

# Is the COVID-19 economic recovery building a sustainable future?

A snapshot from Latin America and the Caribbean



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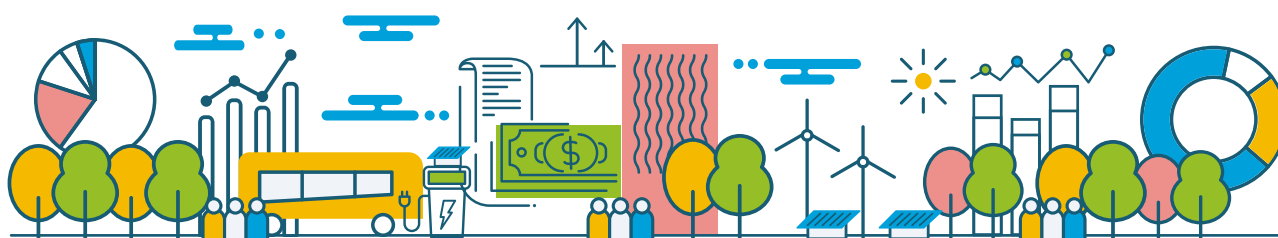
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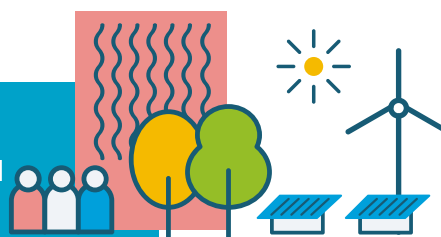
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# Executive Summary

**The region of Latin America and the Caribbean (LAC) has faced some of the worst health and economic consequences of the COVID-19 crisis.** Amid economic and social disruption, inequality in the world's most unequal continent is on the rise. Following COVID-19, nations in LAC risk missing a once-in-a-generation opportunity to reorient their economies for just and sustainable growth, and in so doing pull millions of people out of poverty and achieve greater levels of equality. Without efficient investment and incentives in recovery, the economic impacts of COVID-19 are likely to substantively expand the gap between LAC and advanced economies, as well as the gaps between national population groups. Without a strong focus on climate action, environmental sustainability, and social justice in this investment, LAC will struggle to shift to a sustainable economic model and justly meet the needs of a 1.5-degree Celsius future.

This report presents intermediate results of a broader analysis of the economic responses to the COVID-19 crisis in the LAC region, and how the allocated investments can accelerate the economic recovery phase while meeting climate change goals. The report has been developed thanks to an investment tracking tool, the LAC Recovery Tracker, which analyses over 1,100 policies to provide a live snapshot on spending in the region. The LAC Recovery Tracker is a subset of the larger Global Recovery Observatory.<sup>i</sup>

**In the face of the pandemic's multidimensional impacts, both greater public-private partnerships and more extensive international cooperation are vital.**



Governments in the region must prioritise climate-oriented, environmentally-sustainable, and socially-just investment. Global donors must work with these governments to combat high debt financing costs, provide generous support for recovery efforts, and introduce innovative solutions to manage high levels of debt in the region.

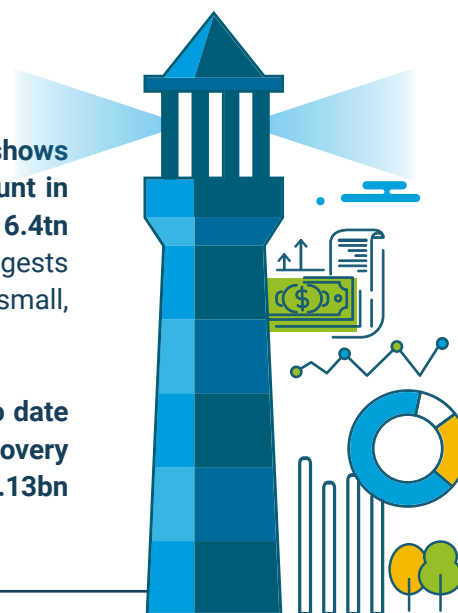
The COVID-19 pandemic has borne global health, social, and economic damages without modern precedent. At the same time, the threat of climate change looms large over the world, and particularly threatens those economies that rely heavily on fossil-driven growth. The crisis calls for a rethinking of the balance of objectives of resilience and resource efficiency to inspire nations to act and reconcile economic objectives with environmental and social safeguards.

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i. The Global Recovery Observatory covers 89 countries and includes over 5,500 policy items as of May 2021, run by the University of Oxford and supported by the UNEP, Green Fiscal Policy Network (GFPN, including UNEP, IMF, and GIZ), UNDP, and UN PAGE.

**This preliminary analysis of thirty-three LAC countries shows that compared to other regions, LAC spent only a small amount in response to COVID-19 to May 2021 (USD318bn in LAC vs USD16.4tn outside of LAC, excluding European Commission).** The data suggests that long-term economic recovery spending was also very small, representing 16.1% (USD46bn) of total spending, as in figure 1.

**Only USD1.47bn (0.5%) of total LAC COVID-19 investments to date are deemed environmentally sustainable. In terms of recovery investment, which is the more relevant metric, only USD1.13bn (2.2%) is environmentally sustainable.**

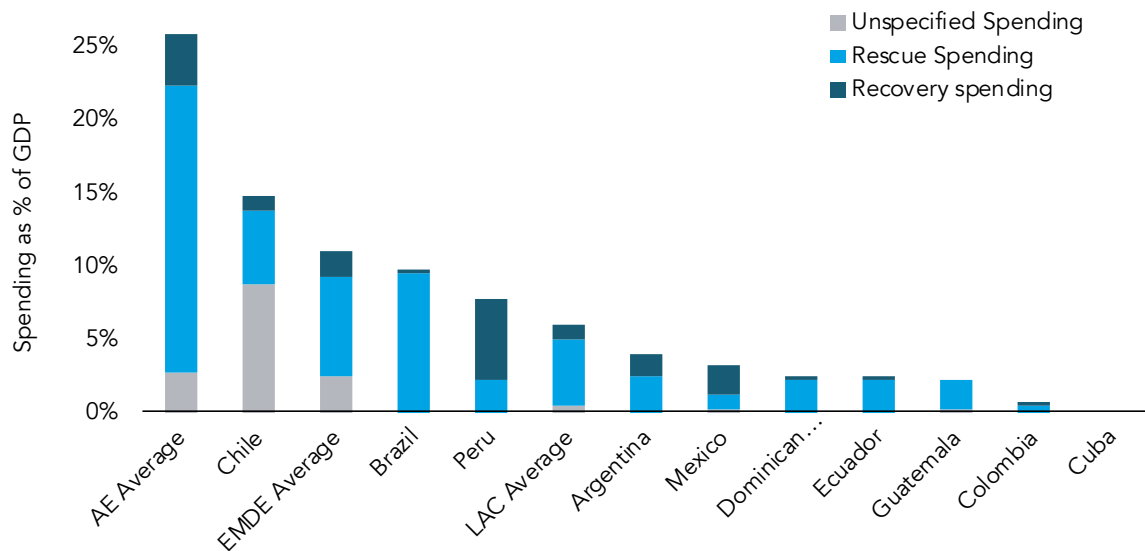


This is significantly less than the global average of 19.2% and represents missed opportunities with long-term economic, social, and environmental consequences. In 2021 and beyond, it is essential that LAC focuses recovery investment on sustainable and inclusive initiatives to ensure a prosperous future for all. This would also move nations closer to the Paris targets and to the vision of the 2030 Agenda for Sustainable Development.

High impact opportunities for the region are numerous and require a mix of policy measures. Key opportunities include (1) sustainable energy including non-conventional renewable energy and energy efficiency (USD0.48bn spent so far in LAC), (2) investments in zero emission transport – with a special focus on public transport – both in and between urban centres (USD0.26bn spent so far in LAC), (3) investments in nature-based solutions ranging from ecosystem regeneration to development of national parks (USD0.35bn spent so far in LAC), and (4) sustainable agriculture investment to enhance efficiency and build resilient food systems (little spent in LAC so far). Key to implementing these policies will be to leverage the role of international co-operation and multilateral systems to co-ordinate and mobilise adequate financial resources.

Given the high public financial cost of the pandemic to date, which has reduced taxation revenue and increased spending, financing the recovery is a core concern. In many LAC nations, low fiscal space and high rates for public borrowing are a constraint against large-scale spending. In this environment, nations must (1) be targeted and efficient in their spending and incentive creation, (2) look to mobilise private sector capital in support of public investment, and (3) request generous support from multilateral partners and high-income nations that is oriented to the long-term – this support may include grants, debt swaps, and/or concessional finance, all of which should be linked to explicit climate and environmental sustainability objectives and criteria. Passage of a USD650bn special drawing rights (SDR) announcement from the IMF would unlock USD51.5bn in new capital for LAC (7.9% of the total SDR allocation). This number could be even higher if high-income nations, which are set to receive ~USD400bn, donate or lend a portion of their allocations. The funds provide a significant opportunity to invest in the future prosperity of LAC through bold and environmentally-sustainable solutions (see section 2).

Planning for decades of growth, strategic investment with well-designed policy in environmentally-sustainable priority areas could simultaneously create employment and growth while addressing numerous environmental issues and structural inequalities.



**Figure 1. Regional fiscal spending to May 2021 in largest 10 LAC nations (by GDP).** Other LAC countries included in Appendix A. AE: Advanced Economies, includes largest 24 relevant nations as defined by IMF and excludes the European Commission; EMDE: Emerging Markets & Developing Economies, includes 65 nations; and LAC: Latin American and the Caribbean. Averages are weighted by 2019 GDP. Source: LAC Recovery Tracker.



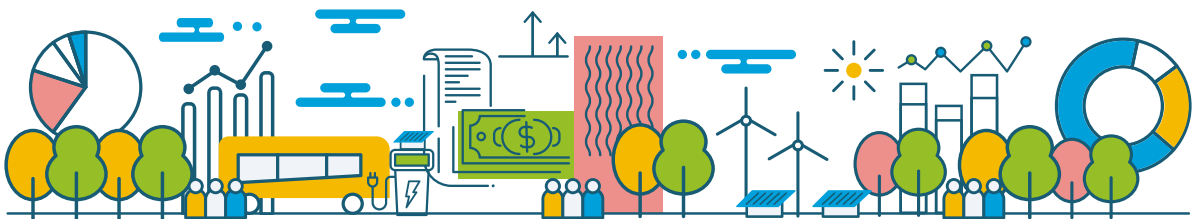
# 1. Introduction

The XXII Forum of Ministers of the Environment of Latin America and the Caribbean (Barbados, 1-2 February 2021)<sup>1</sup> acknowledged that the region is in a climate emergency, asking countries not to postpone climate action due to the pandemic. Ministers of the region stressed the need to implement responses to the COVID-19 crisis in alignment with the Paris Agreement's goals, therefore, enabling the creation of environmentally-sustainable and high-quality jobs.

