ADDRESSING THE **GRADUATION POLICY** IN CHILE

Raising the visibility of the **structural gaps that hinder development** in Latin America and the Caribbean

Enrique Oviedo
Andrés Fernández

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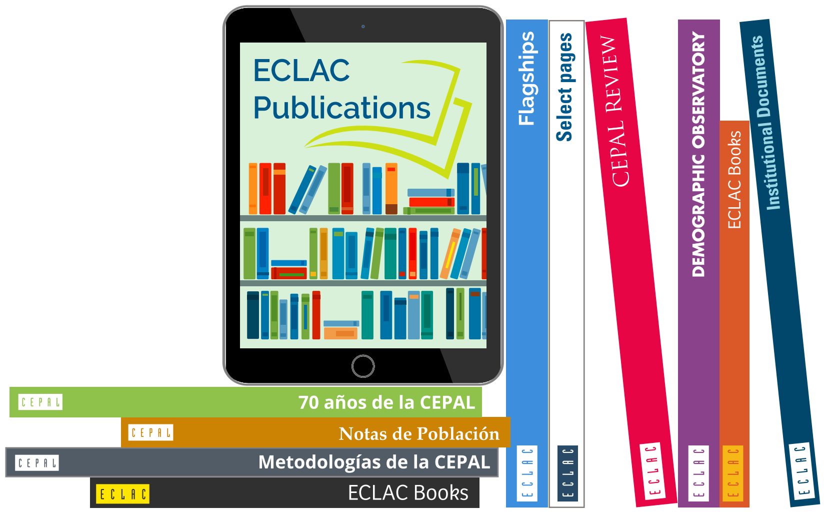

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This document was prepared by Enrique Oviedo, Political Affairs Officer in the Office of the Secretary of the Commission of the Economic Commission for Latin America and the Caribbean (ECLAC), and Andrés Fernández, a consultant with the same Office, under the coordination of Luis F. Yáñez, Secretary of the Commission. It was prepared in the framework of Specific Cooperation Agreement No. 2 between the Chilean Agency for International Cooperation for Development (AGCID) and ECLAC.

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Introduction

In the periodic review of the list of countries eligible to receive official development assistance (ODA) conducted in 2014, the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) concluded that Chile, Uruguay and Antigua and Barbuda would "graduate" in October 2017 because, according to the criteria set by the World Bank, they would become high-income countries. In response to that announcement, the Government of Chile decided, through its Foreign Ministry and the Chilean Agency for International Cooperation for Development (at the time AGCI, since renamed AGCID), to challenge this "graduation" at the Development Assistance Committee. This was the first time that two Latin American countries were affected, and also the first time that a graduation was challenged at the highest level: before both the OECD Development Assistance Committee and the General Assembly of the United Nations.[1]

In January 2016, a joint meeting was held between AGCID and the Government of Uruguay (represented by the Uruguayan International Cooperation Agency (AUCI), the Office of Planning and the Budget and the Ministry of Economy and Finance) to draw up a common position document. In May of that year, the Foreign Ministers of Chile, Uruguay and Antigua and Barbuda delivered a letter to the Chair of the Development Assistance Committee, which was later adhered to by a significant number of Latin American countries, requesting the formation of a plural working group to study the adoption of multidimensional criteria and alternative deadlines for graduation, in line with the Sustainable Development Goals (SDGs) and, at the same time, proposing a moratorium for the affected countries until the Development Assistance Committee could define new criteria that took on board the demands of the 2030 Agenda.

The proposal was discussed at the Development Assistance Committee's meeting of 17 June 2016; however, no agreement was reached regarding either the creation of a working group within the Committee to review the "graduation" criteria or the proposed moratorium. Most of the members present were unwilling to consider the matter and explicitly maintained that the graduation rules and per capita GDP criteria could not be changed or discussed (Herrera, 2018).

[1] In September 2017, President Michelle Bachelet presented Chile's position on this issue as part of her address to the seventy-second session of the United Nations General Assembly and, in September 2018, President Tabaré Vázquez presented Uruguay's position during his address to the General Assembly's seventy-third session.

This response from the Development Assistance Committee member States forced the deployment of a new strategy whereby the demands for a new deal for those countries would be taken to the largest number of relevant international development cooperation (IDC) stakeholders. This strategy was initiated by Chile and Uruguay and, gradually, other countries joined in the effort.

The alternative approach proposed by the two countries gained adherents and was extensively discussed with various IDC stakeholders at two seminars, which played a key role in consolidating the strategy. The first event, titled "Development in Transition", was held at OECD headquarters on 13 December 2016 and was organized by the OECD Development Centre; the second, "Next Steps for Development in Transition", was held in Brussels in May 2017 and was jointly organized by the European Commission (Directorate General EuropeAid Development Cooperation, DEVCO), ECLAC and the OECD Development Centre.

The first seminar's primary goals were to examine the shortcomings of classifying countries according to their income levels without taking account of the vulnerabilities and challenges they face, and to devise indicators to better reflect the multidimensional nature and complexity of development and the potential impacts of graduation. Secondly, it studied the existing cooperation tools and frameworks in terms of their relevance to countries' levels of development and the persistent vulnerabilities and new complexities to be faced.

The second seminar was attended by several member States from the European Union, Latin America and the Caribbean, some delegates from African countries and the Development Assistance Committee, together with high-level representatives from the Development Assistance Committee's Secretariat, the European Commission, ECLAC and the OECD Development Centre. On that occasion, the Government of Chile argued that "graduation contradicts the principle of leaving no one behind, which is at the heart of the 2030 Agenda, and that partnerships and cooperation must be maintained to ensure coherence with the SDGs"; in parallel, the authorities of the European Commission, based on evidence of structural vulnerabilities, stated that "the relationship between developed countries and middle-income countries is under review and this requires the flexibility and adaptation of existing cooperation instruments (at least by the Commission), and that if the aim is to build a more relevant future for the Development Assistance Committee, the Committee should also take a leadership role in that direction" (Alemany, 2017).

The second seminar led to the publication of *Latin American Economic Outlook 2019: Development in Transition*, jointly prepared by the OECD Development Centre, the European Commission/DEVCO, the Development Bank of Latin America and the Caribbean and ECLAC (OECD and others, 2019). The first public document signed at the highest level by the heads of those four organizations, it sets out this new approach and consolidates it as an international strategy and agenda.

Against the backdrop of that process of preparing a position and lodging a protest with the Development Assistance Committee, in December 2017 AGCID and the United Nations Development Programme (UNDP) prepared and published the document *Primer análisis de impacto de la graduación de Chile* (Alemany, 2017), which was intended to raise the visibility of the structural gaps that are still in place in many countries around the world and that the graduation process ignores.

Crucially, among the consequences of the Development Assistance Committee's graduation process is that graduate countries can no longer access loans on favourable terms ("soft loans") granted by development banks in donor countries. This is, for example, the case of the Development Bank of Germany (KfW), which has been working through that mechanism in the field of renewable energies and energy efficiency with Chile for several years. Neither are graduating countries able to access, through international cooperation, technical cooperation or transfers of technology and best practices from Development Assistance Committee member countries, including firm restrictions on access to human capital training funds (AGCID, 2017).

This document shows that the region's social and economic situation, its gaps and its inequalities remain unchanged and have even worsened: not only because of the recent COVID-19 pandemic, but on account of persistent structural deficits. Paradoxically, according to the criteria still in force, an increasing number of countries in the region are facing the prospect of Development Assistance Committee graduation in this delicate regional scenario.

While it is true that the ODA allocations for Latin America and the Caribbean have historically been low, and that only a few countries' budgets depend heavily on them, the political and technical dialogue that accompanies development cooperation has played an important role in State modernization processes, institutional strengthening and the reduction of poverty.

This document aims to reaffirm the central role played by the international cooperation system, in the different forms it can assume, in achieving the objectives of the 2030 Agenda for Sustainable Development.[2] This requires that the region's countries have access to robust technical assistance and knowledge sharing, together with the strengthened collaborative partnerships, active multi-stakeholder participation and the mobilization of funding for development.

[2] This aim has been taken up by the ECLAC Regional Conference on South-South Cooperation in Latin America and the Caribbean, the objectives of which are "to strengthen national South-South and triangular cooperation mechanisms and possible linkages with North-South and multilateral cooperation; to further South-South and triangular cooperation among regional and extraregional stakeholders, including donor countries and international organizations, to facilitate technology and knowledge transfer and joint activities in the field of cooperation; and to examine the experiences of South-South and triangular cooperation in the countries of Latin America and the Caribbean and to make progress in evaluating them, in conjunction with the relevant subsidiary bodies that conduct studies in this field" (ECLAC, 2023a, p. 5).

I. Challenges facing Chile within the economic and social context of Latin America and the Caribbean in the wake of the pandemic

Latin America and the Caribbean have faced a series of successive crises. Following the coronavirus disease (COVID-19) pandemic and its global economic repercussions, the conflict in Ukraine broke out, inflation re-emerged and the phenomenon of widespread migration intensified, all against a backdrop of increasingly frequent adverse weather events and accelerating technological transformation (ECLAC, 2023b). In that scenario, the region's countries are experiencing worsening levels of investment and output and a deterioration in their populations' living standards, and that is seriously compromising their possibilities of meeting the 2030 Agenda for Sustainable Development. External and internal factors alike have reduced the capacity for economic growth and job creation, complicating the reduction of poverty.

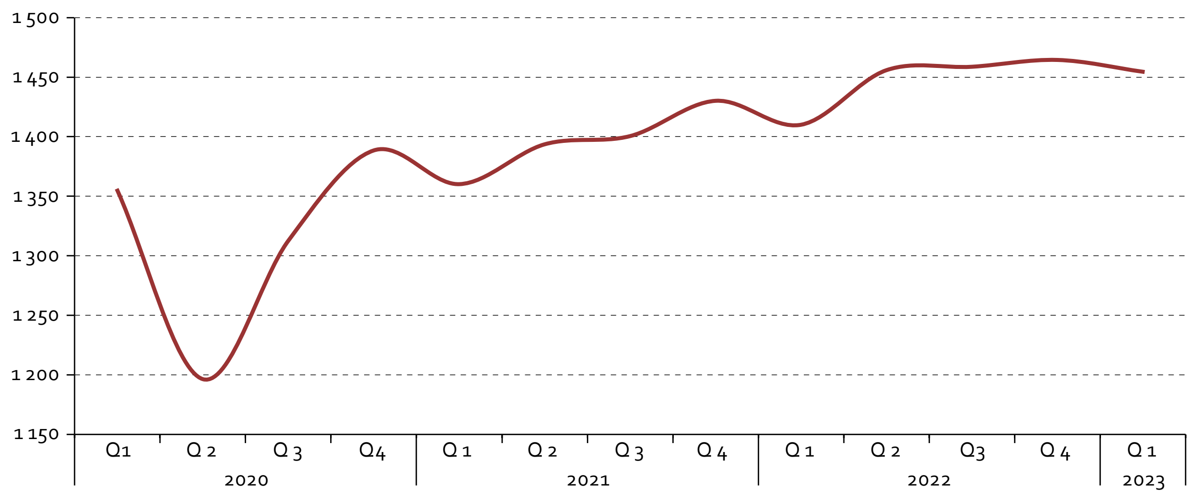
A. Chile needs to recover its capacity for economic growth

Not only do the figures for the first quarter of 2023 confirm the slowdown of the regional economy in year-on-year terms, they also reveal that regional GDP remained stagnant over the previous four quarters (see figure 1). Growth slowed by half a percentage point in the first quarter of 2023 compared to the corresponding quarter of the previous year. The slowdown was felt across the board and, in the first quarter of 2023, the activity indicators of 13 of the 16 countries studied posted drops in growth dynamics (ECLAC, 2023c).

Between 2010 and 2019 —the decade following the global financial crisis— the region's GDP growth rate fell from 6% to 0.2%. Over the 2014–2023 period, regional GDP growth was around 0.8%, the lowest figure since the 1950s and even lower than the average rate of 2% registered during the "lost decade" of the 1980s. The crisis that beset the region in 2020 was the worst in its history, with a 6.8% drop in GDP.

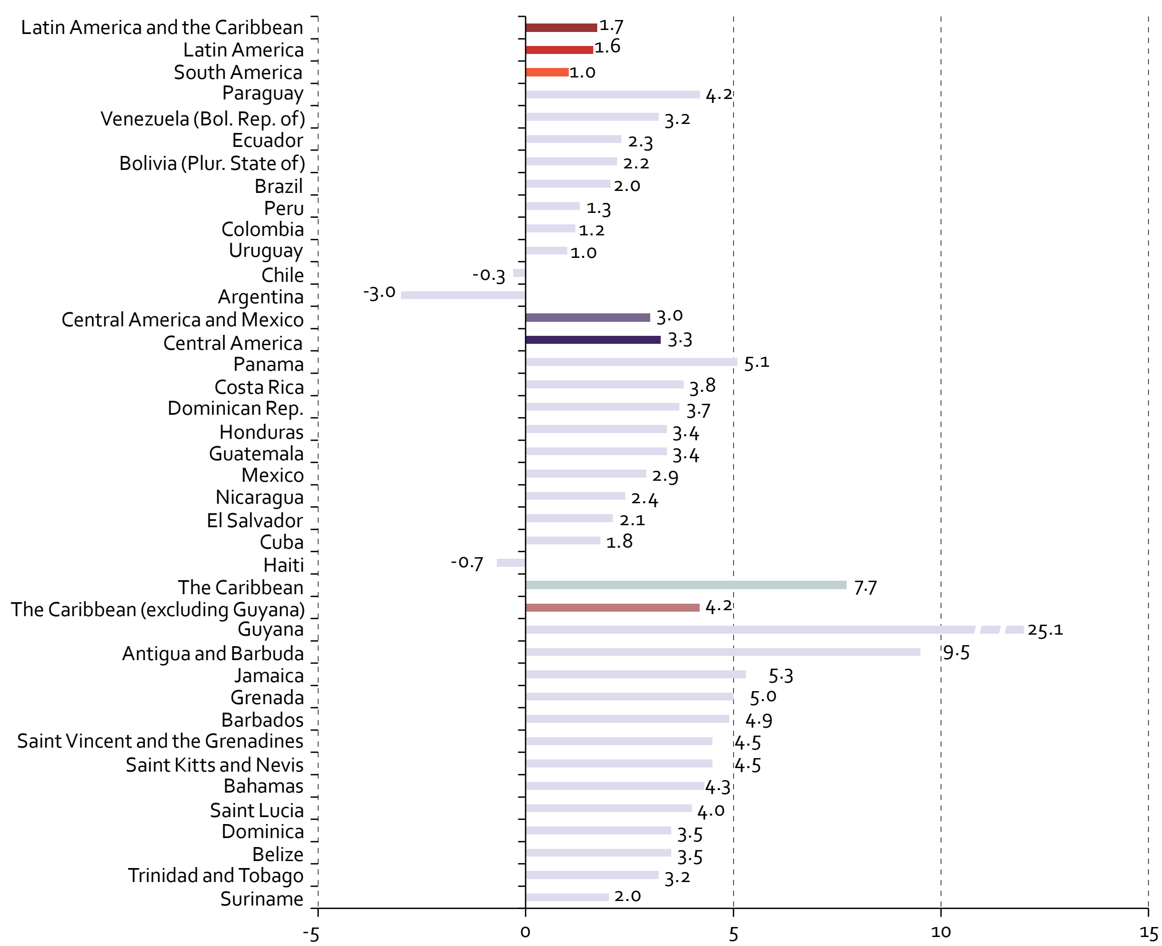
According to the *Economic Survey of Latin America and the Caribbean, 2023,* global GDP growth for that year was calculated at 3.0%, down from the 3.5% posted in 2022. A global growth rate of 3.0% is also projected for 2024. However, it is noteworthy that global GDP levels at the end of that year will be around 3% lower than the forecasts made prior to the COVID-19 pandemic, confirming that "the negative shocks of the past three years in the form of the pandemic, the conflict between the Russian Federation and Ukraine and rising inflation, together with tighter global monetary policy, have had a lasting impact on the global economy" (ECLAC, 2023c, p. 32).

