience to shocks. This stems from its structural challenges: fragile social protection systems; low productivity; weak institutions; and an environmentally unsustainable development model. A systemic green and just transition could help the region overcome its development "traps" and strengthen its resilience while improving Latin Americans' well-being. LAC is highly exposed to the effects of climate change and, as such, governments should seize the recovery as a strategic opportunity to launch broad and deep transformation.

LAC faces a complex context, on both domestic and international scales

After a strong rebound from the impacts of COVID-19 in 2021, recovery in LAC has slowed. Domestically, this reflects low potential growth and diverse structural challenges. But fallout from Russia's invasion of Ukraine and an economic slowdown in China confirm that LAC is also deeply connected to an increasingly complex international context. Across the LAC region, economies are experiencing increased inflationary pressures and uncertainty, as well as disruptions in trade with key economic partners. Reduced macroeconomic policy space – both monetary and fiscal – makes it harder for LAC economies to sustain international and environmental shocks, as they strive to support the economic recovery and protect the most vulnerable. Estimates suggest that by the end of 2022, 33.7% of the LAC population will be in poverty and 14.9% in extreme poverty, as rising prices have more profound effects on the most vulnerable population. In the first five months of 2022, in selected LAC countries, inflation rates for the extreme poor were 3.6 percentage points higher than total inflation. Fiscal policy should promote growth and social inclusion, based on strategic pillars of environmental and fiscal sustainability, decarbonisation and resilience.

A green and just transition can make LAC societies more resilient to climate change while promoting better development

LAC is one of the regions most vulnerable to climate change; 13 of the 50 countries identified as most affected by the climate emergency are in LAC. Hence, the urgent need for a green and just transition. This high risk is disproportionate in that LAC's share in total greenhouse gas (GHG) emissions (8.1%) is proportional to its share of total global population (8.4%) and slightly higher than its share in total gross domestic product (GDP) (6.4%). If implemented in a systemic way, active mitigation and adaptation policies can reduce the disproportionate consequences of climate change on inequalities across countries, socio-economic groups, territories, generations and gender. A green and just transition must go beyond fighting climate change and put citizens' well-being at its centre.

Transforming the energy and production matrix can help boost productivity, develop new and more sustainable economic sectors, and create more formal jobs

Transformation of the energy matrix is key to promoting greater well-being for citizens and fostering more resilient societies in LAC. The region is endowed with high potential for renewable energy resources; at present, renewables account for 33% of total energy supply in the region, compared to just 13% globally. Investing in renewable technologies can substantially reduce GHG emissions while also providing lower-cost power and, for

some LAC countries, reducing reliance on imported fossil fuel products. A successful transition to net zero emissions will be contingent on systemic decarbonisation through electrification across all sectors. In parallel, investments in green hydrogen and other low-carbon alternative fuels, including sustainable biofuels, will be key to decarbonising hard-to-abate sectors. A total of 17 million people still have no access to electricity, especially in rural areas. Ensuring universal access to energy is a crucial element of a green and just transition as it can help overcome inequalities in access to basic public services and stimulate local economic growth. Industrial, circular and blue policies should also be key elements of LAC's sustainable productive transformation. Advancing a green transition can potentially add 10.5% more net jobs in LAC by 2030. To achieve this, it is necessary to secure additional public and private investments that contribute to an increase of 3 percentage points in the value added of green sectors. The transition to new green jobs implies development of active labour market policies and well-targeted social policies to support those workers and households who will be negatively impacted by the transition.

Financing the green transition requires environmentally sustainable fiscal policies and a scaling up of novel financial instruments