UNEP has advocated for a climate-resilient and low-emissions regional economy that generates sustainable growth, high-quality environmentally-sustainable jobs, that leaves no one behind, and that takes into account the differentiated impacts of climate change on different populations. The Ministers of Environment of Latin America and the Caribbean requested UNEP as Secretariat of the Forum of Environment Ministers, to support countries in developing COVID-19 recovery response measures aligned with a climate-resilient, low-emission regional economy (XXII Meeting of the Forum of Ministers of Environment of Latin America and the Caribbean, 2021).<sup>2</sup>

*“The measures that incorporate climate proof-actions can be an important dimension of the post-COVID-19 recovery plans, through the implementation of a climate-resilient, low-emission regional economy that generates sustainable jobs, produces short-term high economic impact, attracts investments in the region and leaves no one behind. In this regard, we request UNEP to provide technical assistance and transfer of methodologies for the design and planning for post COVID-19 recovery response measures, providing information to serve as a basis for decision-makers”.*

To help inform and support this request, the UNEP has partnered with the Oxford University Economic Recovery Project to develop an investment tracking tool, the LAC Recovery Tracker, which already analyses over 1,100 policies, to provide a live and up to date snapshot on COVID-19 spending in the region. The tool tracks COVID-19 related fiscal spending policies announced by the 33 Latin America and Caribbean countries and is updated on a weekly basis. The LAC Recovery Tracker highlights where funds are going and their potential economic, environmental including climate, and social impacts to inform the analysis of the Ministers of the region.



## 2. Latin America and the Caribbean have been hit hard by the pandemic

The COVID-19 pandemic is more than a health crisis; it is also an unprecedented socio-economic crisis with far-reaching and long-term cascading impacts. The World Bank has characterised LAC as the region hardest hit by COVID-19,<sup>3</sup> accounting for 29% of reported global deaths despite containing 8% of the world's population. <sup>4,5</sup> Furthermore, according to the IMF, GDP in LAC fell by 7%, the worst of any region.<sup>6</sup> While some economic recovery is expected in 2022, its extent will likely be limited, with economic output remaining below pre COVID-19 levels by the end of 2021.<sup>7</sup> Countries in the region lack the strong healthcare infrastructure needed to manage outbreaks, leaving vulnerable and rural communities particularly badly affected.<sup>8</sup> In some countries, the unemployment rate has doubled in the past year,<sup>9</sup> and this does not include displaced labour in the large informal economies of many nations. This figure also does not show the differentiated economic impacts that have disproportionately affected, for example, women and gender minorities. Women have been more affected by unemployment, the imposed responsibilities of unpaid care work, and unsafe working conditions.<sup>10</sup> For the first time since the global financial crisis, the quest to end poverty in the region has moved backwards and inequalities have expanded between and within socio-economic groups.<sup>11</sup> Amid low social mobility and high inequality – the pandemic has brought into sharper focus the racial and ethnic minority communities that continue to be disproportionately impacted by the pandemic and its related socioeconomic effects.<sup>12</sup>

Nations in Latin American and the Caribbean tend to lack economic diversification, being highly dependent on just a few sectors, such as agriculture, mining, and energy, as well as tourism.<sup>2,13</sup> This lack of diversification, together with the external shock of COVID-19 has impacted taxation revenue – leading to forced shrinkage of spending programs, itself bringing potentially dire human consequences. It has contributed to accentuated economic hardship, for instance in major oil-producing nations including Mexico, Brazil, Ecuador, and Venezuela and in small tourism-dependent nations like most of the Caribbean countries.<sup>14</sup> These economic difficulties fall against the backdrop of a second longer-duration crisis: climate change, whose impacts are increasing every year in LAC countries despite emitting lower GHG emissions compared to other regions.<sup>15</sup>



Nations in Latin American and the Caribbean tend to lack economic diversification, being highly dependent on just a few sectors, such as agriculture, mining, and energy, as well as tourism. Credit: Climate Change Unit

In triggering the deepest global recession since World War 2, the pandemic has brought particularly strong pressure on human capital. In 2020, people in Latin America worked 16% fewer hours, almost twice the global loss.<sup>16</sup> The United Nations Economic Commission for LAC (ECLAC) estimates that poverty and extreme poverty in Latin America reached levels in 2020 that had not been seen in the last 12 and 20 years, respectively, while the indices of inequality worsened along with employment and labour participation rates, among women above all.<sup>17</sup> The pandemic has exposed the structural inequalities that characterize the region's societies and the high levels of informality and lack of social protection, as well as the unfair sexual division of labour and social organization of care, which undermines women's full exercise of rights and autonomy.<sup>18</sup>

An ECLAC estimate suggests that the total number of people living in poverty rose by 22 million in 2020, or 12%, to reach 209 million and there was an additional 8 million people, or 11%, in extreme poverty.<sup>17</sup> These impacts were likely disproportionately felt by vulnerable groups; poverty is greater in rural areas, among children and adolescents; indigenous and Afro-descendent persons; and in the population with lower educational levels.<sup>19</sup> In fact, deficiencies in living conditions and access to services, which prevent a more effective response to the pandemic, intersect with and exacerbate the axes of the social inequality matrix, in particular disadvantaging 58 million indigenous people and 134 million people of African descent.<sup>19</sup>



Poverty is greater in rural areas, among children and adolescents; indigenous and Afro-descendent persons; and in the population with lower educational levels Credit: Moviafilmes



# Gender and Climate Change

Climate change affects women, men, and gender minorities in different ways. Although a threat to all humans, the phenomenon is exacerbated by factors such as reduced access to economic resources, education, and legal rights for women and gender minorities.<sup>20</sup>

It has been established that diverse gender perspectives are necessary for effective governance and conservation of natural resources, as they can provide diverse experiences as fisherwomen, farmers, heads of households and more <sup>21</sup> (Gender and Environment Index (2013), IUCN and UN Women). This is true particularly in designing fiscal recovery approaches following the COVID-19 pandemic. To better include gender-diverse perspectives, governments must strengthen national capacities in the areas of data collection, assessment, and disaggregation to adequately identify and characterize existing gaps and improve gender equality.<sup>22,23</sup> They should also foster cooperation between ministries of gender, environment, and statistical systems to improve and monitor progress. In addition, governments should use existing international commitments, along with strong national policies and frameworks in all sectors, to enable gender-responsive environmental management.<sup>24</sup>

Participation and representation of the experiences and opinions of populations of concern (i.e., women, gender minorities, indigenous and afro-descendants, youth, older adults, migrants, people with disabilities, among many others) must be prioritized. It is urgent to have an intersectional lens that also takes into account intercultural (ethnicity, race, cultural groups) and intergenerational (age) factors.<sup>24</sup>



Gender perspectives are necessary for effective governance and conservation of natural resources, as they can provide diverse experiences as fisherwomen, farmers, heads of households and more. Credit: UNEP MEBA.

In the region, climate change is reducing agricultural productivity, accelerating infrastructure degradation and loss, intensifying deadly wildfires, hurricanes, droughts and floods, and inducing ocean acidification and sea level rise. According to the Global Commission on Adaptation, nine of the top twenty countries with the highest climatic impacts based on GDP are in Latin America. By 2050, 17 million people (2.6% of the total population) could be displaced, and 2.6% of GDP could be lost due to climate events. This adds to the 1.7% of GDP already lost to climate-related disasters over the past two decades (equivalent to USD11bn dollars in damage a year).<sup>25</sup> The consequences of these impacts are felt across all LAC nations, impacting many sectors of each economy and bringing significant regional risks too, including food insecurity.<sup>15, 26, 27</sup> Tourism has been particularly badly affected – this is dangerous for many nations that depend on tourist spending to maintain livelihoods and the public balance sheet.

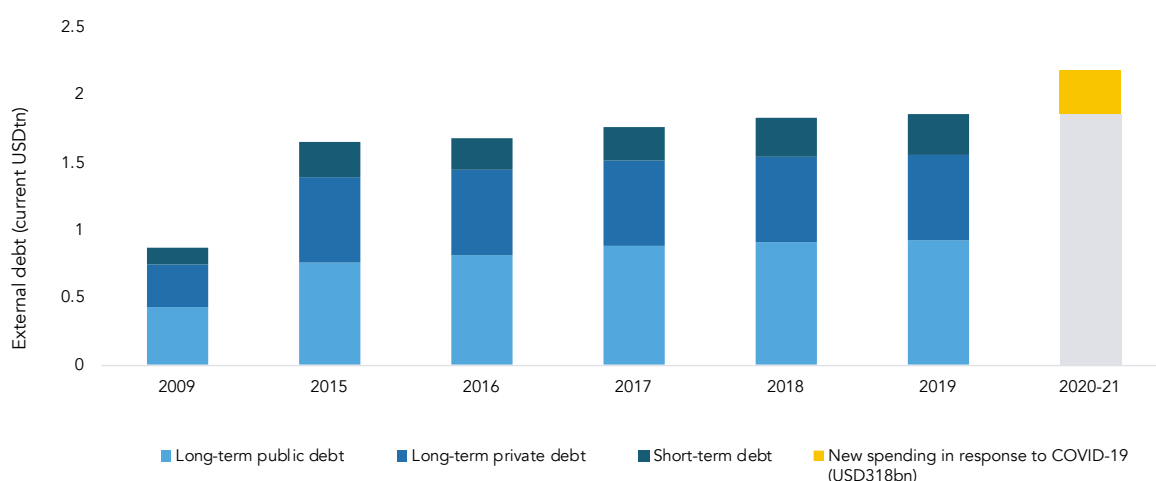
Though some nations in the region, like Costa Rica, Uruguay, and Paraguay, are world leaders in renewable energy penetration, most economies continue to depend on fossil fuels for energy generation.<sup>28</sup> For almost all countries in the region, large portions of their economic product is tied to natural resources, especially through intensive agriculture and farming, forests, mining, and tourism.<sup>29</sup> These resources are jeopardized by extreme weather events of increasing frequency and severity under climate change,<sup>30</sup> and by the widespread unsustainable land use changes and consequent loss of biodiversity in the region.<sup>31, 32</sup>

Many nations are also in tenuous net debt positions with high financing costs and debt-to-tax ratios have increased in most countries in the region. The International Monetary Fund (IMF) estimates that South American GDP declined by 7.0% in 2020, and October 2020 estimates projected that the average general government balance would reach ~-9.6% of GDP, and that gross debt-to-GDP would hit 87.4%.<sup>6, 33</sup> In LAC, this equates to a 11.3% rise in the ratio of gross government debt to GDP, a bigger jump and higher endpoint than any other major developing market region.<sup>9</sup>



Investment in renewable energy is key in a Paris-aligned economic recovery. Credit: Climate Change Unit

In Argentina, 2020 debt-to-GDP was projected to reach 96%, the highest level since 2004.<sup>33</sup> Countries with a projected debt-to-GDP ratio above 100% include Suriname (145%), Belize (135%), Barbados (134%), Aruba (127%), Antigua and Barbuda (114%), Jamaica (101%), Brazil (101%), and Venezuela (not forecast). As these governments face tough debt renegotiation terms, the space to implement fiscal stimulus has diminished, leaving countries in a weak position from which to face the COVID-19 crisis (figure 2). A 2021 announcement of USD650bn in new special drawing rights (SDR) from the IMF could provide a USD51.5bn injection for LAC (7.9% of the total SDR allocation). However, the spread of these funds across the continent leaves the largest five nations<sup>ii</sup> with USD39bn and the smallest thirty nations to share only USD1bn (figure 3). High-income nations could better support these countries by donating or lending a portion of their USD400bn in allocations under the SDR. In doing so, high-income nations could enable accelerated investment in the future prosperity of LAC through locally-directed and environmentally-sustainable solutions (see section 2).