Figure 1
Latin America (16 countries): gross domestic product and slowdown in annual growth, 2020 to first quarter 2023
(In billions of constant 2018 dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure 2
Latin America and the Caribbean (33 countries): GDP growth rate forecasts, 2023
(Percentages)



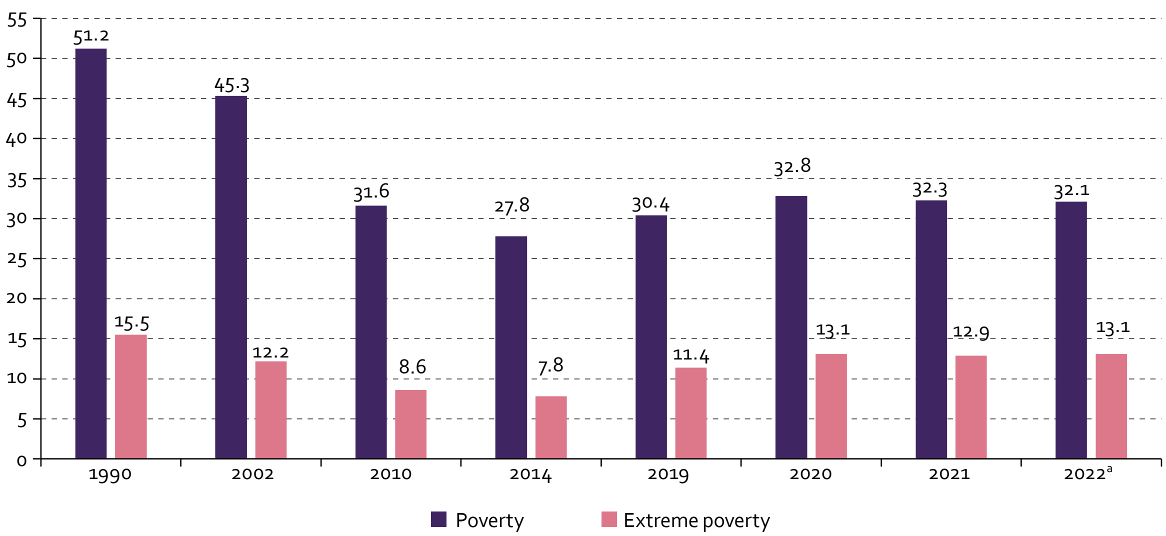
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Latin America and the Caribbean are expected to continue with low growth in 2023, at a rate of 1.7%. All the subregions are expected to grow more slowly in 2023 than in 2022: South America with a forecast growth rate of 1.2% (against 3.7% in 2022), Central America and Mexico with 3% (3.4% in 2022) and the Caribbean (excluding Guyana) with 4.2% (6.3% in 2022). For 2024, the low growth dynamic is expected to continue, with an average GDP growth rate of 1.5% across Latin America and the Caribbean.

B. Poverty in Chile is falling but unequally, affecting children, women and indigenous peoples

In 2021, the region saw a reduction in poverty and extreme poverty rates and growth in the middle-income segments of the population, but this was not enough to completely counteract the negative effects of the pandemic, which in 2020 caused a sharp increase in poverty and a slight rise in income inequality. The 2021 poverty rate in Latin America stood at 32.3% of the total population (down 0.5 percentage points from 2020) while the extreme poverty rate was 12.9% (0.2 percentage points less than in 2020).

Figure 3
Latin America (18 countries): poverty and extreme poverty rates, 1990–2021 and forecasts for 2022
(Percentages)

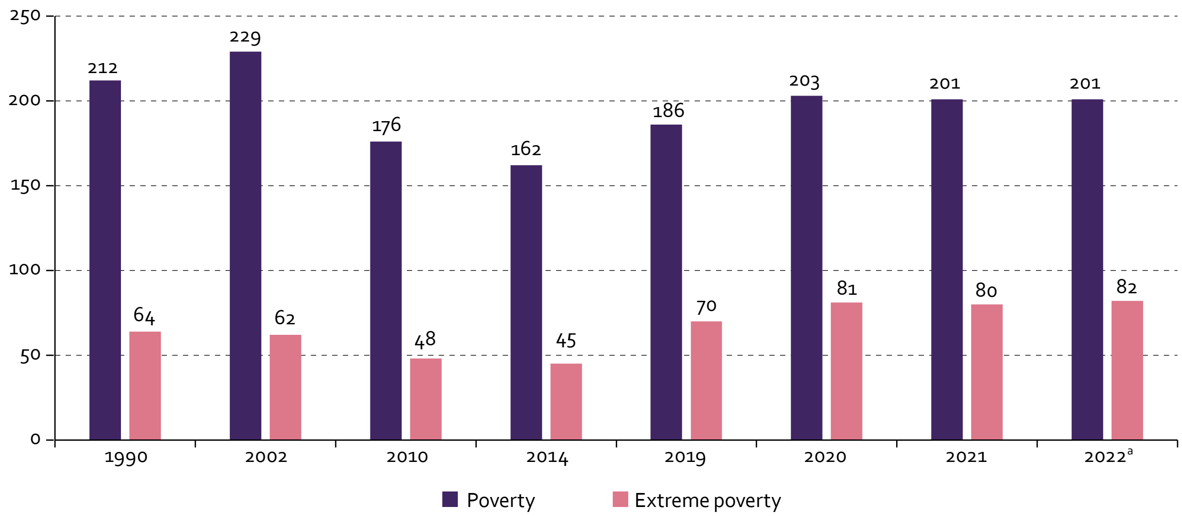


Source: Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).
Note: Weighted average of the following countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.
[a] Figures for 2022 are projections.

Forecasts for 2022 estimate a poverty rate of 32.1% (equal to 201 million people) and an extreme poverty rate of 13.1% (82 million people); in other words, a slight drop in poverty and a slight increase in extreme poverty compared to 2021, on account of the combined effects of economic growth, labour market dynamics and inflation. Those figures would mean an additional 15 million people in conditions of poverty compared to pre-pandemic numbers and that the total number of people in extreme poverty would be 12 million higher than the 2019 figure.

Significantly, the extreme poverty levels projected for 2022 represent a quarter-century setback for the region. At the same time, the incidence of poverty is higher among certain population groups: more than 45% of the region's children and adolescents live in poverty, and the poverty rate among women between the ages of 20 and 59 is higher than the men's figure in all the region's countries. Likewise, poverty is considerably higher among indigenous and Afrodescendent populations (ECLAC, 2022b).

Figure 4
Latin America (18 countries): number of people living in poverty and extreme poverty, 1990–2021 and forecasts for 2022
(Millions)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).
Note: Includes the following countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.
[a] Figures for 2022 are projections.

Chile has achieved significant reductions in its poverty rates. According to various specialists, however, that decrease can be basically explained by the transfers made by the State to counteract the effects of the pandemic (worth almost US$ 28 billion in 2021, according to official figures from the Ministry of Finance) and by the pension fund withdrawals that were approved by Congress (totalling some US$ 49.7 billion between August 2020 and April 2022, according to official figures from the Office of the Superintendent of Pensions).

In the 2022–2023 National Socioeconomic Survey (CASEN), income poverty stood at 6.5%. That was significantly down from previous results, which reported poverty rates of 10.7% in 2020 and 8.5% in 2017. Extreme poverty amounted to 2% of the population, against 4.3% in 2020 and 2.3% in 2017 (Ministry of Social Development and Family of Chile, 2022).

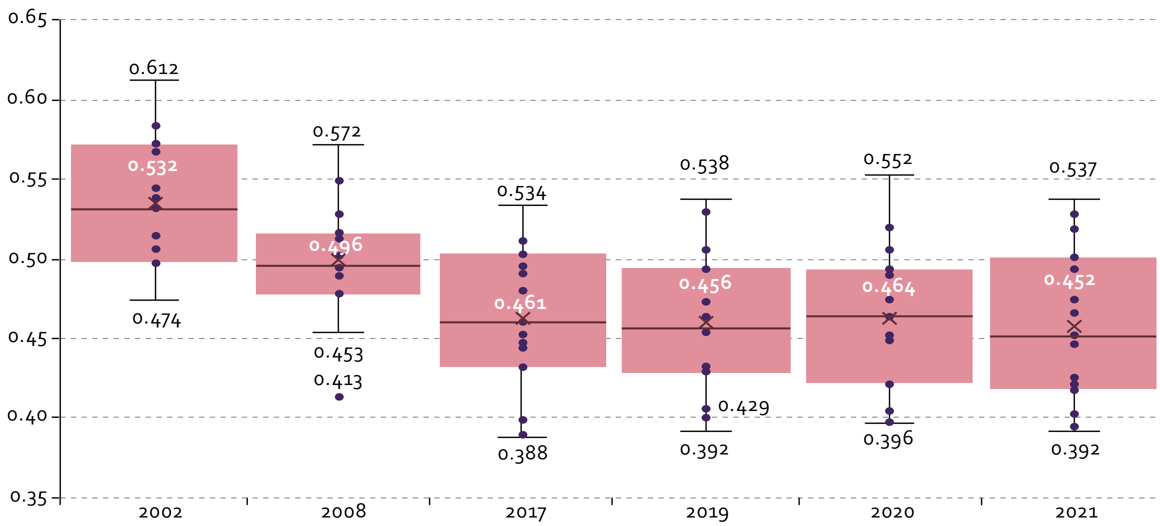
C. Inequality in Chile, a structural problem

Income inequality in Latin America (measured by the Gini inequality index) stood at 0.452 in 2021, slightly down from the 2020 result. However, the downward trend in the region's inequality has been put on hold and the figures have remained virtually unchanged since 2017 (ECLAC, 2022b).

Regarding economic inequality in Chile, the 2022–2023 CASEN revealed that the 20% of households with the highest monetary incomes received 8.2 times more than the 20% of households with the lowest incomes, a figure lower than those recorded in 2017 (8.5 times) and 2020 (11.7). The Gini coefficient stood at 0.470, which was also lower than the results in 2017 (0.484) and 2020 (0.509) (Ministry of Social Development and Family of Chile, 2022).

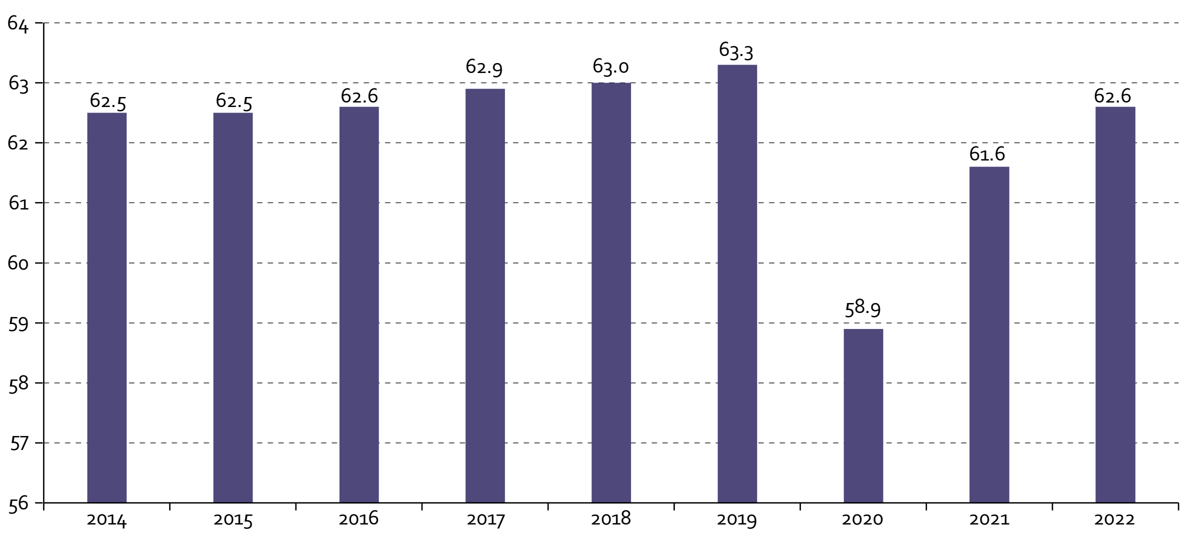
Several labour market indicators —such as the participation rate, unemployment rate, employment rate and number of people in employment— have improved with respect to the 2020–2021 period and have, in general, returned to their pre-pandemic levels. In 2023, however, the pace of recovery of those variables to some degree stagnated. At the same time, a return to pre-pandemic levels is far from a desirable outcome, given the persistence of many structural problems, such as high levels of informality and hefty gender inequalities (ECLAC, 2023c).