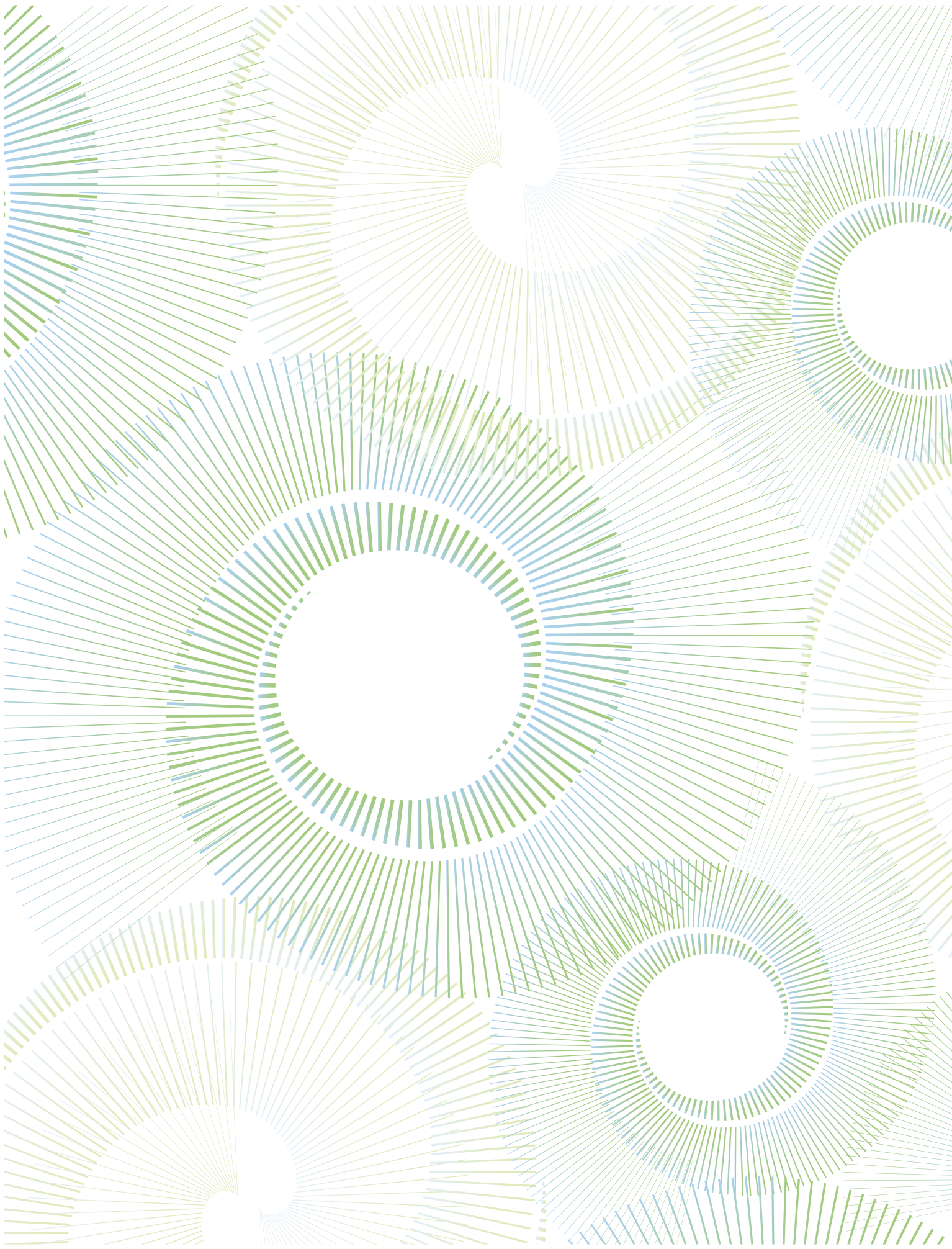
The LAC region needs to mobilise substantial resources to finance the green transition. A 2.5°C global warming scenario could cost the region between 1.5% and 5.0% of its GDP by 2050. Since the cost of inaction is high, governments have to gradually phase out subsidies and leverage the potential of environmentally related taxes while also scaling up novel financial instruments such as debt-for-nature swaps, natural disaster clauses, catastrophe bonds, and green, social, sustainability and sustainability-linked (GSSS) bonds. Between 2014 and 2021, LAC's GSSS bonds issuance in international markets reached an accumulated USD 73 billion, of which USD 31 billion came from green bonds alone. Of the total GSSS issuance, 42% came from the corporate sector, 37% from the sovereign sector, 12% from quasi-sovereign, and 5% from supranational issuers. Promoting active roles for sub-national, national and international development finance institutions can contribute to the necessary green financing, by mobilising and catalysing key investments for the transformation to a low-carbon economy. In the LAC context, facilitating participation of the private sector is fundamental. Finally, enhancing and developing regulatory tools, such as sustainability or green bond standards and taxonomies, is crucial.

Advancing the green transition demands institutional mechanisms to foster consensus and build a new sustainable social contract

To make the green transition viable over time, LAC governments should ensure participative and inclusive processes. The multiplicity of actors, sectors and constituencies affected by the green agenda requires a shared platform for negotiation and consensus building. The green agenda can be the binding element of a new sustainable social contract for the region, as 68% of LAC citizens recognise climate change as a very serious threat to their country in the next 20 years, above other regions. Public institutions will have to work strategically to balance economic, social and environmental objectives; move forward the objectives of Nationally Determined Contributions; and ensure consistent and progressive implementation of long-term strategies, such as those set out in National Development Plans. The active participation of the private sector, academia, civil society and local communities is essential in every aspect of the public policy cycle, to consider their voices and develop participatory and transparent policies.

International partnerships are key to harnessing the potential of a green and just transition

Advancing a green transition and achieving the associated low-carbon development targets involves a series of challenges that cannot be addressed exclusively at the national level. Regional and international co-operation is necessary to ensure successful implementation of climate change mitigation and adaptation policies and a broader green agenda. Natural resource endowment and having 50% of the world's biodiversity make many LAC countries key players in international climate negotiations. In the transition to a sustainable model of development, LAC governments will benefit from having a strong convening power and a single voice in multilateral environmental agendas. This will help to better showcase the region's particularities while also better aligning national policies with internationally established environmental goals. LAC governments also have to face how green policies adopted in third countries will impact on trade. Co-operation with international actors, including private and multilateral institutions, will be key to leveraging the newly established international green norms and regulations.





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