**Figure 2. High debt loads in LAC restricting COVID-19 expenditure.**

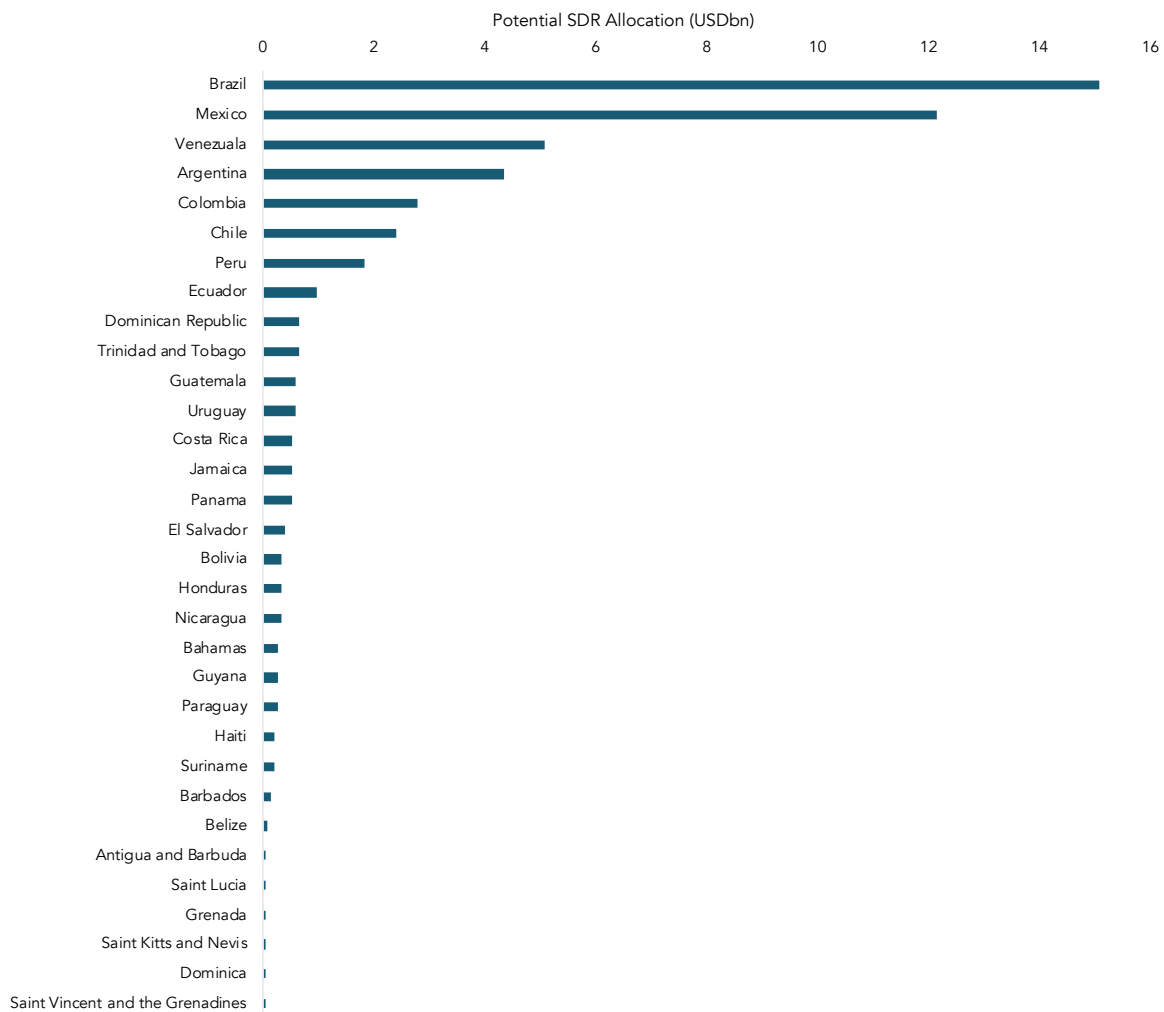
Sources: International Debt Statistics 2021<sup>34</sup> and LAC Recovery Tracker. Notes: Public debt includes external publicly-guaranteed private debt (USD2bn-3bn over 2015-2019); new spending is not necessarily equivalent to new debt as (i) many announcements include medium-term funding commitments beyond 2021 and (ii) not all new spending is debt-financed.

Going forward, an effective response to the COVID-19 health, social, and economic crises will continue to require strong and ambitious policy making, accompanied by significant recovery investments.<sup>35</sup> The mobilization of vast public resources represents a unique occasion to boost economic output and seed high-quality employment opportunities, while setting a prosperous economic development path for the next decade. In short, governments of LAC can use recovery efforts to guide sustainable development that boosts economic output, creates employment opportunities, promotes social justice, ensures competitiveness, and promotes innovation towards the imminent fourth industrial revolution in the short, medium, and long-term.

Several studies from leading economists, including Hepburn et. al. 2020,<sup>36</sup> have concluded that spending on recovery policies that prioritise the environment and sustainability can be an effective way to revitalise economies. A March 2021 report from Oxford University and UNEP

ii. Brazil would receive USD15.1bn, Mexico USD12.2bn, Venezuela USD5.1bn, Argentina USD4.4bn, and Colombia USD2.8bn.

highlights the importance of prioritising environmentally-sustainable investment opportunities as nations pivot from short-term rescue measures to recovery – to simultaneously deliver strong socio-economic and environmental outcomes.<sup>37</sup> However, driven by high existing debt burdens and prohibitively expensive new debt, many LAC countries have been forced to make fiscal policy decisions defined by ‘austerity’.<sup>iii</sup> **To properly address the triple planetary crises, countries in the region need support to bridge the gap between current and required spending, including possible debt relief.**



**Figure 3. Allocation of proposed 2021 IMF SDR issue in LAC.**

Cuba has no allocation as it is not a member of the IMF. Source: Oxford analysis using IMF quotas.<sup>38</sup>

iii. Austerity involves government measures aimed at reducing overall debt through increased frugality, usually through a combination of increasing taxes and reducing spending. A similar approach contributed to a decade of stagnation in Europe following the Global Financial Crisis.



### 3. LAC investment compared to the rest of the world in 2020

The LAC Recovery Tracker shows that countries in Latin America and the Caribbean are lagging the rest of the world (figure 4) when it comes to both short-term rescue spending and longer-term recovery spending.<sup>iv</sup> In some cases, nations are being forced into austerity over expansionary fiscal policy, with potentially dangerous consequences, especially for people in vulnerable situations.

The thirty-three countries tracked in LAC announced USD317bn (6.0% GDP) in total spending to May 2021, of which USD239bn (4.6% GDP) was short-term rescue-type and USD451bn (1.0% GDP) was long-term recovery type, and the remaining portion was unclear spending. Total spending and recovery spending both trail spending in advanced economies (AEs)<sup>v</sup> as well as other Emerging and Developing Economies (EMDEs).<sup>vi</sup> In 2020, advanced economies spent a total of USD11.3tn (22.5% of GDP), of which USD1.4tn (2.8% of GDP) was for recovery measures, USD8.6tn (17.2% of GDP) was for rescue measures, and the remaining portion was unclear spending. Non-LAC EMDEs tracked in the Observatory announced USD2.3tn (8.4% GDP) in rescue and USD0.5tn (1.8% of GDP) in recovery, giving a total of USD3.0tn (11.3% GDP) in COVID-related measures including unclear spending.

On a per capita basis, the disparity between advanced economies and the rest of the world is staggering. LAC has allocated ~USD490 in COVID spending per person, EMDEs ~USD650 per person (largely driven by spending from China), and advanced economies ~USD12,700 per person.

The significant variation in spending practices between AEs and LAC is partly driven by lower capacity to spend in LAC, or in economic terms, constrained fiscal space. Reduced tax revenues through a smaller employment base, constrained demand, and volatile materials markets have impacted many nations, and particularly those in LAC. At the same time, heavy debt burdens and comparatively high interest rates on new borrowing makes the process challenging.<sup>37</sup> A report from Oxford University and UNEP supports this, suggesting that some countries with lower development indices have spent less in total and less on long-term recovery measures compared

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iv. Rescue spending is that which aims to immediately protect lives and businesses from the direct and indirect negative impacts of the pandemic while recovery spending intends to revive the economy.

v. AEs in the analysis: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Ireland, Israel, Italy, Japan, Netherlands, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, United Kingdom, and the United States.

vi. EMDEs in the analysis: Antigua and Barbuda, Argentina, Bahamas, Bangladesh, Barbados, Belize, Bolivia, Brazil, Burkina Faso, Chile, China, Colombia, Costa Rica, Cuba, Democratic Republic of the Congo, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Ghana, Grenada, Guatemala, Guyana, Haiti, Honduras, India, Indonesia, Iran, Iraq, Jamaica, Kazakhstan, Kenya, Kyrgyz Republic, Malaysia, Mauritius, Mexico, Mongolia, Morocco, Nicaragua, Nigeria, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Romania, Russia, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Senegal, South Africa, Suriname, Thailand, Trinidad and Tobago, Turkey, the United Arab Emirates, Uruguay, Venezuela, and Vietnam.



to highly developed nations. A similar trend is observed for environmentally-sustainable spending with respect to conventional measures of development. In this assessment, an environmentally-sustainable spending policy is one that is likely to reduce GHG emissions, reduce air pollution, and/or strengthen natural capital, compared to a scenario in which the policy was not implemented. This disparity in what governments can spend and what governments have spent could have negative consequences for sustainable development, poverty, and health in LAC nations and other EMDEs. Beyond debt suspensions, the severity of the COVID-19 economic crisis suggests a need for debt forgiveness and sustainability-linked foreign aid, whether in the form of concessional finance, grants, or guarantees.