Figure 5
Latin America (15 countries):[a] Gini inequality index, 2002–2021
(Values from 0 to 1, where 0=no inequality and 1=maximum inequality)



Source:Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).
Note: The Gini index was calculated by taking into account incomes equal to 0. Data correspond to the year cited or to the closest available previous year. The horizontal line within each box indicates the median of the data, the X marker shows the mean and the circles represent the individual country results. The upper and lower limits of each box indicate the cut-off points of the first and last quartiles of the countries ordered by their Gini indices.
[a] Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

Figure 6
Latin America and the Caribbean (20 countries):[a] average annual labour participation rate, 2014–2022
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The countries included are Argentina, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

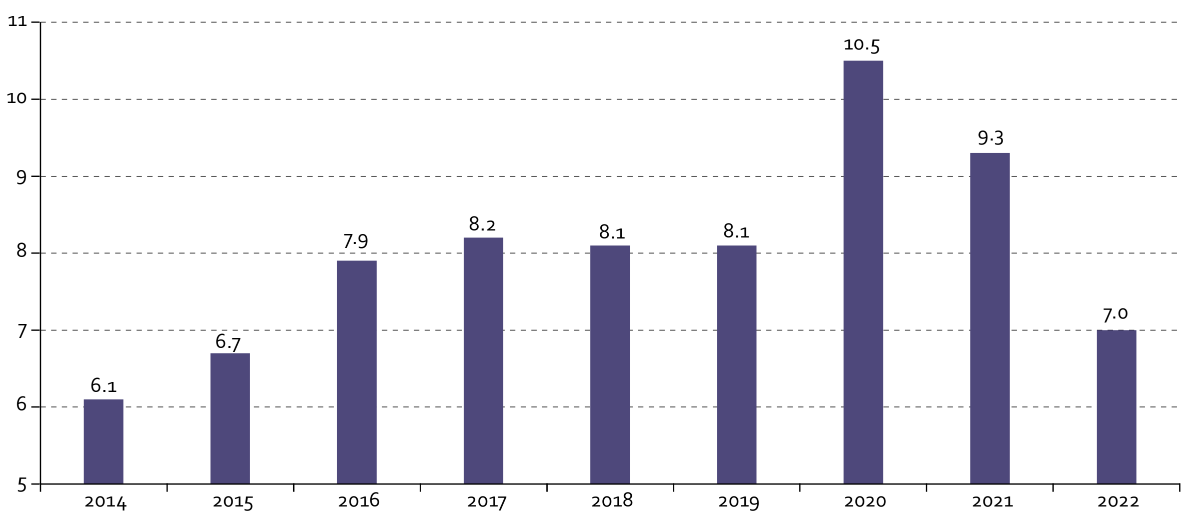
D. Progress and setbacks in reducing unemployment

In 2022, the labour force participation rate rose for the second consecutive year in the economies of Latin America and the Caribbean, thanks to the re-entry of people into the workforce following the significant drop in that variable caused by the COVID-19 pandemic. That year, the regional weighted average labour participation rate was 62.6%; however, that was still below the 63.3% recorded in 2019 and also below the 2014–2019 average of 62.8%.

The increase in the number of employed people and the recovery of the capacity to absorb people joining the workforce led to a reduction in the unemployment rate in 2022: 7.0%, down from the peak of 11.5% registered in the third quarter of 2020. As shown on the figure below, however, unemployment remains above its 2014 level of 6.1%. This forecast represents a 22-year setback, with women particularly affected: female unemployment rose from 9.5% in 2019 to 11.6% in 2022.

Chile recorded its highest unemployment rate (13.1%) in the May–July 2020 quarter, which then fell to 7.2% in October–December 2021. Since then, however, it has been rising and, in June–August 2023, it reached 9.0%: a figure similar to those observed during the first half of 2010.[3]

Figure 7
Latin America and the Caribbean (20 countries):[a] average annual unemployment rate, 2014–2022
(Percentages)



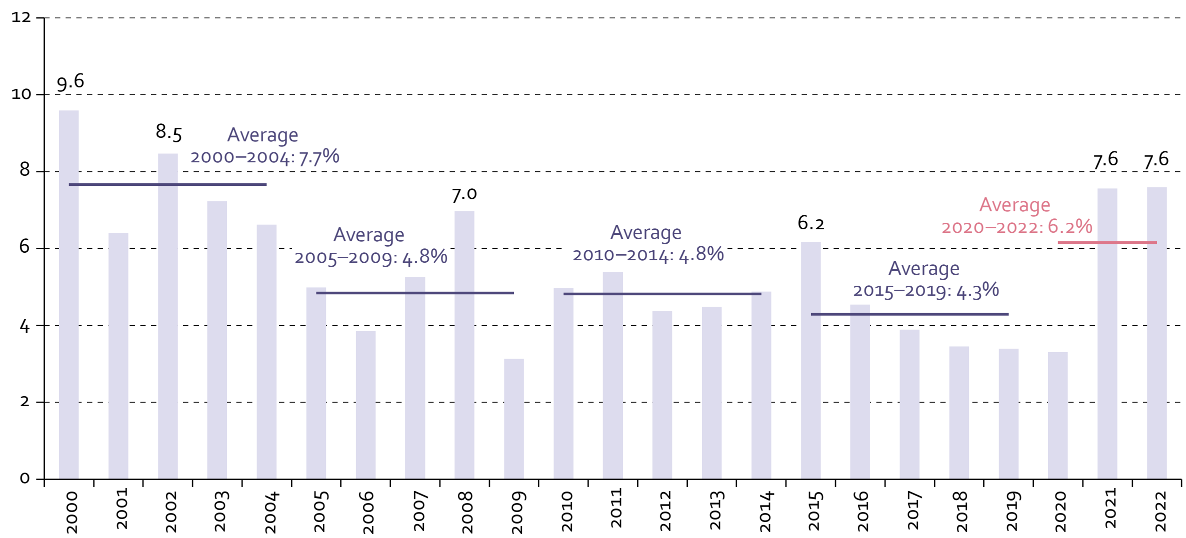
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The countries included are Argentina, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

E. Chile makes significant progress in reducing inflation

The various external shocks have exacerbated many of the region's structural weaknesses and several problems that conventional wisdom had consigned to the past have re-emerged. Among those problems is inflation. Although a downward trend is forecast (ECLAC 2023c), inflation levels continue to run high in both advanced and emerging economies. The following figure shows that inflation in the region had been falling since 2000 and, in 2020, had reached a level of 3.3%. In 2021 and 2022, however, it rose to 7.6%. In June 2023, year-on-year inflation stood at 4.9%.

[3] See Central Bank of Chile, Base de Datos Estadísticos (BDE) [online] https://si3.bcentral.cl/siete.

Figure 8
Latin America and the Caribbean:[a] annual rate of change in the consumer price index, 2000–2022
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Countries with chronic inflation (Argentina, Bolivarian Republic of Venezuela, Cuba, Haiti and Suriname) are not included.

Several factors contributed to this downward trend: the slowdown in aggregate domestic demand, the conclusion of the aggregate demand support policies introduced during the pandemic, the adoption of contractionary monetary policies and falling global food and energy prices.

However, the fight against inflation has tightened global financial conditions and caused increased financial market volatility and risk aversion. This has raised the cost of debt service, has further constrained the fiscal space and has increased the risk of a global economic recession in 2023.

In Chile, inflation was largely under control: in December 2020 the annual rate stood at 3%, equal to the annual average over the previous 20 years. As of mid-2021, however, it began a period of sustained increases to peak at a year-on-year rate of 14.1% in August 2022. It remained above 11% in year-on-year terms until March 2023, when it began to fall to reach a year-on-year rate of 4.6% in November 2023.

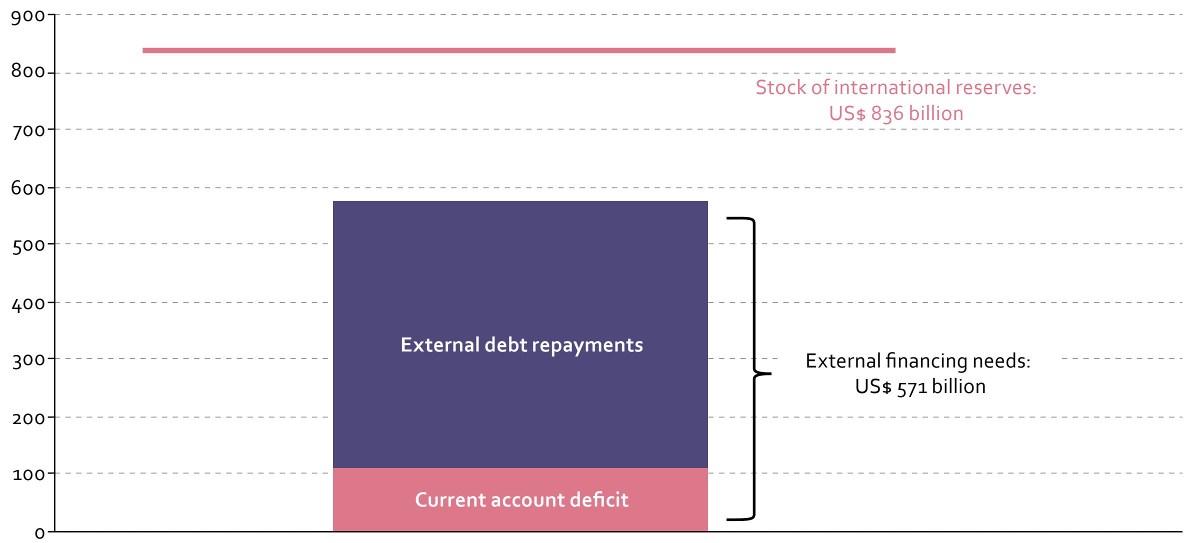
The global macroeconomic situation is weak and unstable, and the outlook continues to deteriorate, with a slowdown in global economic activity expected in 2023. After growing by around 3.4% in 2022, global output is expected to rise by only 2.8% in 2023.

F. Low investment and growing debt constrain development policies

The potential for growth in output has fallen as a result of chronically low levels of public and private investment. The Latin American and Caribbean region has the world's lowest levels of public investment, and that absence of public and private investment has left the region with a rapidly depreciating capital stock that not up to the task of building dynamic economies that are resilient to climate change and can create quality jobs. Falling domestic and global demand, coupled with higher capital costs, will further weaken growth in the short and medium terms.

After almost two years of net outflows, financial inflows to Latin American countries were reporting a recovery to levels similar to those seen in 2017–2018; as of mid-2022, however, they began to decline, and that reduction could intensify if the current trends in monetary policy, risk aversion and the global appreciation of the dollar continue. At the same time, according to ECLAC estimates, the external financing needs of Latin America as a whole will total US$ 571 billion in 2023 (ECLAC, 2023d).

Figure 9
Latin America (17 countries):[a] 2023 external financing needs
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, International Debt Statistics (IDS) [online database] https://www.worldbank.org/en/programs/debt-statistics/ids; Consensus Economics, *Latin American Consensus Forecasts*, London, 14 November 2022; and official figures.
Note: Uses the most recent data available on international reserve stocks.
[a] Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

Those requirements are on account of external financial commitments worth approximately US$ 462 billion and a deficit in the balance of payments current account estimated at some US$ 109 billion. If financial inflows of at least that magnitude do not materialize during 2023, the countries will have to use their foreign currency reserves to make up the shortfall. Although the average foreign reserve stock in the region is sufficient to cover one and a half times its external financing needs, its distribution among individual countries is uneven.

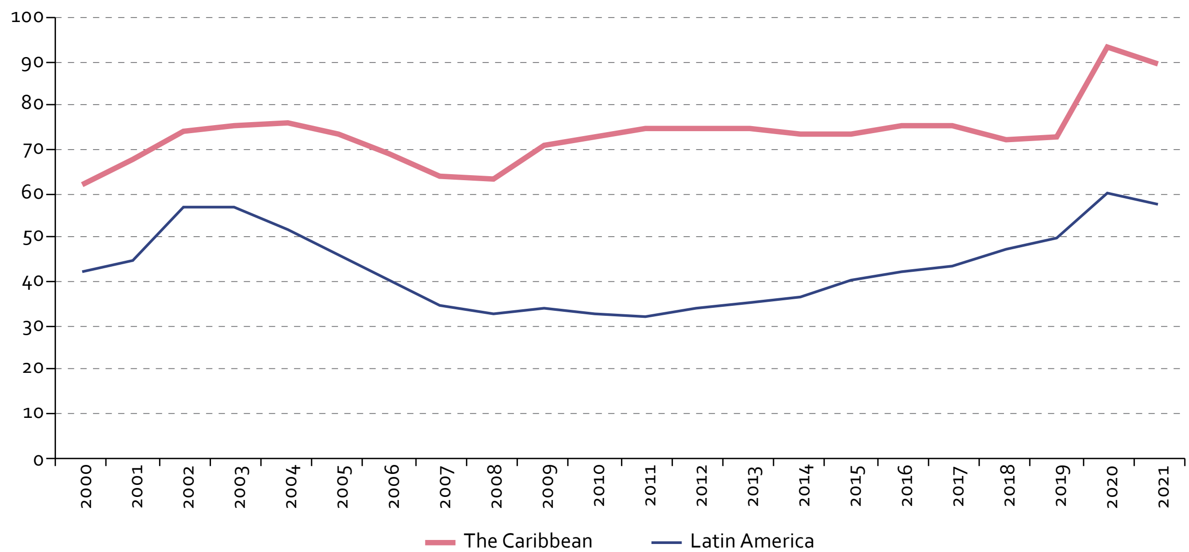
Levels of public debt have been increasing in Latin America and the Caribbean since before the COVID-19 pandemic. As in other emerging and developing regions, the countries were affected by the deterioration of the world's key macroeconomic indicators in the years leading up to the crisis. Government revenues stagnated and were insufficient to sustain public spending, leading to persistently high fiscal deficits and a concomitant increase in the debt stock. The pandemic exacerbated this trend because of the implementation of assistance packages, which in many cases were financed by issuing debt and emergency funding from international financial institutions (ECLAC, 2023e).

Chile's central government gross debt reached a minimum of 3.9% of GDP in 2007, after falling steadily from 37.4% in 1991. Thereafter, however, it began to rise again, reaching 15% in 2014 and 27.9% in 2019, and closing 2022 at 37.9% of GDP.[4]

Along with that increase, most of the public debt in several of the region's countries is issued in foreign currency and the holders are non-residents. In South America, this situation has coincided with a structural transformation of the creditor base, in which private bondholders have become the most important creditors. In the Caribbean countries, in contrast, the main holders of the external debt are multilateral and bilateral lenders. Despite relatively favourable prospects for sovereign debt repayment, short-term debt refinancing pressures leave the countries exposed to market volatility, especially when interest rates rise.

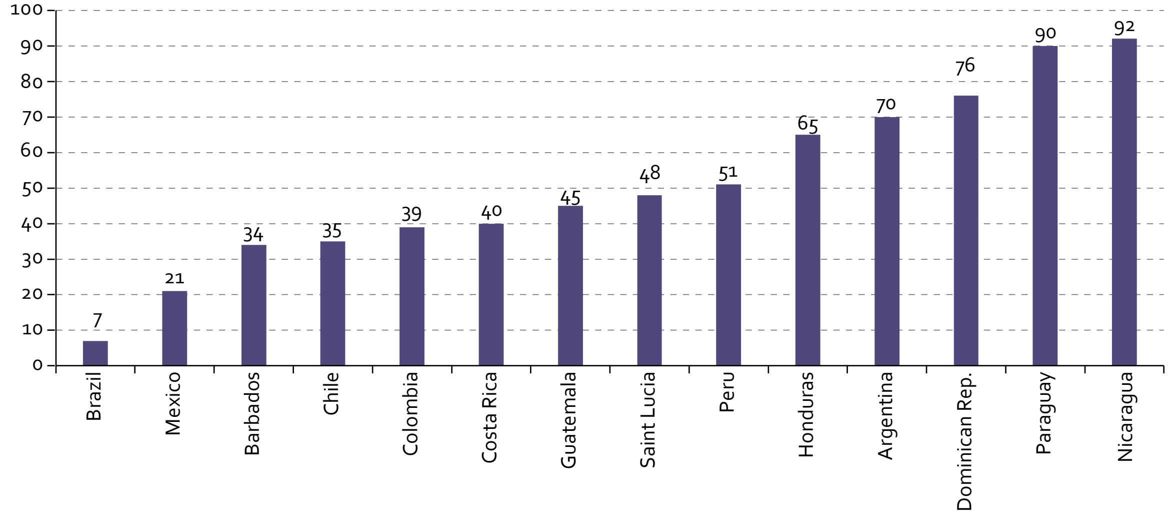
[4] Official figures from the Ministry of Finance.

Figure 10
Latin America and the Caribbean: central government gross debt 2000–2021
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook: Countering the Cost-of-Living Crisis*, Washington, D.C., 2022; P. Mauro and others, "A modern history of fiscal prudence and profligacy", *IMF Working Paper*, No. 13/5, Washington, D.C., International Monetary Fund (IMF), 2013.
Note: Simple averages. Does not include Aruba or the Bolivarian Republic of Venezuela.

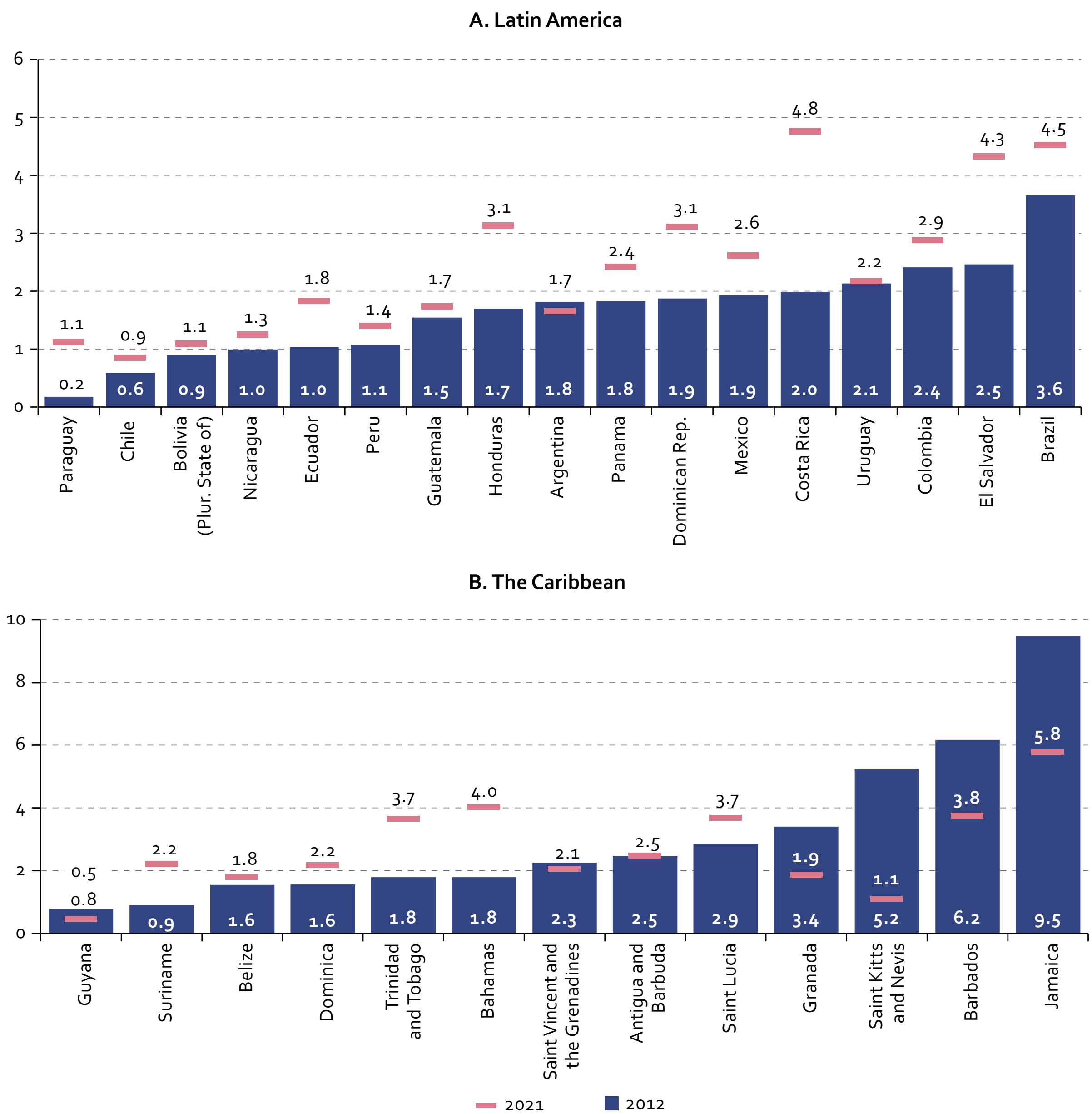
Figure 11
Latin America and the Caribbean (14 countries): ratio of central government gross foreign currency debt to total central government gross debt, 2021
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, "A Cross-Country Database of Fiscal Space", Washington, D.C., 2022 [online] https://www.worldbank.org/en/research/brief/fiscal-space.

Countries face development difficulties when such macro-financial and debt conditions coincide. The increase in debt service, especially in the form of interest payments, forces countries to mobilize more and more public resources to ensure the sustainability of their debt. When government revenues stagnate, or when there are significant obstacles to increasing tax revenues, countries face the prospect of sacrificing investment and social spending —including funding needed to make progress towards meeting the SDGs— in order to place their debt on a sustainable trajectory. When debt servicing becomes unsustainable, a debt crisis is likely to arise, with profound consequences for development and a lasting impact on growth, investment, poverty and inequality. Even if such a crisis point is not reached, situations of over-indebtedness and high debt service can last for years and have serious economic and social consequences (ECLAC, 2023e).

Figure 12
Latin America and the Caribbean (30 countries): central government interest payments, 2012 and 2021
(Percentages of GDP)



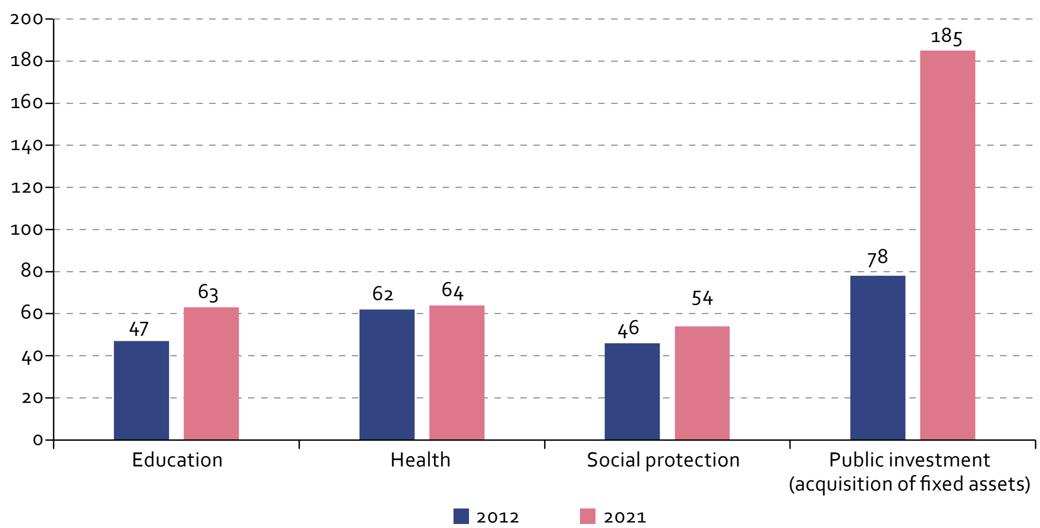
Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2022. Executive summary* (LC/PUB.2022/19), Santiago, 2022.

The dilemma is between servicing the debt or pursuing the Sustainable Development Goals. The increase in debt has led to progressive increases in interest rates, varying in magnitude from country to country. Those increases, together with weak economic growth that limits increased tax collection, mean constant reductions in the domestic resources available for public investment and social spending. Thus, in several of the region's countries, interest payments outstrip central government social spending on health, education and social protection, as can be seen on the following figure. As always, these aggregate figures hide variations from one country to the next.

Thus, central government interest payments equal over 80% of education spending in the Bahamas, Jamaica, Trinidad and Tobago, Argentina, the Dominican Republic and Colombia. Those same countries, with the exception of Colombia, report a similar situation in relation to health spending and, in that, they are joined by Honduras and El Salvador.

In the case of social protection, the ratio exceeds 100% in some countries (Jamaica, Panama, Honduras, Nicaragua and the Dominican Republic), largely because their pension systems are not handled by the central government. The ratio of interest payments to public investment (acquisition of fixed assets) exceeds 100% in 14 of the 21 countries reviewed and is particularly high in Brazil and Costa Rica.

Figure 13
Latin America and the Caribbean: ratio between central government interest payments and spending on education, health care, social protection and public investment, 2012 and 2021
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: Figures for Brazil, Colombia, Costa Rica, Guatemala, Paraguay and Peru correspond to the central government. Figures for Argentina, El Salvador and Mexico correspond to the non-financial public sector. Public investment was calculated on the basis of fixed asset acquisitions. The figures for the ratio between fixed asset acquisitions and interest payments made correspond, in all cases, to the central government.

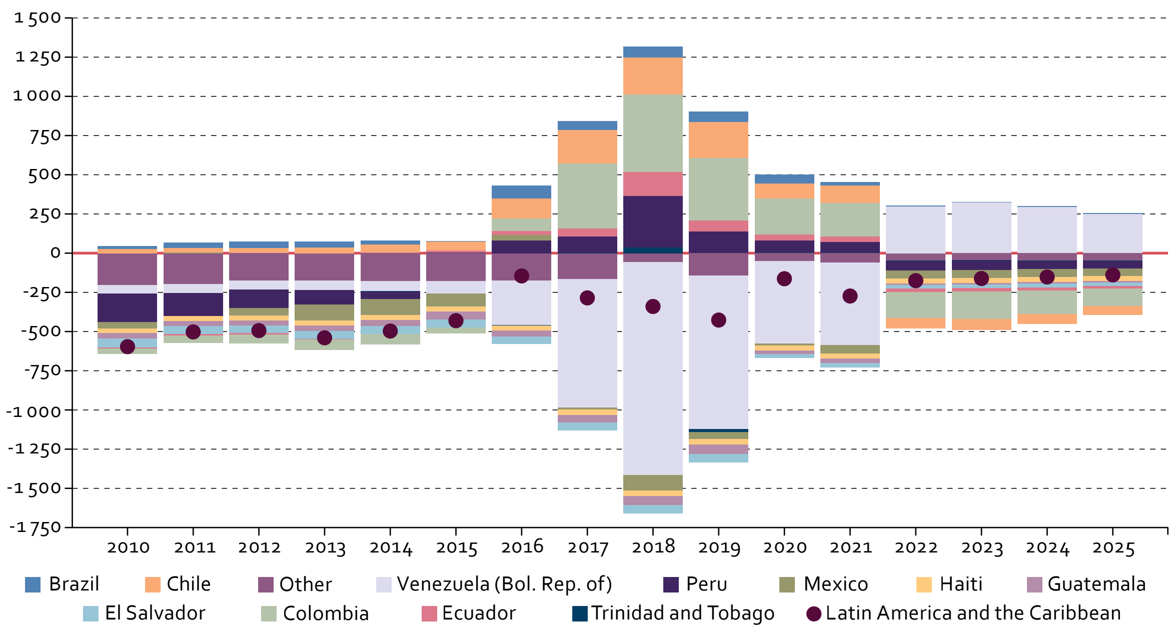
In the case of Chile, interest payments are equal to 18% of expenditure on education, 15% of health spending, 6% of spending on social protection and 48% of public investment.

G. Severe impact of the intraregional migratory crisis on Chile

The social and economic panorama described above exists alongside a delicate migratory situation within which the importance of intraregional migration is rising. The components of this phenomenon include the recent migration of Haitians to South American countries and the flows of migrants leaving the Bolivarian Republic of Venezuela. Those movements have sharply altered migration balances, in both receiving countries and countries of origin. A country's net number of migrants in a given year is calculated as the difference between its total numbers of immigrants and emigrants, regardless of their nationality (ECLAC, 2022c).

For net recipient countries, those migration balances have meant a significant increase in the demand for various services, particularly health, education, housing and security; this is putting pressure on social spending, which is already constrained by the lower availability of resources.

Figure 14
Latin America and the Caribbean (selected countries): migration balance, by countries and total, 2010–2025
(Thousands of people)



Source: Economic Commission for Latin America and the Caribbean (ECLAC)/United Nations, "Population estimates and projections: Excel tables. Revision 2022", Santiago [online] https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables; United Nations, *World Population Prospects 2022*, New York, 2022 [online] https://population.un.org/wpp/.