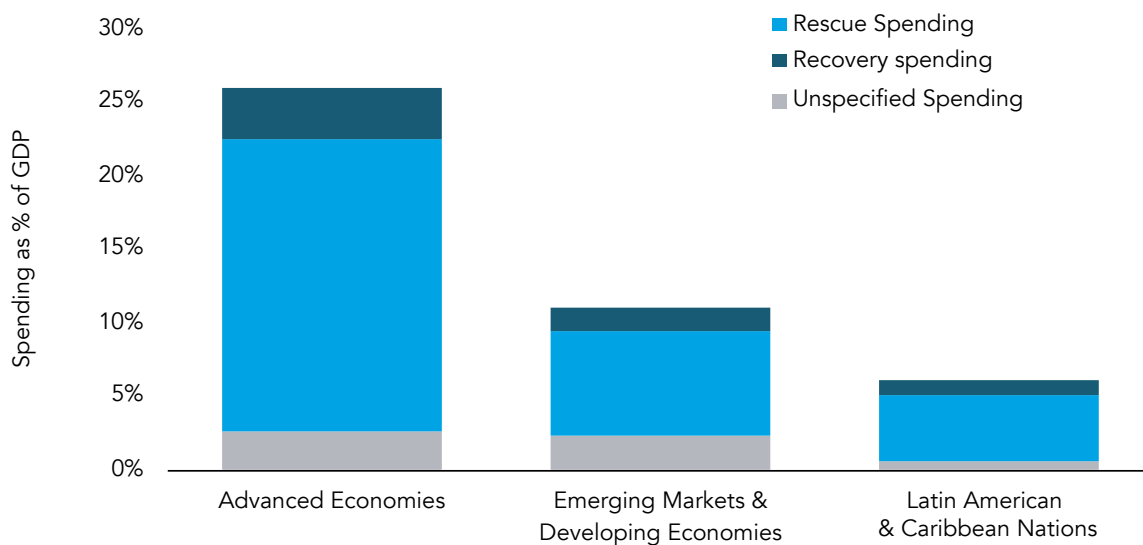
There has also been variation in spending practices within LAC. As a proportion of GDP, Chile has allocated more spending to COVID-19 response (rescue and long-term recovery totalling 14.9% of GDP) than others in the region to date. Saint Kitts and Nevis (13.3% of GDP), Saint Lucia (11.3% of GDP), Bolivia (10.9% of GDP), and Brazil (9.5% of GDP) follow behind.

When it comes to long-term recovery spending, only nine out of thirty-three LAC countries have announced more than 1% of GDP in expenditure. For recovery spending as a proportion of GDP, Dominica leads the way with recovery spending totalling 6.9% of GDP, Peru 5.6% of GDP, Barbados 3.3% of GDP, Saint Vincent and the Grenadines 2.4% of GDP, and Mexico 2% of GDP. Some LAC countries in the study have announced intentions to introduce recovery-type policies, however these nations have not yet publicly allocated funding to support these endeavours.

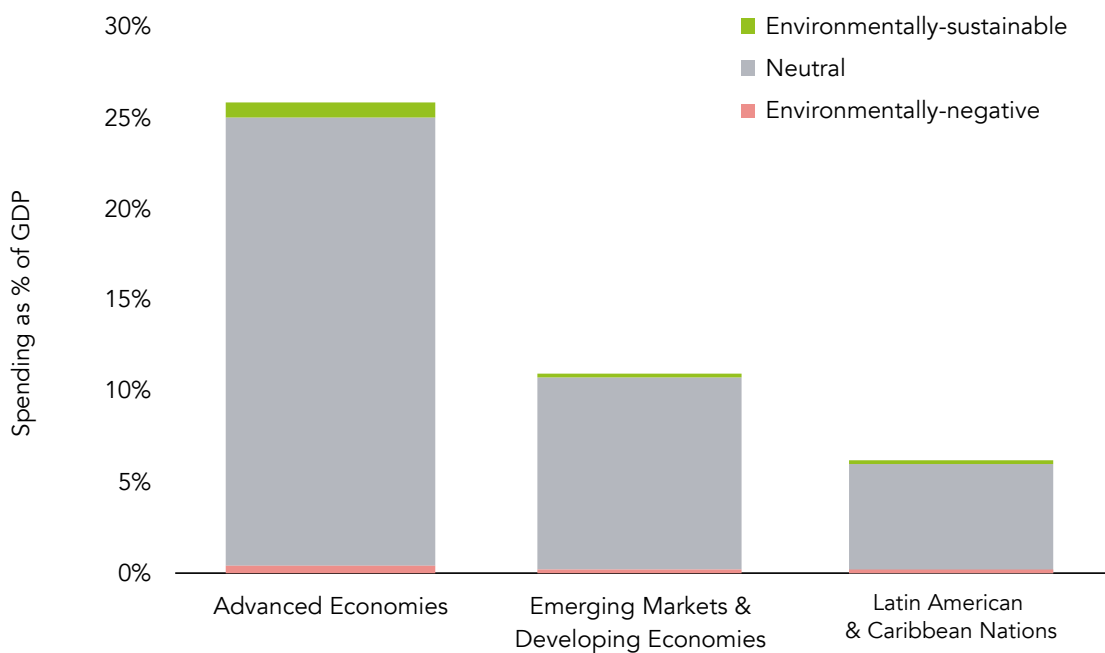
**On environmentally-sustainable COVID-19 spending, LAC lags the rest of the world: 0.5% of total spending and 2.2% of long-term recovery spending was environmentally sustainable to May 2021 compared to 2.8% and 19.2% globally.** In total, the thirty-three countries announced environmentally-sustainable spending worth USD1.47bn (0.03% GDP), in comparison to USD50bn (0.23% GDP) for non-LAC EMDEs, and USD471bn (0.57% of GDP) globally. Thirty-one of the assessed nations have a neutral or negative overall score on the sustainability of their 2020 recovery spending practices (figure 5). Colombia and Jamaica are the only exceptions, both of which score positively. Minimal environmentally-sustainable recovery spending is not unique to LAC; it is an unfortunately common theme seen across many developing countries and countries with carbon-intensive modes of production.

As positive examples in the region, a small group of LAC nations have directed recovery spending to environmentally-sustainable initiatives, understanding the role that environmentally-sustainable spending can have in short-term job creation and economic growth. As a portion of total spending, leaders on environmentally-sustainable recovery spending include Jamaica (USD50mn, 100% of recovery spending), Brazil (USD620mn, 52% of recovery spending), Panama (USD180mn, 50% of recovery spending), and Colombia (USD160mn, 45% of recovery spending). Details on environmentally-sustainable spending across the region, including types of environmentally-sustainable investment are expounded at length in section 4.

Spending on environmentally-negative measures, that exacerbate the impacts of climate change, biodiversity loss, and air pollution, have been more common in LAC than other regions. Many environmentally-negative policies have been recorded in both rescue and recovery tallies. These type of policies were announced by Antigua and Barbuda, Argentina, the Bahamas, Bolivia, Brazil, Chile, Colombia, Haiti, Honduras, Mexico, Nicaragua, Panama, Peru, Saint Vincent and the Grenadines, and Trinidad and Tobago. Details on environmentally-negative spending across the region, including types of environmentally-negative investment are expounded at length in section 4.



**Figure 4. Total LAC spending compared to advanced and developing economies.**  
 Source: LAC Recovery Tracker



**Figure 5. Environmental characteristics of LAC spending compared to advanced and developing economies.**  
 Source: LAC Recovery Tracker.

## 4. Comparison of 2020 investment between countries in LAC

In 2020, 33 LAC countries announced over 1,100 fiscal measures in response to the pandemic, totalling USD318bn. Approximately USD238bn was directed to immediate rescue efforts to manage short-term threats to lives and livelihoods, while USD51bn was devoted to long-term recovery efforts intended to reinvigorate the economy. The characteristics of spending, including target sectors and potential social and environmental impacts vary significantly between countries.

Despite the clear positive economic and social characteristics of Paris-aligned and environmentally-sustainable spending, LAC governments have failed to incorporate environmentally-sustainable priorities into most recovery investments (figure 6 and figure 7). For the purposes of this analysis, “environmentally-sustainable” or “green” investment is that which is likely to reduce net greenhouse gas (GHG) emissions, strengthen natural capital, and/or lessen air pollution.

So far, underinvestment in such initiatives represents a significant missed opportunity. Overall, long-term economic recovery is not currently set to deliver the transformational investments needed. As governments in the region move from a rescue mindset to a recovery mindset, it is vital that any further fiscal investment better prioritises environmentally-sustainable initiatives and supports environmentally-sustainable priorities.



A Paris-aligned economic recovery creates more job opportunities than fossil fuel investments. Credit: Climate Change Unit.

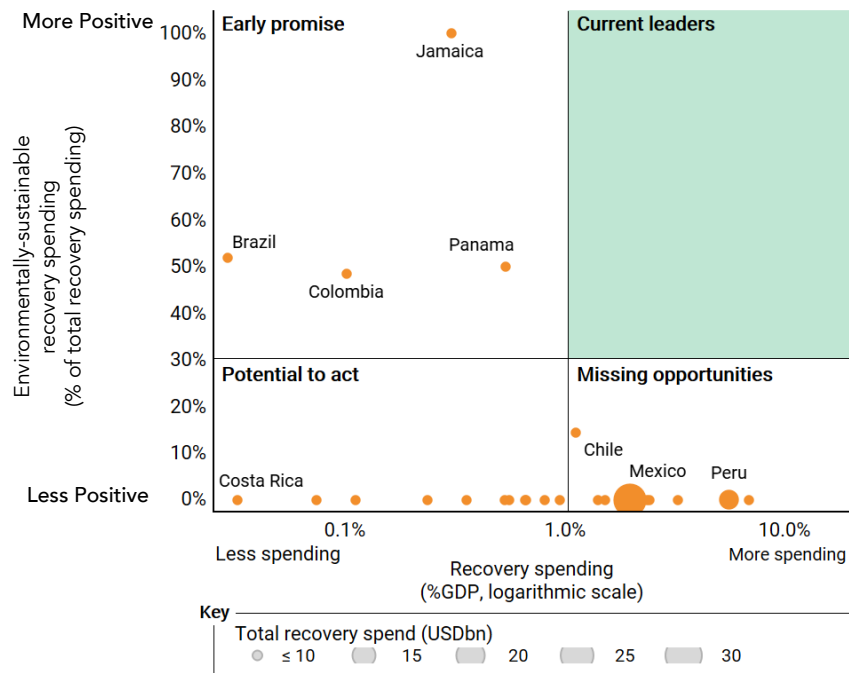


Figure 6. LAC environmentally-sustainable recovery spending as a percentage of total recovery spending versus recovery spending as %GDP. Nations with zero percent environmentally-sustainable recovery spending are scattered along the x-axis base, from left (less total recovery spending) to right (more total recovery spending) they are Costa Rica, El Salvador, Ecuador, Dominican Republic, Honduras, Belize, Haiti, Trinidad and Tobago, Bahamas, Suriname, Saint Kitts and Nevis, Saint Lucia, Argentina, Mexico, Bolivia, Saint Vincent and the Grenadines, Barbados, Peru, and Dominica. The eight countries from Saint Lucia to the right all fall very firmly in the missing opportunities grouping. Nine countries have spent less than 0.025% of GDP on recovery (environmentally sustainable, neutral, or environmentally negative) and are not included in this figure. These countries are Antigua and Barbuda, Cuba, Grenada, Guatemala, Guyana, Nicaragua, Paraguay, Uruguay, and Venezuela. Source: LAC Recovery Tracker.