Even though the region's migration balance remains negative, there are significant differences between countries. For example, Colombia recorded a negative net migration of close to 48,200 people per year between 1950 and 2015 but, as of 2016, began to register positive net migration rates, mainly on account of immigrants coming from the Bolivarian Republic of Venezuela. In 2018, the year with the highest migration balance, Colombia posted a positive balance of 494,300 people, equal to a rate of 10.1 migrants per 1,000 inhabitants. That same year, Peru and Ecuador reported positive net migration rates of 10.2 and 9.1 per 1,000 inhabitants (326,900 and 153,372 persons, respectively), which were historical highs for those countries in absolute terms. Finally, Chile has emerged as an attractive country for migrants within the region and has reported positive net migration rates since the early 1990s; Chile's maximum figure was also recorded in 2018, with a ratio of 12.8 migrants per 1,000 inhabitants.

H. At the midpoint of the 2030 Agenda but still far from meeting the Sustainable Development Goals

The combination of factors that make up the economic and social scenario described above is illustrated by the recent midterm evaluation of progress towards the Sustainable Development Goals. Between 2015 and 2019, the world made some progress with the SDGs, although it was already far short of achieving them; since the 2020 pandemic, however, global progress towards the SDGs has stalled.

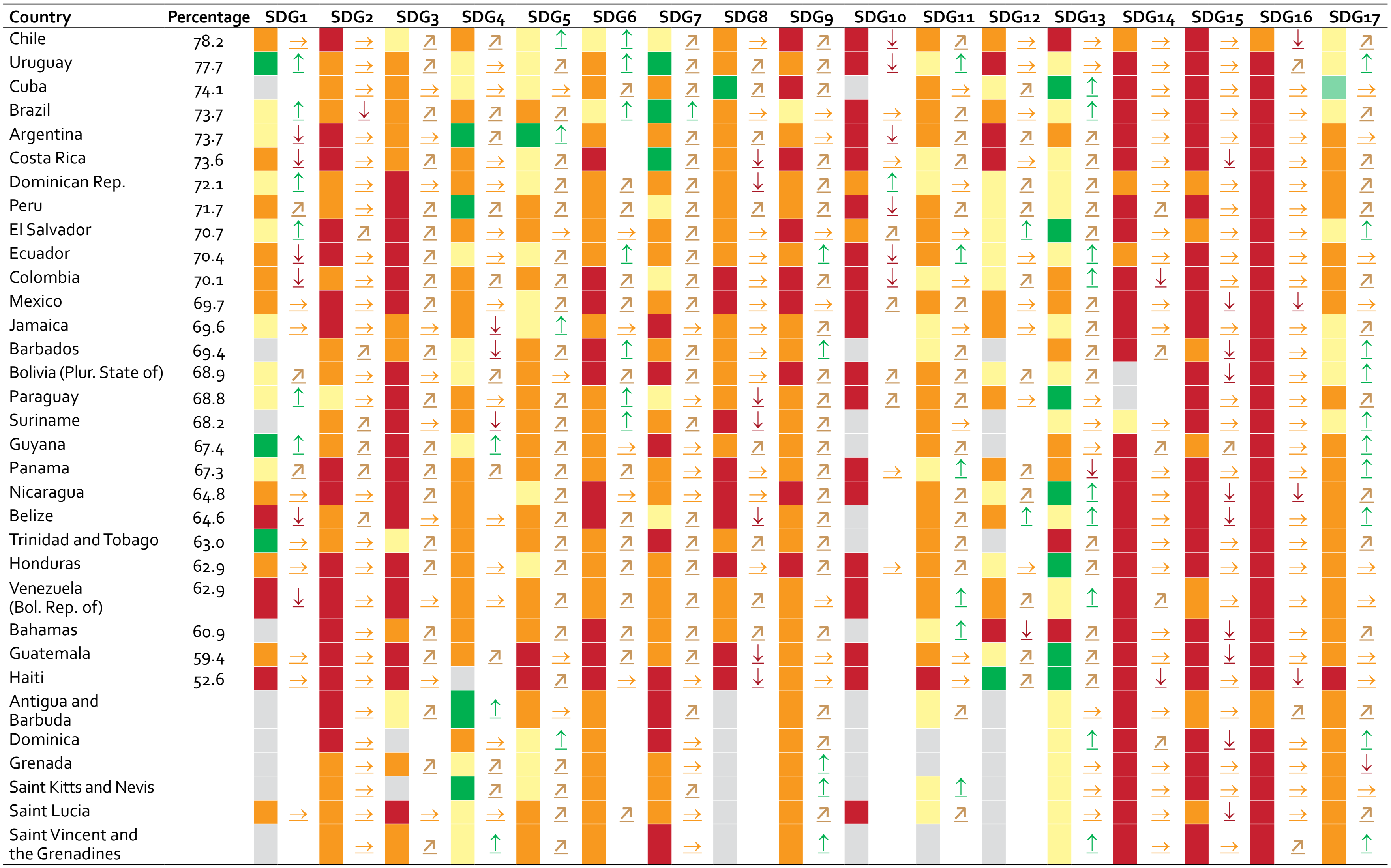
The series of shocks that have ensued since 2020 have exacerbated fiscal space problems in low-income and lower middle-income countries, leading to a reversal of the progress made with a number of targets and indicators (Sachs and others, 2023).

The figure below shows the current state of the trend in Latin America and the Caribbean. The picture it portrays is not at all encouraging, with a predominance of oranges and reds, which indicate the presence of major challenges with all the Goals and also a predominance of stagnation or even regression. As a result, the region's achievement of the 2030 goals is expected to be mediocre at best.

Indeed, a large predominance of red ("major challenges") and orange ("important challenges") can be observed on several of the goals: SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture; SDG 3: Ensure healthy lives and promote well-being for all at all ages; SDG 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation; SDG 10: Reduce income inequality within and among countries; SDG 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development; SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss; and SDG 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Another way to read this figure, for those countries where calculating the score indicated in the second column was possible, is in terms of the percentages of reds and oranges: it can be seen that 36% of the boxes are in red and 39% in orange. All of these countries have at least nine of the 17 SDGs in either red or orange.

Figure 15
Latin America and the Caribbean (33 countries): index score, target dashboard and trend dashboard for all indicators and Sustainable Development Goals (SDGs), 2023



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Sachs and others, "Downloads" [online] https://dashboards.sdgindex.org/downloads.
Note: An explanation of the legend used appears in the annex, together with a full list of all the Sustainable Development Goals.

II. Chile in the discussion on development and structural gaps

A. Ranking of countries by gross national income per capita, using the World Bank's Atlas method

According to the World Bank, the ranking of countries by income categories has evolved positively: whereas 30% of the reporting countries were classified as low-income in 1987, only 12% fell into that category in 2022. This decline has varied from one region to the next: the figure fell from 74% to 46% in sub-Saharan Africa, from 26% to 3% in East Asia and the Pacific, and from 100% to 13% in South Asia (Hamadeh, Van Rompaey and Metreau, 2023).[5]

The latest update, as of 1 July 2023, defines low-income countries as those with average per capita incomes of below US$ 1,136 per year; those with figures between US$ 1,136 and US$ 4,465 are deemed lower middle-income countries, with upper middle-income countries occupying the range from US$ 4,466 to US$ 13,845. Obviously, with results above that figure, countries are deemed to be high-income economies. Those figures reflect increases of between 4.6% and 4.9% over the income ranges in force the previous year.

Using these new rankings, in Latin America and the Caribbean (including all the islands), 18 countries are in the high-income range, 19 are in the upper middle-income category, 43 are in the lower middle-income range and 1 (the Bolivarian Republic of Venezuela) is unclassified. The table below shows that none of the region's countries are considered low-income economies. Compared to 2018, this reclassification represents a substantial improvement: only seven countries fell into the high-income range that year, while Haiti was classified as low-income. This is, paradoxically, one of the few variables that has evolved positively in the aftermath of the COVID-19 pandemic.

Nevertheless, it should be noted that the classification presented below is based on the gross national income figures calculated recently by the World Bank (2023), while the classification in force and in use by the Development Assistance Committee for the 2022–2023 period uses the 2020 figures. This

[5] The article makes no mention of Latin America and the Caribbean.

means that, in a future Development Assistance Committee ranking, the region could see four changes: Belize and El Salvador would move from the lower middle to the upper middle income bracket, and Guyana and Panama would move from the upper middle to the high income range.

Table 1
Ranking of Latin American and Caribbean countries and territories by levels of gross national income per capita, according to the World Bank Atlas method

Income ranges		
High **US$ 13,846 or more**	**Upper middle** **US$ 4,466 to US$ 13,845**	**Lower middle** **US$ 1,136 to US$ 4,465**
Aruba, Antigua and Barbuda, Bahamas, Barbados, Chile, Curaçao, Cayman Islands, Guyana, Saint Kitts and Nevis, Panama, Puerto Rico, Sint Maarten, Turks and Caicos Islands, Trinidad and Tobago, Uruguay, British Virgin Islands, United States Virgin Islands	Argentina, Belize, Brazil, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, Grenada, Guatemala, Jamaica, Saint Lucia, Mexico, Peru, Paraguay, El Salvador, Suriname, Saint Vincent and the Grenadines	Bolivia (Plur. State of), Honduras, Haiti, Nicaragua

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Data Catalog [online database] https://datacatalog.worldbank.org/.

Clearly, this classification hides the gaps that exist between men and women, rural and urban populations, indigenous and non-indigenous peoples or, more generally, between those who are born into environments that offer opportunities for access to quality jobs and well-being and those who are caught in structural poverty traps.

As pointed out by Gaudin and Pareyón (2020), the region is characterized by a range of historical and deeply rooted socioeconomic disparities and inequalities, with persistent archaic patterns of wealth distribution and a widespread culture of privilege, and this leads to the existence of structural gaps in various areas that hinder the development of middle-income countries and pose a challenge to long-term sustained, inclusive and sustainable development. Figure 5 above clearly shows these historical inequalities, not only because of high average Gini index figures, but also because of the dispersion of that metric among the different countries. While the figure is down compared to 2002, the region's average Gini score of 0.457 is higher than the 0.408 reported by Bulgaria, which is the OECD country with the highest Gini index (OECD, n.d.), with the members of that organization (excluding Chile, Costa Rica and Mexico) reporting a median result of 0.303.

To achieve development, the region's countries need to eliminate the structural gaps that hinder dynamic and sustained economic growth and limit the possibility of building more inclusive economies and societies.

B. Debates about measuring development

As noted by Feres and Mancero (2001), in theoretic alignment with the concept of well-being, poverty has been interpreted mainly on the basis of unsatisfied needs, living standards and insufficient resources, but it has also been interpreted in terms of limitations of statistical information for measuring other types of elements. However, the approaches to poverty analysis most widely accepted at present are based on multidimensional criteria that take account of aspects of social development and well-being.

The traditional one-dimensional approach to poverty considers monetary insufficiency as the main indicator for determining whether people are to be classified as poor or not. According to that approach, a person is considered to suffer from poverty if his or her income is below a pre-established threshold.

With the emergence, at the end of the twentieth century, of multidisciplinary approaches to poverty, its multidimensional measurement has become increasingly important, given that it is a broader method than metrics based solely on monetary income. At present, poverty is not usually defined exclusively in terms of economic analysis; instead, it has begun to be related to other elements by taking into account aspects such as education, health, work and housing (Stezano, 2021).

The contribution of Amartya Sen has been the most influential in defining a multidimensional framework for poverty. Sen criticized, some 40 years ago, poverty measurements based solely on monetary resources, since the availability of resources does not provide information on the things that people can do with them.

This multidimensional concept of poverty has even been linked to the rights-based approach, since it entails such ethical principles as human dignity, equality, freedom and solidarity, which are embodied in enforceable and binding universal human rights. Those rights are indivisible and cover different dimensions of human life, such as food, health, social participation and so on. Poverty is therefore not seen as a lack or need, but rather as a situation of constrained access to basic rights and opportunities (Stezano, 2021; ECLAC, 2019; Mowafi, 2004).

Similarly, GDP growth, as well as a country's average per capita GDP, are aggregate indicators that fail to account for internal disparities, such as income inequality. If real GDP grows at a higher rate than population, then per capita income is also expanding. Although there is a causal relationship between economic growth and development, that connection is neither automatic nor linear and it depends on many factors. It is common knowledge that fiscal policy can redistribute the fruits of this economic growth to the population by means of monetary transfers or through the financing and availability of public goods and services that increase well-being and levels of development, but those same fruits can also be appropriated by a minority, thus increasing disparities and inequality (ECLAC, 2016; Kaldewei, 2015; Ranis and Stewart, 2002).

Using per capita income as a measure of economic development suffers from at least two limitations: first, as an average, it fails to reflect a country's internal disparities in income distribution and, second, as a purely monetary indicator, it does not take account of other factors at play in defining the level of economic development, such as education, health, quality of housing and infrastructure and so on.

In recent years, and as will be seen in more detail in the following section, the countries of Latin America and the Caribbean have experienced significant difficulties in attracting international cooperation funds. The underlying and often implicit argument is that the region is largely made up of middle-income countries, thereby confirming that the level of per capita income is an appropriate criterion for allocating official development assistance resources. This has led to the homogenization of the differences in size, productive development, productivity, infrastructure, access to social services and other aspects found within the region's countries.

For that reason, it has been argued that conceptual and methodological mechanisms must be created to complement the per capita income criterion and highlight the enormous deficiencies and gaps that exist within the region's countries, thus allowing a better evaluation of their development needs.

1. Development in transition

In recent years, discussions have been held between the region's countries, the European Union member States, the Economic Commission for Latin America and the Caribbean (ECLAC), the European Commission and the OECD Development Centre regarding the "graduation" of several Latin American and Caribbean countries. One of the outcomes of those discussions was a new approach to development, called "development in transition", which understands that the process of development is neither linear nor continuous. This new conceptualization of development holds that income-based measurements are insufficient to assess national realities or to support the fulfilment of the 2030 Agenda and, accordingly, it proposes replacing the "graduation" process with one of "gradation" (ECLAC, 2021).

The development in transition approach, which includes the middle-income trap and structural gaps approaches, provides a basis for guiding cooperation, goes beyond development assessments based merely on per capita GDP dynamics and emphasizes the multidimensional nature of development. Thus, gradation "adopts a gradual, phased approach that flexibly combines public and private financing instruments for all countries on the basis of their ability to mobilize domestic and external resources, their willingness and capacity to contribute to regional and global public goods, and a common, prioritized diagnosis of the problems that need addressing" (ECLAC, 2021, p. 19). To date, however, the concept and proposals of the development in transition approach have not received multilateral consensus and cannot be found in United Nations resolutions dealing with development issues, even though they are already quite widely disseminated.