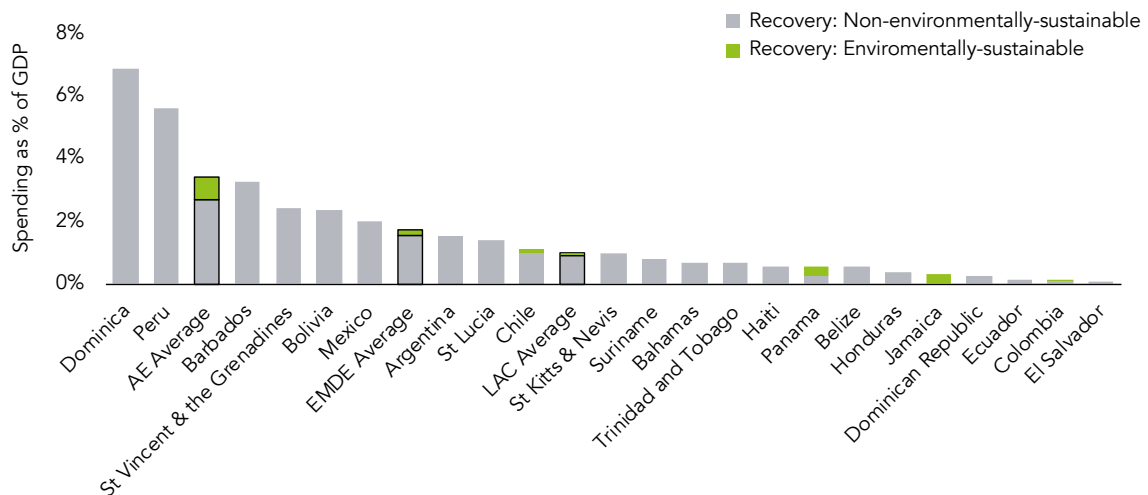


Figure 7. Environmentally-sustainable, neutral, and environmentally-negative recovery spending announced by Latin American countries to May 2021. Data from Global Recovery Observatory. AE: Advanced Economies, includes largest 24 relevant nations as defined by IMF and excludes the European Commission; EMDE: Emerging Markets & Developing Economies, includes 65 nations; and LAC: Latin American and the Caribbean. Averages are weighted by 2019 GDP. Eleven countries have spent less than 0.05% of GDP on total recovery and are not included in this figure. These countries are Antigua and Barbuda, Brazil, Costa Rica, Cuba, Grenada, Guatemala, Guyana, Nicaragua, Paraguay, Uruguay, and Venezuela. Source: LAC Recovery Tracker.

#### 4.1 Environmentally-sustainable investment in LAC (USD1.5bn, 2% of recovery spending)

We tally USD1.47bn in environmentally-sustainable investment in LAC, announced by twelve countries.<sup>vii</sup> By this metric, only 0.1% of rescue spending was environmentally sustainable (compared to 0.3% globally), 2.2% of recovery spending was environmentally sustainable (compared to 19.2% globally), and 0.5% of total spending was environmentally sustainable (compared to 2.8% globally).

Globally, environmentally-sustainable spending totalled USD368bn in 2020, and covered an even broader range of spending (figure 8). To May 2021, globally USD204bn was directed to clean energy (USD0.47bn in LAC), USD74bn was directed to natural infrastructure and nature-based solutions (USD0.35bn in LAC), USD179bn was directed to clean transport (USD0.26bn in LAC), USD113bn was directed to energy efficiency (USD0.01bn in LAC), USD39bn was directed to clean research and development (USD0bn in LAC), USD56bn was directed to environmentally-sustainable rescue-type measures across sectors (USD0.34bn in LAC), and USD108bn was directed to unspecified environmentally-sustainable initiatives or to broad green market creation programs (USD0.04bn in LAC). Further details of global spending policies are available in the [Global Recovery Observatory](#).

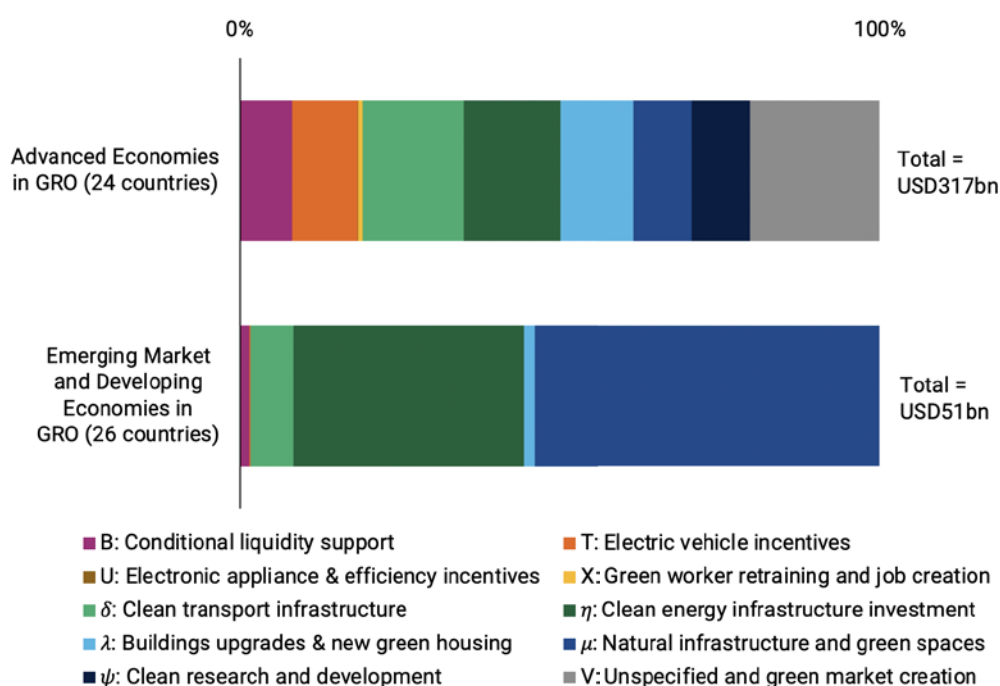


Figure 8. Environmentally-sustainable spending by policy area across AEs and EMDEs. Source: Global Recovery Observatory. Reprinted from O’Callaghan and Murdock 2021.<sup>37</sup>

vii. The twelve countries are. Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Panama, Honduras, Peru, Jamaica, Suriname, and Dominican Republic. All COVID-19 fiscal investment figures are calculated from policies in the *LAC Recovery Tracker*, available at [www.reuperacionverde.com/tracker](http://www.reuperacionverde.com/tracker). The *LAC Recovery Tracker* includes a subset of data from the more extensive *Global Recovery Observatory*.

The environmentally-sustainable initiatives seen in LAC cover a range of sectors and policy types (figure 9) and many may serve as a model for other countries in the region.

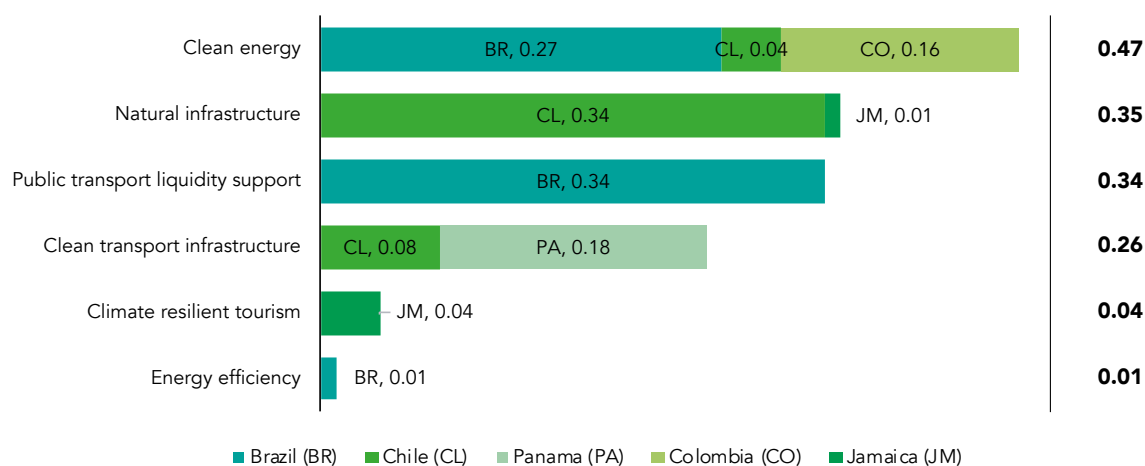


Figure 9. Environmentally-sustainable spending in LAC to May 2021 (rescue and recovery). All figures in USDbn. Source: LAC Recovery Tracker and Global Recovery Observatory.

#### 4.1.1 Renewable energy

In the energy sector, clean investment has come from Argentina, Brazil, Chile, Colombia, and Cuba. Most of this spending has favoured new solar and wind generation with some funds for distribution grid improvement.

##### **Argentina**

In Argentina, rural communities have been prioritised, with solar panels for rural producers, and extension of the PERMER II program, which aims to increase rural electrification. In addition, Argentine government spending has gone to co-financing new renewable energy systems for the fishing industry.

##### **Brazil**

In Brazil, two expanded wind farm complexes<sup>viii</sup> promise to create over 1,500 jobs and serve more than a million households, at a financing cost of BRL1.4bn (USD270mn). This constitutes around half of Brazil’s total investment in recovery measures to date.

viii. Campo Largo Phase 2 (in Umburanas and Sento Sé) and Ventos de Santa Martin Farm (in Caiçara do Rio do Vento and Rio Grande do Norte).

### **Chile**

Chilean policy makers have approved CLP30bn (USD40mn) in loans for renewable energy projects targeted to small- and medium-enterprises (SMEs) for conventional generation and storage projects as well as non-conventional renewable energy projects, energy efficiency, and environmental improvement projects.

### **Colombia**

Colombia's 'Compromiso por el Futuro de Colombia' plan covers the full breadth of electricity generation initiatives to finance twenty-seven renewable energy and transmission projects across the country.

### **Cuba**

In Cuba, the Estrategia Económico-Social provides an example in tourism of how to incorporate environmentally-sustainable priorities into general economic investments that are seemingly less environmentally relevant. The initiative funds renewable energy investment for tourism facilities as a method for supporting the highly threatened industry.

## **4.1.2 Energy efficiency**

In Brazil and Colombia governments have announced small energy efficiency investments. These are only a fraction of what is needed to finance the large-scale transformation that is needed in housing, public buildings, and commercial sectors, however, the signalling power to the corporate sector of even small commitments can be strong.

### **Brazil**

In energy efficiency, Brazil, acting through the National Electricity Conservation Program (Programa Nacional de Conservação de Energia Elétrica or Procel), Brazil is looking to incentivise energy efficiency projects across a wide range of sectors, including with a contribution of BRL30mn (USD5mn) to the Fundo Garantidor para Crédito a Eficiência Energética (FGEnergia) of the National Bank for Economic and Social Development (BNDES).

### **Colombia**

Colombia is using a small amount of funding (USD8mn) to promote energy-efficiency projects in SMEs, supported by the Inter-American Development Bank.

## **4.1.3 Sustainable transport**

In transport, LAC environmentally-sustainable investment has focused primarily on public transport and non-motorised transport infrastructure.

### **Chile**

Chile's CLP59bn (USD80mn) investment in electric buses and supporting infrastructure is exemplary of fiscal spending that simultaneously supports the economy, social outcomes, and environmental outcomes. The program includes spending to both purchase electric buses and build an electric bus terminal complete with solar panels and electricity storage solutions. Public transport investments also came in (non-electric) bus terminal expansions in Argentina.

### **Panama**

While not COVID-related spending, Panama's PAB2.5bn (USD2.5bn) investment in a new metro line (using a loan from Japan) is an example of impactful government support of large-scale public infrastructure in the region. The project, which includes 25 kilometres (15.5 miles) of new double-track monorail line, will cross the Panama Canal with a 4-kilometre (2.5 mile) tunnel and serve over 500,000 people. The investment includes construction of 14 stations as well as procurement of 28 new energy-efficient trains. In 2021, additional allocations to sustainable transportation include Panama's extension of Line 1 of the Panama Metro project at cost of USD177mn. Although short in distance (2.2km), the extension could enable better connectivity and more sustainable transport patterns for 300,000 people living in the north part of Panama City. In terms of immediate economic benefit, the government has hinted at the creation of 1,000 direct and indirect jobs over the 33-month contract of the construction work.

### **Mexico**

Another mode of sustainable transport, Mexico's investment to expand the Mexico City cycling network early in the pandemic could reduce reliance on internal combustion engines for transport and lessen congestion in the city. A similar investment to construct bicycle lanes in the Peruvian municipalities of Ica, Chiclayo, Mariscal Nieto, San Roman and del Sanat could also bring multifaceted benefits.

### **Argentina**

Argentina has directed funds to expanding bus terminals in Ushuaia and Rio Grande. Depending on the nature of these expansions, they could add incentive to bus transport in the region and support future line expansions.

### **Peru**

In Peru, a November 2020 investment in bicycle lanes will support the municipalities of Ica, Chiclayo, Mariscal Nieto, San Roman and del Sanat. The intent of these bike lanes was to incentivise bicycle use, bringing improved mobility, enhanced environmental sustainability, and more COVID-safe alternatives for transport.

## **4.1.4 Potential Natural Capital Investment, including Nature-based Solutions**

A wide range of nature-based investments have been considered in LAC in response to COVID-19. These include ecosystem-type, park-type, agriculture-type, and fishery-type investments, amongst others. It can be particularly challenging to identify whether investments in agriculture and fishing prioritise nature; in this report we do not attempt to do so, and instead identify 'potential' investment and solutions.

### **Colombia**

Colombia has committed to planting 180 million trees – this could quickly create jobs and environmental benefit provided that the investment considers biodiversity needs, does not rely on monocultures, and works alongside and in direct support of local communities.<sup>39</sup>

### **Chile**

A broader plan in Chile for public investment in nature, the Programa de Inversión Pública, mentions a focus on drinking water, irrigation, reservoirs, and more. Additionally, Chile has announced CLP244bn (USD340mn) in funding for 17 new urban parks around the country.



### **Argentina**

Argentina is coordinating a new Ecopark in Chascomús with support from the Inter-American Development Bank, as well as funding for 21 socio-environmental initiatives to involve young people in sustainable development under the “Haciendo ló por nuestra tierra” program. Argentina is also coordinating investment to improve natural drainage systems in the Balderrama area. An Argentine grant-based program has also been introduced to support environmental conservation and restoration in El Chaco and Mesopotamia.

### **Jamaica**

In Jamaica, JMD1bn (USD7mn) was directed to support farmers and fisherfolk. The program covers the provision of equipment and machinery, new infrastructure (e.g., greenhouses, packing houses, nurseries), assistance to the livestock subsector, and particular focus on support for climate smart production practices and technologies.

### **Dominican Republic**

In the Dominican Republic, two policies in the Plan Nacional de Fomento a las Exportaciones support climate-friendly agriculture. The first provides technical and financial assistance to enhance export-oriented crop production that is environmentally sustainable, with a focus on production that contributes to reforestation. The second supports farmers to better understand and invest in “climate-smart agriculture”, “precision agriculture”, and more profitable export harvest calendars.

### **Peru**

Peru has earmarked PEN185mn (USD50mn) for projects to reduce deforestation and the related effects of climate change through the Bosques program (i.e., the National Forest Conservation Program for Climate Change Mitigation).

### **Saint Lucia**

In Saint Lucia, the Economic Recovery and Resilience Plan provides funding to strengthen food security and build broader agricultural resilience.

### **Dominica**

Funded by the World Bank, a similar investment program in Dominica allocates USD16mn to support agricultural resilience and reduce disaster vulnerability.

### **Trinidad and Tobago**

Agriculture stimulus in Trinidad and Tobago of TTD0.5bn (USD70mn) may contribute positively to natural capital, depending on which specific initiatives are enabled by the funds.<sup>ix</sup> For instance, more sustainable and controlled approaches to existing vegetable, legume, roots, and fruits production (which are all highlighted in the policy details) could enhance agricultural efficiency and support natural capital. However, investment which leads to cultivation of new lands at the expense of existing rich biodiverse systems could be counterproductive.

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ix. For reasons highlighted in-text, Trinidad and Tobago’s agriculture stimulus spending is not yet included in the USD0.35bn subtotal for environmentally positive natural capital and nature-based solutions investment. Additional agriculture stimulus spending that does not necessarily meet environmentally-sustainable criteria includes construction of a fishing landing in Peru (PEN0.022bn), construction of a wood processing and agricultural plant in Peru (PEN0.018bn), and construction of protection models for livestock in Peru (PEN0.047bn).

# Case Study: Women in Energy

To maximise effectiveness, gender considerations must be integrated to the design, planning, and implementation of energy efficiency and renewable energy policies and projects.<sup>40</sup> Women, men, and gender minorities play different roles as both users and managers of energy systems; gender-sensitive policies and projects recognize these differentiated energy needs.

The number of women currently living in energy poverty shows that energy policies and projects have not taken these differences into account.<sup>41</sup> Generally, these energy policies and projects are assumed to be gender neutral; therefore, they fail to conceptualize women and gender minorities inclusively as key actors in the design, use, distribution and maintenance of energy services and technologies.<sup>42</sup> These principles also apply to interventions in the transportation sector and nature-based solutions.

Within the energy industry itself, the barriers for women to reach executive positions and to become entrepreneurs and employees must be lowered.<sup>43</sup> Likewise, their representation on national and global energy boards must grow. In allocating public funds to support clean energy initiatives, governments have an opportunity to prompt some of this change, for instance by requiring beneficiary companies to develop their own gender action plans. Additionally, significant clean energy spending now could be used as a prompt for agencies and organizations involved in the energy sector to modernise by establishing processes to institutionalize gender approaches in their activities. This would synchronize these institutions with national gender equity policies and related international commitments.

Finally, it is important to note that the integration of gender considerations tends to increase the efficiency of energy policies and projects where they have been included, as it helps to identify implementation barriers as well as potential benefits that were not considered before.<sup>44</sup>



Within the energy industry itself, the barriers for women to reach executive positions and to become entrepreneurs and employees must be lowered. Credit: Climate Change Unit.

#### 4.1.5 Environmentally-sustainable research and development

In LAC, the only recorded research and development initiative focused on environmental sustainability was the Plan Nacional de Fomento a las Exportaciones, an innovation initiative from the Dominican Republic. The plan will attempt to increase understanding and increase the resilience of export crops to climate change and reduce the vulnerabilities of these crops to diseases, scarce water, and pests, while improving yields.

#### 4.1.6 Worker retraining

For worker retraining, we have seen few investments in response to COVID-19, and even fewer focused on green skills to prepare the workforce for emerging sustainable industries. The Dominican Republic provides the only example in LAC to date, in November 2020's Plan Nacional de Fomento a las Exportaciones. The policy aims to promote and facilitate training in renewable energy technologies.

## Just Transition and Youth

The transition to a climate-neutral economy must be just and inclusive, leaving no one behind.<sup>45</sup> This process must be well planned to alleviate the economic and social impacts of the climate transition in countries most dependent on fossil fuels or carbon-intensive industries. In this context, young people have an important role to play as their future will be directly affected by this transition. Their needs, opinions and hopes are an important part of the dialogue and transformation process.

Governments should avoid treating “youth” as a homogenous group and thus promote equal access to opportunities for the acquisition of skills and knowledge for all. The different needs and potential of adolescents must be understood, and it is critical to involve young people from less active and underrepresented backgrounds to ensure the participation of all those who may be impacted by the outcomes of the process.<sup>46</sup>



Young people have an important role to play as their future will be directly affected by this transition. Credit: John Stocker



#### 4.1.7 Rescue spending

In short-term rescue spending, although outside of the focus of this report, we have seen a positive example from Brazil where a BRL1.5bn (USD270mn) credit line was extended to biofuels intended to support competitiveness against low gasoline and diesel prices early in the pandemic. Other such investments included Peru's finance to the Metropolitano rapid bus transit system, as well as Brazil's and Colombia's financial aid to electricity distributors (who predominantly supply renewable electricity).