In 2021, some of the region's countries, including Brazil, adopted a critical stance on the usefulness of the concept for Latin America and the Caribbean and noted that they had not participated in its preparation; as such, they recognized it as an exclusively analytical or academic study. In contrast, countries such as Antigua and Barbuda, Argentina, Chile, Costa Rica, Guatemala, Panama, Peru, Saint Kitts and Nevis, Trinidad and Tobago and Uruguay have discussed and advanced proposals based on the concept of development in transition and its propositions.

Outside the region, Spain uses the concept of development in transition in its Law on Cooperation for Sustainable Development and Global Solidarity (recently enacted in February 2023) and has recognized that in their transition to development, countries continue to require technical cooperation and expertise, with higher degrees of qualification and depth, in terms of ideas, designs, strategies, project cycle planning and project implementation, monitoring and evaluation. It should be noted that this new law includes, for the first time in Spain's legislative history, the goal of increasing official development assistance to 0.7% of GDP by 2030, the equivalent of doubling its 2023 level.

2. Multidimensional vulnerability index (MVI)

In February 2022, a high-level panel was set up to lead the development of a metric that summarizes the array of vulnerabilities faced by all developing countries. It was made explicit that the proposal must allow for a clear separation between structural and non-structural factors, as well as between shock exposure factors and factors relating to resilience or the lack thereof.

This initiative stems from statements made by several middle- and upper middle-income countries arguing that per capita GDP —the metric currently used to determine access to development support, including concessional financial resources— does not take adequate account of the scale, frequency or impact of the adverse external shocks that those countries regularly face. On that basis, work then began to create a metric complementary to GDP that takes vulnerability into account.[6]

The multidimensional vulnerability index (MVI) that was agreed on is expected to enable countries to better communicate their vulnerabilities using internationally comparable metrics. Given the global acceptance of the MVI, it could therefore be used by donors, international financial institutions, the United Nations system and other relevant agencies.

The MVI was also designed to support an evidence-based approach to development policy and decision-making in order to maximize the impact of scarce external and internal financial resources.

"Vulnerability" has been defined as the risk of a country's sustainable development being hindered by exogenous, adverse and recurrent shocks and stress factors: in other words, the risk that an economy will be hampered by exogenous shocks and/or progressive shocks or stress factors, be they environmental (e.g. droughts or tropical cyclones), economic (e.g. terms of trade) or social (e.g. epidemics). The impact of an exogenous shock depends on three elements:

[6] The first call for the development of a vulnerability metric was made in 1992 at the United Nations Conference on Environment and Development for small islands and low-lying and critical coastal areas. In 1994, the Barbados Programme of Action for the Sustainable Development of Small Island Developing States again called for the formulation of a vulnerability index to complement the use of per capita GDP as a measure of economic development.

(i) The magnitude of the event, and whether it is a recurrent shock or a progressive shock such as climate change;

(ii) The country's exposure to such shocks and/or stress factors;

(iii) The country's capacity to prevent, cope with and adapt to those shocks and/or stress factors (resilience).

Structural vulnerability is the result of persistent exogenous factors, rather than national policies that are part of a country's resilience. Those factors determine the risk of exposure to exogenous shocks and stress factors, as well as their scope (historical persistence and intensity).

In turn, structural resilience is understood as a country's capacity to cushion the impact of crises, recover quickly from them and adapt flexibly in response to stress factors.

Table 2 shows the ranking of 33 Latin American and Caribbean countries according to the preliminary results of the MVI presented in April 2023, ordered from the highest vulnerability to the lowest. It should be noted that both the average and median for the region's countries are slightly lower (i.e. lower vulnerability) than those obtained by the other 112 countries of the world examined (for a total of 145 countries).

It should also be noted that the high-level panel has not yet made a decision about the threshold for separating vulnerable and non-vulnerable countries. For illustrative purposes only, however, the list of countries has been divided into two according to their ranking with respect to the median MVI score.

Although, as already noted, a vulnerability threshold is not yet available, it is interesting to note that structural vulnerability is most closely related to economic vulnerability, followed by environmental vulnerability and, finally, social vulnerability.

Those relationships shift when the lack of structural resilience is examined: the highest correlation is observed with respect to environmental resilience, followed by social resilience and, finally, economic resilience.[7]

Table 2
Ranking of 33 Latin American and Caribbean countries according to their multidimensional vulnerability index (MVI) scores, 2023

A. Countries with vulnerability levels equal to or higher than the median MVI score

Country	Structural vulnerability index	Lack of structural resilience index	MVI score
Saint Lucia	69.9	46.8	59.5
Haiti	62.5	54.6	58.7
Saint Vincent and the Grenadines	63.6	45.4	55.3
Antigua and Barbuda	60.2	49.5	55.1
Grenada	60.1	44.5	52.9
Barbados	47.1	56.5	52.0
Bahamas	54.2	48.1	51.2
El Salvador	54.8	47.0	51.1
Dominica	61.0	37.7	50.7
Belize	57.6	38.8	49.1
Saint Kitts and Nevis	51.5	46.3	48.9
Honduras	53.4	39.9	47.1
Jamaica	48.1	42.1	45.2
Nicaragua	53.1	34.1	44.6
Trinidad and Tobago	46.5	41.4	44.0
Venezuela (Bol. Rep. of)	48.0	38.6	43.6
Dominican Rep.	43.2	42.4	42.8

7 These observations were obtained by analysing the data available in the source cited.

B. Countries with vulnerability levels below the median MVI score

Country	Structural vulnerability index	Lack of structural resilience index	MVI score
Guyana	55.5	23.9	42.7
Costa Rica	47.0	37.3	42.4
Paraguay	48.6	34.2	42.0
Cuba	49.2	30.8	41.1
Guatemala	34.7	46.5	41.0
Ecuador	47.1	32.8	40.6
Chile	37.5	40.8	39.2
Mexico	40.4	35.1	37.9
Panama	39.0	36.2	37.6
Suriname	42.5	30.0	36.8
Colombia	36.0	35.5	35.7
Brazil	32.4	36.6	34.6
Bolivia (Plur. State of)	37.4	31.0	34.4
Peru	31.8	36.0	34.0
Uruguay	30.2	37.2	33.9
Argentina	31.2	31.1	31.1
Average	**47.7**	**39.7**	**44.1**
Median	**48.0**	**38.6**	**42.8**
Standard deviation	**10.5**	**7.3**	**7.6**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, "MVI Prototype – preliminary results – April, 24th 2023", New York, 2023 [online] https://sdgs.un.org/sites/default/files/2023-04/MVI_Prototype_Preliminary_scores_%20for_consultations_04242023.pdf.

As noted above, the MVI could become an instrument for decision-making by donors and international financial institutions and could provide evidence for public policy decisions. This, however, raises at least two major questions: how to interconnect official development aid with the different vulnerabilities revealed by this instrument and, at the same time, how to integrate those interconnections with the national projects arising from social demands that are expressed in the political direction taken by each country.

C. Development cooperation

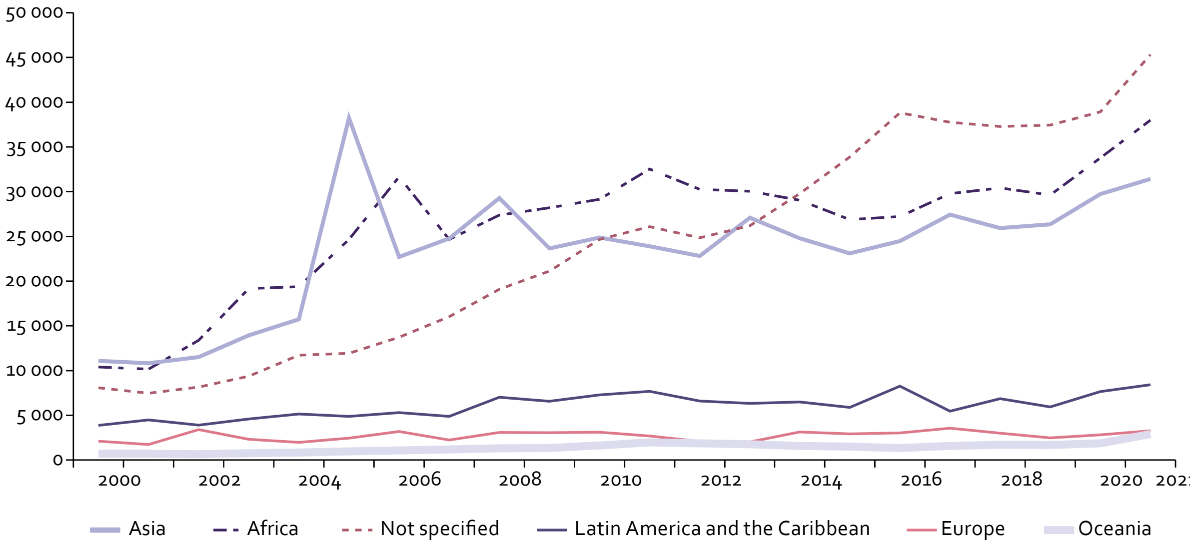
1. Evolution of official development assistance (ODA)

Net ODA from the member countries of the Development Assistance Committee rose by 257% between 2000 and 2021, to reach US$ 129.3 billion in the last year of that period. Incidentally, that amount is equal to approximately 63% of the total transfers, i.e. including all donors, such as multilateral institutions, regional development banks and United Nations agencies.

Over that period, flows of funds to all regions increased, but the highest growth rate (461%) was in the "not specified" countries category. The figure below shows that evolution.

ODA from the Development Assistance Committee for Latin America and the Caribbean over the period rose by 118%, reaching US$ 8.425 billion in 2021, but the region's share in the total allocated to all developing countries fell from 10.7% to only 6.5%.

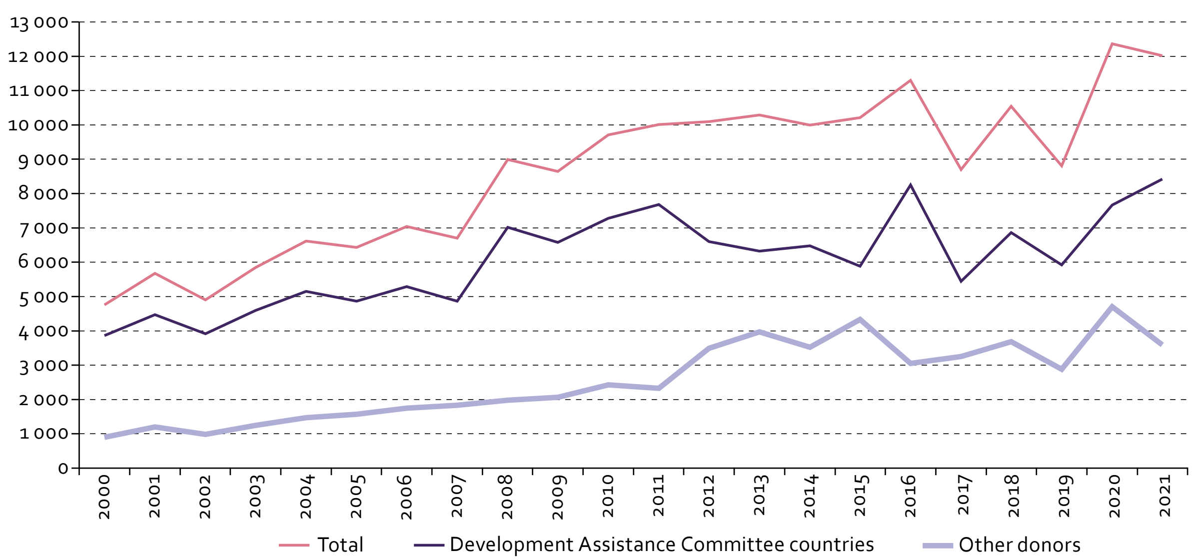
Figure 16
Total net flows of official development assistance, by region, from Development Assistance Committee countries, 2000–2021
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.stat [online database] https://stats.oecd.org/.

Moreover, if flows from other donors are taken into consideration, the total transfers to the region in 2021 amounted to US$ 12.017 billion, or 5.9% of the global total. The figure below shows the 2000–2021 evolution of total ODA received by the region, broken down between funds received from Development Assistance Committee countries and ODA from other donors.

Figure 17
Net flows of official development assistance, 2000–2021
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.stat [online database] https://stats.oecd.org/.

Note that the total ODA received by the region in 2021 was equal to only 2.1% of the amount required to finance its debt interest payments and current account deficit, which, as already shown on figure 9, totalled US$ 571 billion.

According to official OECD figures, ODA from Development Assistance Committee member countries in 2021 totalled US$ 178.9 billion, the equivalent of 0.33% of their combined GDP. This total included US$ 174.9 billion in the form of grants, sovereign loans, debt relief and contributions to multilateral institutions, US$ 1.1 billion to the development-oriented private sector, and US$ 3.0 billion in the form of net loans and equity to private companies operating in ODA-eligible countries (OECD, 2022).

This total amount of ODA in 2021 represented a real-term increase of 4.4% compared to 2020; however, the growth was only 0.6% if vaccine-related donations during the COVID-19 pandemic are excluded from the total.

In other words, even with the additional effort made to counter the pandemic, the total is still falling short of the target of 0.7% of the combined GDP of the Development Assistance Committee countries formally recognized by the United Nations General Assembly on 24 October 1970 in a resolution reading "each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7% of its gross national product at market prices by the middle of the decade" (United Nations, 1970, cited in OECD, 2016).