#### 4.1.8 Countries yet to act

In some countries, governments have earmarked a small amount of funds for recovery spending but none for environmentally-sustainable initiatives. In these instances, recovery spending is often meaningful for social and economic development but possibly fails to make progress against environmental objectives. Countries in this group are Argentina, the Bahamas, Barbados, Belize, Bolivia, Costa Rica, Dominica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

In a smaller subset of countries, governments have neither dedicated funding to recovery initiatives nor to environmentally-sustainable investments, indicative of very low fiscal space to do so. Thereby, the lack of spending in LAC is at least partially a function of inadequate financing from international partners. Spending in these countries has largely been directed towards relief for SMEs and support to individuals, both positive initiatives. Countries in this category are Antigua and Barbuda, Cuba, Grenada, Guatemala, Guyana, Nicaragua, Paraguay, Uruguay, and Venezuela.

Outside of formerly legislated or confirmed spending, there have been several environmentally-sustainable plans or environmentally-sustainable investment ideas proposed by politicians and policy makers who understand the opportunity for spending to simultaneously meet economic and environmental objectives. Many of these plans are ambitious and one may expect to see some aspects of these integrated into future recovery announcements.

#### 4.1.9 Limitations working against environmentally-sustainable investment

It is important to recognise the financial and non-financial factors that may be holding back environmentally-sustainable investment in LAC countries following COVID-19. As discussed in section 3, most LAC nations simply do not have the capacity to spend at the same rate as advanced economies; it is unsurprising that recovery spending is low and environmentally-sustainable recovery spending is even lower. This reality should prompt greater support of LAC by high-income nations, who have economic, humanitarian, and altruistic incentives to partner for the long term.

Low capital for recovery spending should also prompt LAC nations to consider how to integrate environmentally-sustainable co-benefits into even policies that may have traditionally seemed unrelated to the environment, like healthcare or education investment. For example, public works to build new hospitals could require sustainable material use in construction, prioritise energy efficiency in design, and consider on-site renewable energy generation.

Non-financial limits on environmentally-sustainable investment may include a labour force that lacks sufficient green skills to implement desirable projects, high technological barriers to entry, an absence of enabling technologies like stable grid systems for high renewables penetration, and low absorptive capacity in R&D. In each instance, these limits can be lessened or eliminated in the medium term through well-designed policy. For instance, green skills training programs could grow human capital by retooling the workforce and enable other large-scale investments in environmentally-sustainable infrastructure. Environmentally-sustainable conditions tied to liquidity support are another such example, whereby companies receiving public funds could be required to commit to long-term sustainability goals or fossil fuel reduction goals as a condition of their funding. In this way, short-term support can promote investment in longer term technological advancements and can serve to guide national efforts to meet climate targets.

#### 4.2 Neutral investment in LAC (USD308.6bn, 91% of recovery spending)

Neutral spending covers most of both rescue and recovery spending in LAC. While these investments are not likely to significantly worsen environmental outcomes compared to a situation in which they are not implemented, the 'business as usual' situation is fundamentally unsustainable. Under a 'business as usual' pathway, economic growth is coupled to GHG emissions and environmental degradation. Hence, even neutral public expenditure consigns the world to a dangerous reality of worsening climate change with potentially catastrophic consequences.

Many neutral spending measures are certainly not negative in and of themselves. Indeed, progress to the Sustainable Development Goals relies on large-scale infrastructure investment. There is, however, significant opportunity to engrain Paris-aligned and environmentally-sustainable principles into these investments. For example, integrated procurement requirements that mandate sustainable material use for any infrastructure investment associated with public spending. This increased demand could help to accelerate innovation in nascent sustainable materials industries, ultimately leading to cheaper sustainable

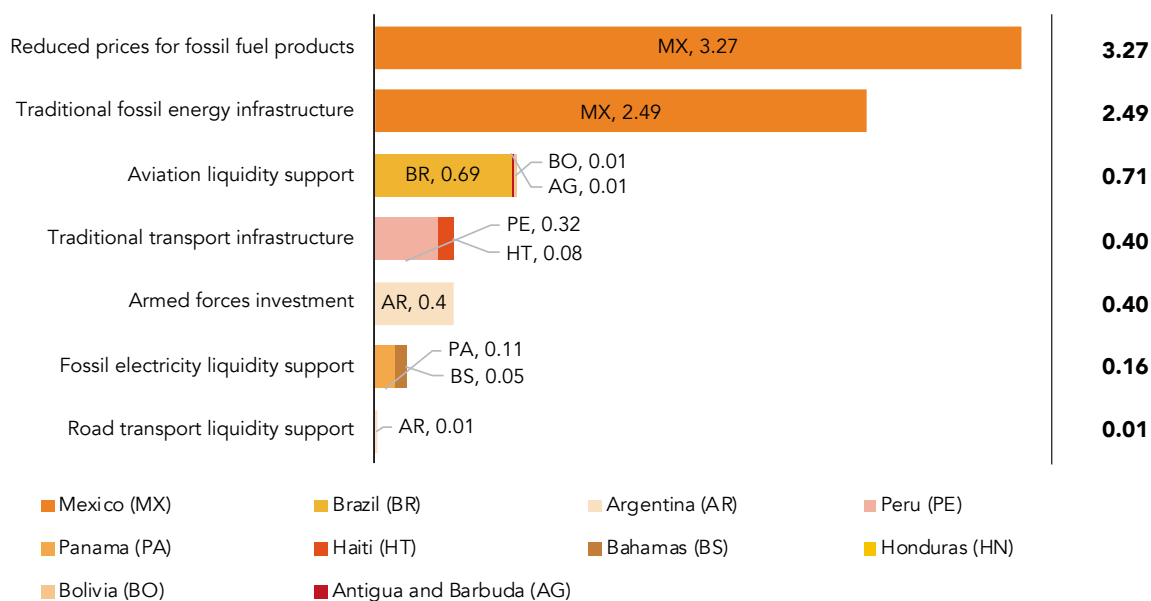


production and ensuring that the technologies can be competitive in private markets. Of course, if not carefully planned and implemented, such regulatory actions could displace existing production and put ‘traditional’ jobs at risk. As such, policymakers must consider each of these opportunities with justice at the core.

### 4.3 Environmentally-negative investment in LAC (USD7.4bn, 6% of recovery spending)

Environmentally-negative recovery spending has so far been more prominent in the region than environmentally-sustainable spending with USD4.2bn spent on negative rescue policies and USD3.3bn spent on negative recovery policies. 76% of environmentally-negative recovery spending (by value) went to environmentally-negative energy infrastructure, 12% to unsustainable port and airport infrastructure, 12% to defence and police spending,<sup>x</sup> and less than 1% to tourism infrastructure (figure 10). Unsustainable rescue spending has also been significant, and again dominated by the energy sector (83% of environmentally-negative rescue spending), aviation (17%), and other transport (0.2%).

Environmentally-negative investment continues the fiscally irresponsible status quo where economic growth is driven by fossil fuel emissions, negatively impacting the socio-economic and environmental landscape of countries in the region, and the world. A reliance on fossil intensive initiatives to foster growth risks perpetuating economic hardship through stranded assets – with additional consequences for public health and environmental stability.



**Figure 10. Environmentally-negative spending in LAC to May 2021 (rescue and recovery).** All figures in USDbn. Source: LAC Recovery Tracker and Global Recovery Observatory.

x. The carbon impact of defence and police spending is difficult to ascertain at the broad categorical level and care should be taken to interpret this statistic. Police services including correctional services can be carbon-intensive, however reducing crime can lead to lower carbon emissions (for example, burglaries require the carbon-intensive replacement of stolen/damaged goods and arson leads to the direct release of greenhouse gases).<sup>47,48</sup> The carbon impacts of spending on defence equipment are much clearer, and often more substantial. Modern defence forces are extremely pollutive.<sup>49</sup>

In fossil energy, Brazil resolved to reduce royalties for the exploration, development, and production of oil and natural gas, with unclear implications for the national balance sheet. Mexico directed almost MXN50bn to building coker units, ethane terminals, and fertilizer plants. Although without immediate fiscal implication, Nicaragua approved a new law to allow for the development of a gas power plant in Central Puerto Sandino.

In unsustainable transport, Mexico, Peru, and Haiti have all directed funds towards airport infrastructure, while Argentina and Peru have spent on new port infrastructure. Argentina has invested in new tourism infrastructure and security force infrastructure; both of which could act to increase net greenhouse gas emissions depending on the specific initiatives they are used for.<sup>47, 48</sup>

The Tracker also accounts USD4.1bn in unsustainable rescue-type investment measures. Of this, USD800m was directed to short-term liquidity support for fossil-heavy industries. The net impact of this spending on GHG emissions compared to a scenario without intervention may be relatively small in some cases since in a competitive market, *ceteris paribus* the bankruptcy of any one firm is likely to promptly induce its replacement by another similarly pollutive firm. Although not a significant boost to future GHG emissions, the spending does reflect a significant missed opportunity to introduce conditions for climate-friendly transition.

Liquidity injections to fossil-heavy transport industries included significant support of airlines and airports from Antigua and Barbuda, Bolivia, Brazil, Chile, Colombia, and Saint Vincent and the Grenadines, as well as Argentina's ARS500mn in support of road transport passenger companies. Liquidity support of energy operators included a line of credit from Argentina's Programa Nacional de Desarrollo de Proveedores, the Bahamas' support of Bahamas Power and Lights, and Panama's Tariff Stabilisation Fund for electricity distributors.

With negative net impact on greenhouse gas emissions, several LAC nations directed rescue-type spending to temporary tax and payment relief to reduce fuel prices. Notably, Peru issued liquid petroleum gas (LPG) discount vouchers, Trinidad and Tobago provided fuel support to taxi operators, and Mexico determined to absorb the impact of increased costs in oil production rather than passing them on to consumers through gasoline sales.

## 5. Policy recommendations for Latin America and the Caribbean

A growing body of evidence suggests that fiscal expenditures can create more economic value when directed to environmentally sound initiatives than business as usual initiatives.<sup>50, 51</sup> Given the need for economic revitalisation in LAC, governments should consider stimulatory fiscal policy to aid recovery aligned with environmental goals. In this context, sustainable investment is that which both supports climate and environmental goals, creating opportunities for workers, particularly the most vulnerable. In this way, investment can simultaneously boost the economy while generating environmental co-benefits, leaving no one behind. An investment approach which seeks to meet the priorities of a just transition could bring progress against several SDGs, including goals 5, 7, 8, 10, and 12.