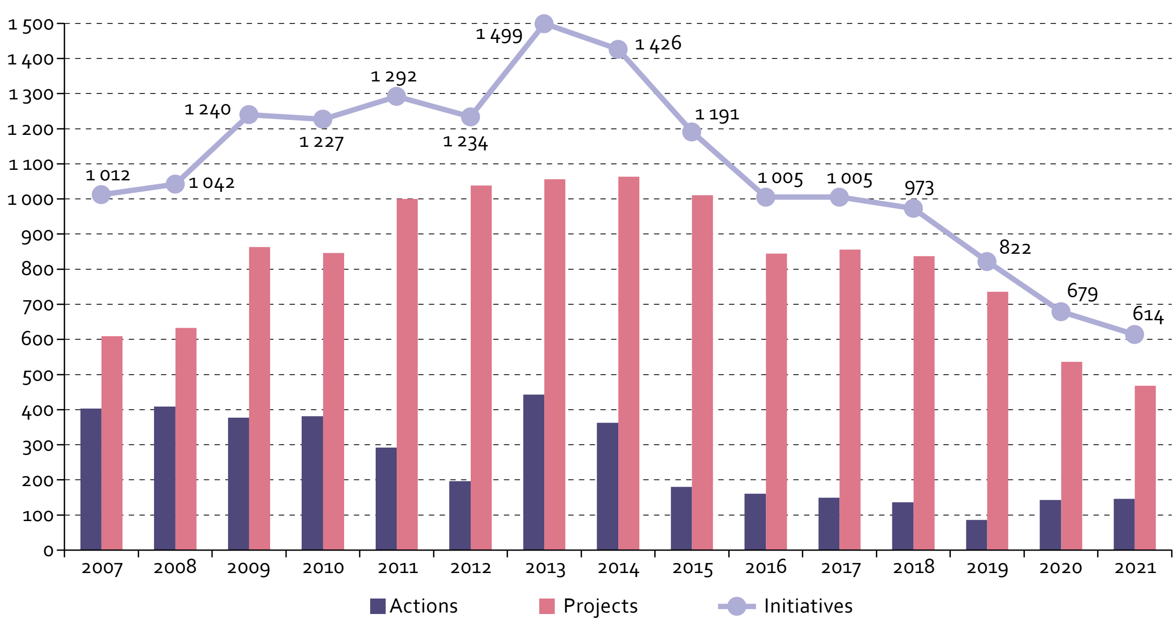
2. Evolution of South-South Cooperation (SSC)

The evolution in the number of bilateral South-South cooperation initiatives since figures became available can be divided into two phases: first, a period of robust growth between 2007 and 2013, when the number of initiatives rose from 1,012 to 1,499, with an average annual growth rate of 7.2%; since then, however, there has been an almost constant decline, with only 614 initiatives recorded in 2021.

Even so, over those 15 years, the Ibero-American countries participated in 16,261 bilateral South-South cooperation initiatives, with projects accounting for 76.2% of the total and actions for 23.8%.

Over the years, there has also been a relative drop in the share of actions within the total number of initiatives. This can be seen more clearly on the figure below.

Figure 18
Evolution of Ibero-American bilateral South-South cooperation actions, projects and initiatives, with all partners, 2007–2021
(Totals)

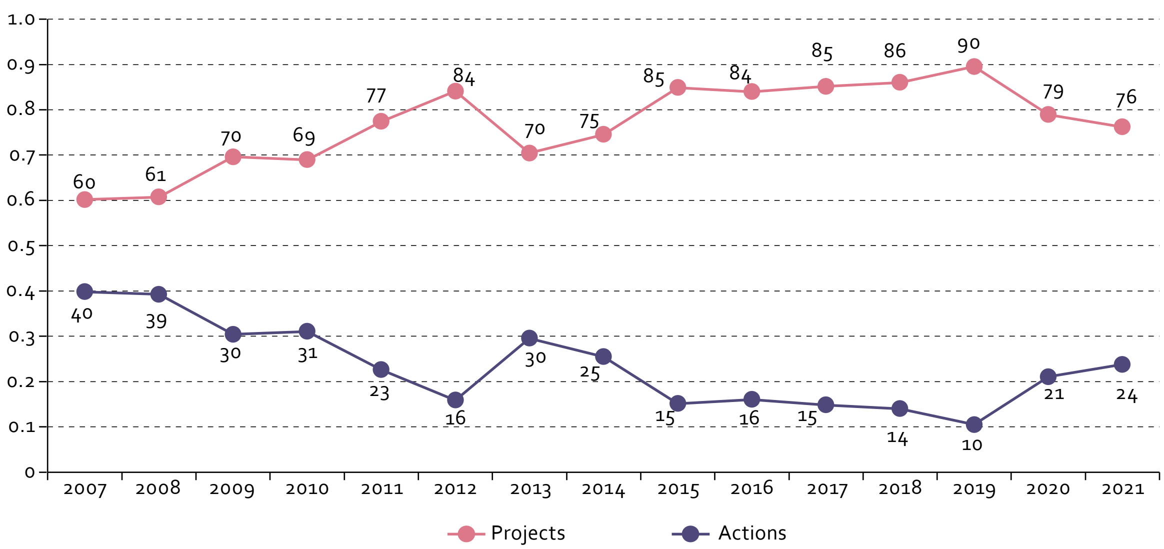


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Ibero-American General Secretariat (SEGIB), *Informe de la Cooperación Sur-Sur y Triangular en Iberoamérica 2022*, Madrid, 2023; *Informe de la Cooperación Sur-Sur y Triangular en Iberoamérica 2020*, Madrid, 2021.

The divergent plots suggest a progressive shift away from actions in favour of projects. Thus, in 2007, actions —which are more specific, smaller in size and therefore easier to implement in the initial phase of cooperation— accounted for four out of every ten initiatives. In contrast, by 2019 their relative share had fallen to 10% (see figure below). It should be noted that actions continue to be carried out as they are necessary for many countries to participate in bilateral SSC even though, at the same time, those countries are developing a greater capacity to concentrate their efforts on the execution of projects.

A slight reversal of this trend in 2020 and 2021, in parallel with the decrease in the total number of initiatives recorded in recent years, may be attributable to difficulties arising from the COVID-19 pandemic, a context in which actions, because of their greater simplicity, allowed bilateral cooperation to remain active.[8]

Figure 19
Evolution of the share of projects and actions in total Ibero-American bilateral South-South cooperation initiatives, with all partners, 2007–2021
(Percentages)



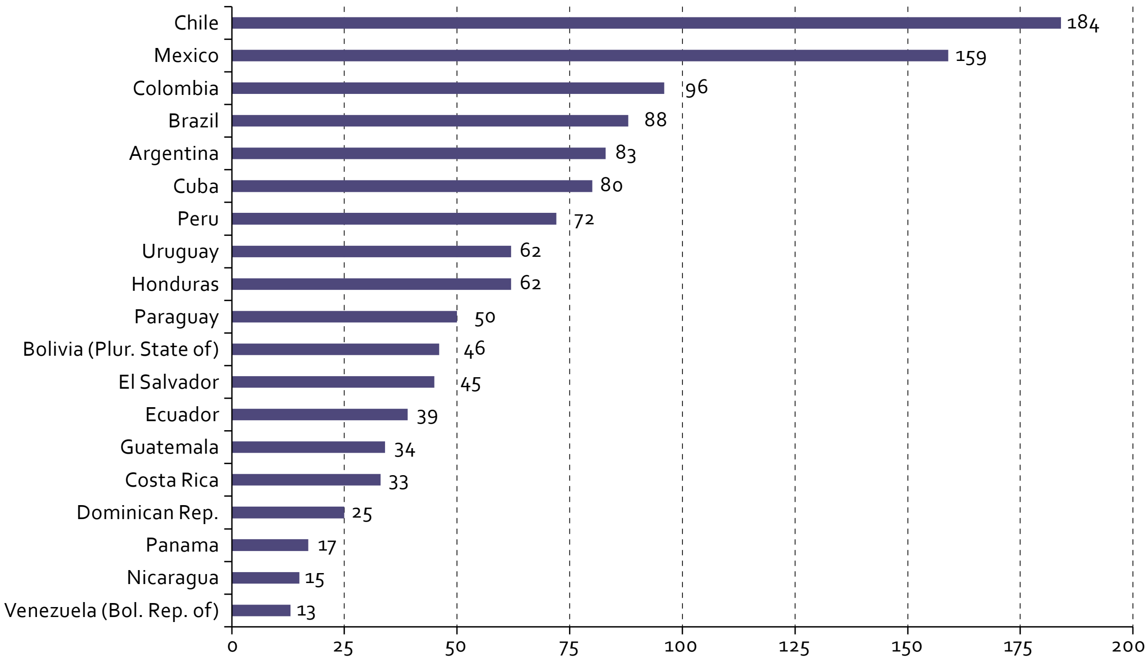
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Ibero-American General Secretariat (SEGIB), *Informe de la Cooperación Sur-Sur y Triangular en Iberoamérica 2022*, Madrid, 2023; *Informe de la Cooperación Sur-Sur y Triangular en Iberoamérica 2020*, Madrid, 2021.

An analysis of the 19 Latin American countries according to the total number of bilateral South-South cooperation actions and projects in which each participated in 2019 reveals the strong presence of Chile and Mexico (see figure below). Those countries were followed, at some distance, by Cuba, Colombia, Brazil and Argentina, all of which reported significant numbers of initiatives.

Of the total bilateral South-South cooperation carried out in Ibero-America in 2019, the ratio between projects and actions was approximately 10 to 1 in the cases of Chile and Mexico, with Uruguay (30:1) and Cuba (40:1) being the most extreme cases. At the same time, however, there are countries where actions continue to be the most widely used tool, with a ratio of between two or three projects per action, as is the case of Nicaragua, Guatemala, Ecuador and Peru.

8 For almost two decades, the *Report on South-South and Triangular Cooperation in Ibero-America* has systematized and analysed the cooperation initiatives in which the region's countries participate, providing both the region and the world with useful information. The report covers programmes (sets of projects targeting a single objective), projects (sets of connected actions in pursuit of a common objective) and actions (specific, one-time exercises of bilateral South-South cooperation and triangular cooperation) and thus allows for longitudinal analyses of South-South cooperation among Latin American and Caribbean countries.

Figure 20
Country participation in Ibero-American bilateral South-South cooperation, 2019
(Total initiatives)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Ibero-American General Secretariat (SEGIB), *Informe de la Cooperación Sur-Sur y Triangular en Iberoamérica 2020*, Madrid, 2021.

Another complementary perspective involves analysing the roles played by the countries. Obviously, a bilateral South-South cooperation project involves two partners, most commonly with one acting as the provider and the other as the recipient. However, this has been evolving towards a situation in which both partners act as providers and recipients. According to studies by the Ibero-American General Secretariat (SEGIB), this practice of performing both roles grew at an average annual rate of 21% over the 2010–2019 period. At the beginning of the decade, this form of participation accounted for a mere 4.8% of the total, while by 2019 it had risen to 32.4%.

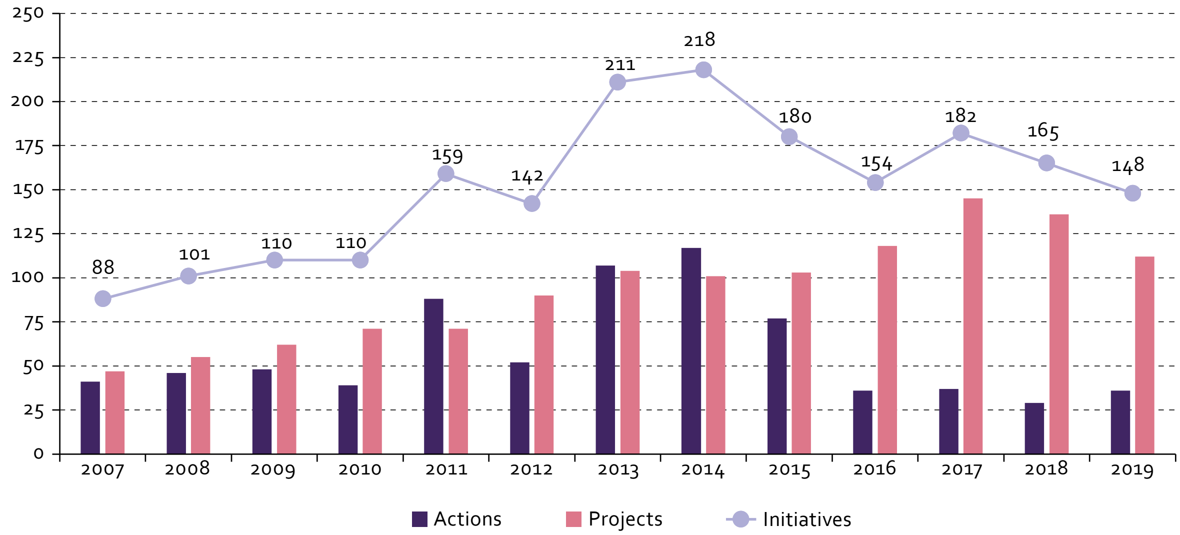
This evolution is taking place in a context of greater dynamism, in which countries are demonstrating an increased capacity to take advantage of the multiple partnership possibilities that exist, and also because the countries' partners are increasing in number and diversifying.

This evolutionary process also involves the consolidation of the phenomenon of triangular cooperation. This form of cooperation has been recognized as an effective tool to advance the achievement of the 2030 Agenda's targets and the Sustainable Development Goals (SDGs), as was reaffirmed in 2019 at second High-level United Nations Conference on South-South Cooperation, known as BAPA+40.

Aware of the added value this mechanism offers and its potential as a tool to unite regions and contribute to development, SEGIB and the European Union (EU) joined forces to strengthen an innovative model of triangular cooperation. This model seeks to take advantage of the strong complementarity that exists between the accumulated experiences of the two regions and to strengthen triangular cooperation between Europe and Latin America to bolster progress towards the achievement of the 2030 Agenda.

According to the available information, between 2007 and 2019 the Ibero-American countries participated in a total of 1,250 triangular cooperation initiatives (520 projects and 730 actions), with the annual number of actions and projects rising to a peak in 2014 (see figure below). Subsequently, however, a downward trend has been observed, similar to the trend in bilateral cooperation presented above (figure 18), albeit with a somewhat smaller decrease: 32% versus 42%.

Figure 21
Evolution of Ibero-American triangular cooperation actions, projects and initiatives, with all partners, 2007–2019
(Totals)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Ibero-American General Secretariat (SEGIB), *Informe de la Cooperación Sur-Sur y Triangular en Iberoamérica 2020*, Madrid, 2021.

Another similarity with the evolution of bilateral cooperation is the rising importance of projects over actions. Between 2007 and 2014 —some variations in specific years notwithstanding— the ratio between actions and projects remained fairly stable. As of 2016, however, the scenario changed substantially: projects began to dominate, rising to account for 78.6% of the total number of initiatives between 2016 and 2019.

The evolution of the countries' cooperation described above reinforces the idea that triangular cooperation is strengthening, and there is also a growing commitment to more robust cooperation involving projects of greater scope, to the detriment of one-off and isolated activities. Unfortunately, the COVID-19 pandemic crisis exacerbated the decline that was already taking place in both bilateral and triangular cooperation.

3. Regional Conference on South-South Cooperation in Latin America and the Caribbean

On 30 and 31 May 2023, the first session of the Regional Conference on South-South Cooperation in Latin America and the Caribbean was held at ECLAC Headquarters in Santiago. Attendance was healthy, with representatives from 27 of the region's countries, seven countries from outside the region and nine United Nations agencies, funds and programmes. Also in attendance were representatives of eight intergovernmental organizations, three financial institutions and development banks, and representatives of cooperation agencies, the public, private and academic sectors and civil society (ECLAC, 2023f).

This first session of the Regional Conference on South-South Cooperation in Latin America and the Caribbean, an ECLAC subsidiary body, provided a forum for governments to discuss the challenges facing international development cooperation in the new global context, to reflect on South-South and triangular cooperation mechanisms and on multi-stakeholder cooperation as an opportunity to forge new partnerships, to consider incorporating international cooperation into integrated risk and disaster management, and to promote a unified regional voice in preparation for the third Summit of Heads of State and Government of the Community of Latin American and Caribbean States (CELAC) and the European Union.

At the opening session, the ECLAC Executive Secretary highlighted the slow progress made in pursuit of the 2030 Agenda for Sustainable Development and the pessimistic outlook for meeting its goals. In view of this, and to avoid another lost decade, he stressed the need to implement bold and innovative actions based on data, with a vision of the future and the ability to call together multiple actors, and he emphasized that development cooperation was a fundamental mechanism for bolstering international and regional solidarity and, at the same time, for resolving global and regional crises.

In the same vein, the challenge facing the region was highlighted by the Director of the ECLAC Economic Development Division, who said that uncertainty and financial volatility in the world meant a higher cost of financing and greater difficulties in accessing it for the already highly indebted Latin American and Caribbean region. Debt servicing in the region's countries prevented those resources from being used to fund development, as did the countries' limited fiscal space and constrained ability to raise their own funds.

As a result, the discussions once again focused on the criticism of how countries are categorized for access to official development assistance. It was again stressed that per capita income was an inadequate criterion that did not reflect the countries' development situation, and the graduation process had to be replaced by one of gradation, based on the concept of development in transition, which does consider the multidimensional nature of development as well as the impact of structural gaps.

In the context of that discussion, the OECD representative requested the support of Spain, as the future president of the Council of the European Union, to further the debate on that idea, as well as on the concept of universalizing the cooperation system.

The discussions also centred on the need to strengthen and revitalize the Global Partnership for Sustainable Development, particularly in relation to targets 17.16 and 17.17 of the 2030 Agenda. That would involve forging alliances among multiple actors, both in the public and private spheres and in civil society, to mobilize resources and exchange knowledge and technologies. It was argued that collective action and systemic efforts yielded more results than individual national actions, and the consensus was that multi-stakeholder partnerships were necessary.

However, multi-stakeholder partnerships are not the most typical forms of cooperation and, since cooperation generally involves government agencies, involving other actors is not easy. Such partnerships demand high levels of commitment but, at the same time, they have an impact that goes beyond resources. Political will is a key factor in developing them, but an adequate institutional and regulatory apparatus is also required. Even so, the question of how to reconcile the concepts of cooperation and profit arises.

Some concerns were raised in connection with the third EU-CELAC Summit of Heads of State and Government. In particular, it was noted that the European Union's proposal for development cooperation focused on investment: something that was essential, but was not exactly international cooperation. It was also said that the concept of development in transition was often confused with the countries' compliance with the requirements for cooperation and was not seen as an approach that seeks to offer cooperation tools adapted to each country's shortcomings and particularities. There was therefore a need to strengthen triangular cooperation, which, so far, only Germany and Spain have adopted as a cooperation mechanism.

Finally, and along the same lines, the participants asked the Presiding Officers and the member countries of the Regional Conference on South-South Cooperation in Latin America and the Caribbean, with the support of the Secretariat, to analyse ways to promote international development cooperation, including innovative mechanisms that go beyond graduation criteria based on per capita GDP —such as the multidimensional or vulnerability indicators being discussed in the region— to ensure that no one is left behind, and to take into account the region's conceptual progress regarding development gaps and traps.

Accordingly, the third EU-CELAC Summit of Heads of State and Government was asked to recognize the multidimensional nature of development and the diversity of development mechanisms, including risks and difficulties, which demonstrate the need to deepen international cooperation to complement the efforts of national policies (ECLAC, 2023g).

A call was also made for strengthening international development cooperation synergies and partnerships with other actors —including development banks, the private sector and regional and subregional integration mechanisms— and multi-stakeholder alliances with civil society, local governments and academia.

4. Third EU-CELAC Summit of Heads of State and Government

On 17 and 18 July 2023, the European Union (EU) and the Community of Latin American and Caribbean States (CELAC) held their third Summit in Brussels. The Summit brought together, for the first time in eight years, the Heads of State and Government of the member States of the European Union and the 33 members of the Community of Latin American and Caribbean States (CELAC). The Summit's final declaration (European Commission, 2023) consists of 41 paragraphs. Those most directly linked to the issues addressed in this document are identified below.

First, there is an implicit recognition of the delay in progress towards achieving the goals of the 2030 Agenda and its relationship to financing. Thus, paragraph 17 of the document establishes the commitment towards "strengthening our bi-regional cooperation for the full implementation of the 2030 Agenda" and to "support the UN Secretary-General in his efforts to reinvigorate multilateralism and ensure an effective and accelerated implementation of the Sustainable Development Goals (SDGs)".

Then comes an implicit recognition of the weaknesses of the multilateral development financing system, as well as of the impact of the debt contracted by the region's countries on their possibilities for advancing towards sustainable development. Paragraph 18 sets out an agreement to strengthen collaboration within international financial institutions and multilateral organizations in order to "have a fair, inclusive and effective multilateral system that allocates appropriate resources to sustainable development, responds to the specific needs of the most vulnerable countries, strengthens the level of participation and ensures the representation of developing countries and that promotes access —under favourable and transparent conditions— to the financial resources necessary to promote their economic stability and reduce external indebtedness, to improve the debt sustainability and build more equitable, prosperous, and just societies that contribute to sustainable development".

Paragraph 18 also recognizes "the need to use criteria beyond GDP, such as climate vulnerability, to determine eligibility of countries to access concessional financing". However, the document states that this need, despite having been recognized, will be "explored" and, moreover, in the Spanish version of the text, an explicit reference to concessional financing is avoided by referring to "favourable conditions" for financing.

The same paragraph adds that efforts will be made to "provide a financial stimulus so that no country has to choose between fighting poverty and protecting the planet": again, an implicit recognition of the dilemma faced by many of the region's countries.

Although the declaration does not include the concept of development in transition, it does refer to the notion of structural gaps, even though it limits it or links it to the pandemic. Thus, paragraph 27 recognizes the importance of international cooperation in the post-pandemic period in order to "promote sustainable development, with particular emphasis on addressing structural gaps in infrastructure, productivity, social, environmental and institutional issues, as well as on Disaster Risk Preparedness and Risk Management". Note that while the English version uses the wording "structural gaps", the Spanish version refers to *deficiencias estructurales*, or "structural deficiencies" (European Commission, 2023).

Finally, paragraph 28 of the declaration includes an explicit reference —albeit regarding its "potential contribution"— to the EU-LAC Global Gateway Investment Agenda, stating that it "will address investment gaps in line with the common priorities of the EU and Latin America and the Caribbean, with the goal of mobilizing both private capital and public funding for sustainable development, including digital transformation, education, health infrastructures, energy production, environmental perspectives, raw materials and local value chains".

None of the declaration's paragraphs refers to the multi-stakeholder concept, which has raised concerns among civil society organizations. Faced with the problems of human rights violations, corruption, weakening democratic institutions and even accusations of "greenwashing", civil society forums agree that for relations with Latin America and the Caribbean to be truly "relaunched" —as was announced at the Summit's opening session— a multi-stakeholder mechanism that includes civil society organizations is required, with unambiguous indicators for monitoring treaties, investments and relations between the two regions (Banchón, 2023).

III. Conclusions

In 2017 Chile was one of three Latin American and Caribbean countries to be graduated by the OECD Development Assistance Committee, meaning that it was no longer eligible for official development assistance (ODA). Chile has led the analysis of the way the graduation issue, and the idea that underlies it, renders invisible the structural gaps that hinder development, and, together with other countries in the region, it has argued that using per capita income to determine when a country graduates contradicts the 2030 Agenda and the Sustainable Development Goals.

According to the latest review by the World Bank, an additional 15 countries in Latin America and the Caribbean (including some of the small Caribbean islands) have joined the high-income group; they would therefore qualify for the graduation process and, in the near future (three years at most), would no longer be eligible to receive ODA. In addition, a further 19 have been placed in the upper-middle income group.

This is taking place at a time when the region is reporting, for the 2014–2023 period, its lowest rate of growth (0.8%) since the 1950s, including the historic drop of 6.8% of GDP in 2020, and at a time when poverty levels have, in recent years, been higher than in 2010 and extreme poverty has been higher than in 1990. It is estimated that poverty will affect a total of 201 million people by 2022, with 82 million of them facing extreme poverty: respectively, 15 million and 12 million more than before the pandemic, with the impact felt most harshly by women, indigenous people and Afrodescendants. Although poverty has fallen in Chile, the decrease has not been uniform and the most severely affected are children, women and indigenous peoples.

Income inequality, meanwhile, has remained more or less unchanged since 2017, without the major progress in that area that was recorded over the previous 15 years. Labour market indicators have generally returned to their pre-pandemic levels, but the pace of recovery is tending to stagnate; meanwhile, many structural problems —such as high levels of informality and large gender inequalities— remain unresolved. In the case of Chile, inequality is a difficult problem to overcome. There was, however, a minimal improvement in the latest available figures and the country's result remains above the regional average.

Inflation —a problem that the region had mostly overcome— has reappeared. In 2020 and 2021 the inflation rate reached 7.6%, the highest since 2002, and although it began to fall in 2023, the figure remains above the average recorded between 2005 and 2019. The fight against inflation has constrained global financial conditions and increased volatility in financial markets, raising the cost of debt service and further reducing fiscal space.

In this context, first, the stock of capital is depreciating rapidly due to the scarcity of public and private investment and it is insufficient to build dynamic economies that are resilient to climate change and that create good quality jobs. And, second, given its soaring external financial commitments and the balance of payments current account deficit it faces, the region will have to use its international reserves if its financial inflows fall short of those commitments and deficits.

Public indebtedness had been rising in Latin America and the Caribbean since before the COVID-19 pandemic, and the pandemic only worsened that trend. If debt service proves unsustainable, a crisis is the most likely result, with profound consequences for development and lasting repercussions for growth, investment, poverty and inequality. Rising interest rates, together with weak economic growth limiting the expansion of tax revenues, means a drop in the domestic resources available for public investment and social spending.

In that scenario, with significant environmental challenges and intense pressure on their social protection systems due to migratory flows, it is no surprise that in many countries, including Chile, progress towards achieving the Sustainable Development Goals is slow. Regionwide, 75% of the SDGs still report "major challenges" or "significant challenges" according to the latest *Sustainable Development Report* and, clearly, the core principle of the 2030 Agenda, "leaving no one behind", is not being fulfilled.

The scenario described is completely contrary to one where graduation would be appropriate. For that reason, it has been argued that conceptual and methodological mechanisms to complement the per capita income criterion must be created, to allow for a better assessment of development needs.

However, rising gross national income alone is still used to assess development and that is the criterion used by the Development Assistance Committee to exclude countries from the list of those eligible to receive official development assistance, which is difficult to accept. There is a clear and urgent need to identify international cooperation solutions for countries that attain higher income levels but still have strong vulnerabilities, such as persistent poverty, regional disparities, economic instability or unequal access to education and health. It should not be forgotten that according to the latest World Bank classification, only four countries in Latin America and the Caribbean are in the lower-middle income category.

Continuing to apply the same, single rule despite evidence of persistent inequalities, shrinking fiscal space, growing demands for social protection and environmental risks is not only inconsistent with the Sustainable Development Agenda, it undermines the legitimacy of the Development Assistance Committee itself.

Moreover, the rising number of graduated countries expected in the short term will lead to increased pressure for international cooperation, especially from more traditional donors, to be directed through channels not subject to the Development Assistance Committee's rules. That will depend, of course, on the incentives. The predominant incentive is still to count ODA in order to reach the pledged level of 0.7% of GDP, but some countries are already using a somewhat different approach, even in their international development cooperation laws: one example is Spain, which has endorsed the concept of development in transition. Thus, several elements exist that will contribute to rising tensions within the Development Assistance Committee. In the meantime, the countries facing graduation must prepare for their imminent ineligibility for ODA.

Everything seems to indicate that, with the exception of the Development Assistance Committee, the traditional cooperating countries, such as Germany, Spain and Japan, together with various international institutions, such as multilateral and regional banks, including the World Bank itself, appreciate the multidimensional perspective of development and are aware that countries that have reached the middle-income level still face enormous challenges and still require international cooperation, in the shape of both financial and technical assistance and the training of human capital.

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Annex A1

List of the Sustainable Development Goals

Goal 1
End poverty in all its forms everywhere.

Goal 2
End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Goal 3
Ensure healthy lives and promote well-being for all at all ages.

Goal 4
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Goal 5
Achieve gender equality and empower all women and girls.

Goal 6
Ensure availability and sustainable management of water and sanitation for all.

Goal 7
Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 8
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 9
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Goal 10
Reduce inequality within and among countries.

Goal 11
Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12
Ensure sustainable consumption and production patterns.

Goal 13
Take urgent action to combat climate change and its impacts.

Goal 14
Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Goal 15
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Goal 16

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Goal 17

Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.

Legend

Goal achieved
Challenges remain
Significant challenges
Major challenges
Insufficient data

↑ On track or maintaining achievement
↗ Moderately increasing
→ Stagnating
↓ Decreasing

This document aims to reaffirm the central role played by the international cooperation system, in the different forms it can assume, in achieving the Sustainable Development Goals of the 2030 Agenda for Sustainable Development. For the countries of the region to achieve the Goals, it is essential to ensure their access to technical assistance and knowledge sharing, strengthen collaborative partnerships, promote active multi-stakeholder participation and increase mobilization of funding for development.

In 2017, Chile was one of three Latin American and Caribbean countries that were "graduated" by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD), thereby becoming ineligible for official development assistance. Chile is leading the debate on the concept of graduation and its underlying principles, considering it a process that obscures the structural gaps to development and, in conjunction with other countries of the region, argues that using per capita income as the basis for graduation contradicts the provisions of the 2030 Agenda.

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