As the COVID response is leading to an increase of the countries' debt (see section 1), climate-resilient and sustainable investments do not necessarily mean increased financial resources. Most sustainable investments are more cost-efficient, to dynamize the job market and to support higher returns on the long-term.<sup>52</sup> Governments should redirect current investment characterized as long-term economic recovery spending towards sustainable sectors.

This section describes high impact opportunities of integrating action on areas that can be accelerated as a quick response to the economic crisis. Policy options that promote these priority areas can yield substantial economic growth and millions of high-quality jobs, while advancing environmental goals and achieving social co-benefits in the short-term and beyond. In parallel countries should also consider other additional reforms such as the phase-out of fossil fuel subsidies, carbon taxation and developing climate finance taxonomies and enabling climate-related financial disclosures to better assess climate risks and align public and private finance to sustainability goals. Given the significant variation in the economic, social, legal, and political systems of LAC nations, the applicability of each policy area will vary between countries.

### i. The transition to sustainable energy

Moving to a fully renewable energy power matrix could create over 30 million additional jobs in the region by 2050.<sup>53</sup> This would also enhance energy security in the region and reduce inter-country energy dependence. At the same time, new labour markets could be supported through distributed solar generation and enhanced local PV industries. This could also lead to new businesses and increased domestic and regional competitiveness.<sup>52</sup>

With dropping prices for renewable energy and storage, the role of virtual power plants and other mechanisms for expanding the role of distributed energy resources should be carefully considered. In some select instances this may come in support of minigrid or microgrid developments.<sup>52</sup> Where possible, new job opportunities should be targeted to women and gender minorities, so as to foster a more inclusive and equitable energy sector.<sup>54</sup>



In energy efficiency, UNEP's assessments show that short-term savings of more than USD8bn by 2030 could come from large-scale interventions to promote greater energy efficiency in the region.<sup>52</sup> These interventions would also reduce the need for new power plants and improve the energy matrix of the region.

Both unconventional renewable energy and energy efficiency technologies support energy security, reducing dependence on third countries, while contributing to job creation and economic dynamization. Actions to promote these technologies could positively impact both aggregate demand and supply of regional economies to a greater extent than traditional environmentally-unsustainable infrastructure.

## ii. The shift to a zero-emissions transport

The region has a growing carbon footprint in its transport sector, and a comparable emissions footprint from the power generation sector; together these sectors were responsible for 25% of GHG emissions in 2019. Following current trends, emissions from both sectors are expected to double by 2050. This will drag the region further from the 1.5°C pathway. The transformational change which is needed to meet the Paris Agreement's goals by mid-century could be supported by coupling the power and transport sectors.<sup>53</sup>

Transport is responsible for about half of the pollution in the region's cities; 100% electrification of transport in LAC by 2050 could result in USD30bn in avoided annual health costs and avoid more than 435,000 premature deaths in Buenos Aires, Santiago, San José, Mexico City and Cali alone.<sup>53</sup> It could also create about 5.3 million jobs in Latin America and the Caribbean, which, with good public policy, could be distributed to create new opportunities for women in the region.<sup>52</sup> This transition could revamp regional vehicle production and foster new value chains in the automotive sector, such as cobalt, or lithium in the "Lithium Triangle" (Argentina, Bolivia, Peru, and Chile). Furthermore, the development of electrical infrastructure and charging systems also has the potential to create jobs and promote new businesses. Mass public transport, state, and business fleets, as well as light-duty cargo transport, are low-hanging fruit in the region. A focus on public transport could provide direct economic, environmental, and social benefits. Accelerated investment could create positive signals to the industries associated with this market (automotive, responsible mining and energy), creating high-value jobs, added-value production, and foreign direct investment.



"Lithium Triangle" (Argentina, Bolivia, Peru, and Chile). Credit: Xura Ragozina.

Moreover, investment in adaptation infrastructure such as weather-proof roads should be considered, in part for their potential immediate positive effects on employment from construction related jobs. The redirection of annual fuel subsidies could create space for investments in sustainable energy and zero-emission transport to move the region towards a low carbon recovery.<sup>55, 56</sup>

### iii. Nature-based Solutions for ecosystem restoration, sustainable agricultural production, and climate adaptation

Investments are highly attractive in protected land and ocean parks, agroforestry, mangrove restoration, peatland restoration, reforestation, vertical aquaculture, and wetland restoration, sustainable food production, among other initiatives.

The process of enhancing natural capital requires careful planning, consideration of complex biodiversity needs, partnership with local communities and particularly vulnerable groups, and where appropriate, incorporation of socio-environmental safeguards to maximize social sustainable benefits.<sup>39, 57, 58, 59, 60</sup> If this can be done effectively, investment in natural capital through Nature-based Solutions (NbS) can deliver jobs quickly and often more cheaply than investment in alternative stimulus options like road investment or investment in resource-extractive industries.<sup>61, 62</sup>

#### Nature-based Solutions for the agricultural sector

The agricultural sector in LAC contributes 14% of total employment, 54.6% of rural employment, and 4.6% of regional GDP.<sup>63</sup> Smallholder farms play a central role in food production and delivering economic product across the continent; in some countries they account for more than 60 per cent of agricultural outputs.<sup>64</sup> Yet, food security is under an ever-growing threat due to climate change and competing ecosystem services; current practices of food production are resource inefficient, bringing significant health and environmental costs.



Investment in natural capital through Nature-based Solutions (NbS) can deliver jobs quickly and often more cheaply than investment in alternative stimulus options like road investment or investment in resource-extractive industries. Credit: CityAdapt UNEP.

NbS could shift smallholder production methods towards resilient agriculture with diversified products in agroecological systems, improved management of water, soil, and nutrients. These measures are also key to improve food security in rural, peri-urban, and urban areas. In this way, there is potential to use the COVID-19 recovery as an economic opportunity to invest in more resilient agricultural and food systems, with significant long-term benefits. Policy opportunities include investment in sustainable and solar-powered irrigation systems, development of sustainable farming training programs, both of which prioritise agricultural efficiency and appropriate use of farming products (including pesticides and chemicals). Improving technology access and digitalisation of the sector could also improve efficiency.

### NbS to adapt cities and more to climate

Over 80% of the region's population lives in urban centres, yet poor planning and rapid urbanization of cities significantly impact well-being and quality of life.<sup>53</sup> Climate change is creating significant threats to city dwellers, requiring robust adaptation measures with the potential to create jobs and grow the economy. For instance, the installation of sustainable urban drainage systems in cities could deliver cost savings of up to 85% compared to traditional drainage.<sup>65</sup> These can complement grey infrastructure with the creation of artificial wetlands for water and wastewater treatment, and can be implemented in urban, peri-urban and rural areas, enhancing connectivity between cities and habitats. Examples include nature trails, urban landscaping, and ecological restoration of wetlands. These policies can also be a starting point for creating cities that are more inclusive and responsive to the needs of women, gender minorities, people with disabilities, and other traditionally under-engaged stakeholders.

Conversely, climate-proofing infrastructure and new climate-resilient infrastructure could make sound economic sense, with benefits perhaps outweighing costs by 4 to 1. Investments in environmentally-sustainable infrastructure to build resilience range from storm-water drainage to protecting coastal communities against sea level rise.<sup>66</sup> Delaying these investments across the continent could cost well over USD16bn a year in infrastructure damage and loss of economic activity alone.<sup>67</sup>

## 6. Conclusion

The COVID-19 pandemic has exposed the shared vulnerability that stems from global interconnectedness. Without positive intervention, the economic crisis is likely to hinder sustainable development and efforts to meet the Paris Agreement goals in LAC. However, limited fiscal space and high interest rates on new debt make additional public investment difficult. To avoid further backsliding on the Paris Agreement goals and the 2030 Agenda, and to improve the region's long-term development trajectory, international partners need to generously assist with financial support. To maximise the impact of spending on improving prosperity, LAC countries and their partners should prioritise sustainable investment options that are proven to simultaneously deliver high economic returns, social benefits and environmental progress.

Fiscal stimulus spending that is oriented to the short term will be insufficient to offset the multi-layered consequences of the crisis. The region will require innovative and sustained interventions to deliver reductions in inequalities and ensure just economic prosperity. High priority public investment areas include renewable energy and supporting systems, sustainable agriculture, natural capital, and sustainable transport.

Most countries in Latin America and the Caribbean have not yet invested significantly in recovery spending, and the little recovery spending that has come so far has failed to prioritise environmentally-sustainable investment priorities. Environmentally-sustainable recovery initiatives have been observed in Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Panama, Honduras, Peru, Jamaica, Suriname, and Dominican Republic. Even in these nations, environmentally-sustainable spending remains a small portion of total recovery spending and significant opportunities have been missed. Several nations have directed public money to environmentally-negative initiatives at significant cost to the environment and public health, and with potential negative long-term economic implications. In this category are Antigua and Barbuda, Argentina, the Bahamas, Bolivia, Brazil, Chile, Colombia, Haiti, Honduras, Mexico, Nicaragua, Panama, Peru, Saint Vincent and the Grenadines, and Trinidad and Tobago amongst others.



High priority public investment areas include renewable energy and supporting systems, sustainable agriculture, natural capital, and sustainable transport. Credit: Movés Project, Uruguay.



Financial resources needed to support sustainable, and just socio-economic and environmental recovery will need to come from a variety of sources. Development banks, foreign countries, and domestic creditors must all step up with generous programs to support debt relief and deliver aid oriented to the long-term. Passage of a USD650bn special drawing rights (SDR) announcement from the IMF would unlock USD51.5bn in new capital for LAC (7.9% of the total SDR allocation). This number could be even higher if high-income nations, which are set to receive ~USD400bn, donate or lend a portion of their allocations.

However, countries in the region cannot expect this kind of support without strongly shifting away from spending on environmentally-negative fossil fuel investments. Through strategic investments in environmentally-sustainable policy areas with high economic multiplier potential and longer-term social objectives, nations can protect their populations from the worst impacts of both the COVID-19 economic crisis and the climate crisis. As LAC governments ready themselves to rebuild, now is the time to prioritize inclusion, equity, and resilience towards future disasters that can help the region build back better, and thus advance progress against the Sustainable Development Goals.

The region of LAC will continue to grapple with the effects of the pandemic for perhaps a decade to come. Some impacts have brought temporary economic distortions, while others could very much reduce long-term prosperity. Provided international support, LAC should seize the current opportunity to implement reforms to build towards a more environmentally-sustainable, resilient, and inclusive tomorrow.



LAC should seize the current opportunity to implement reforms to build towards a more environmentally-sustainable, resilient, and inclusive tomorrow. Credit: Kyiv Photos

# Appendix A. COVID-19 fiscal spending by country in LAC

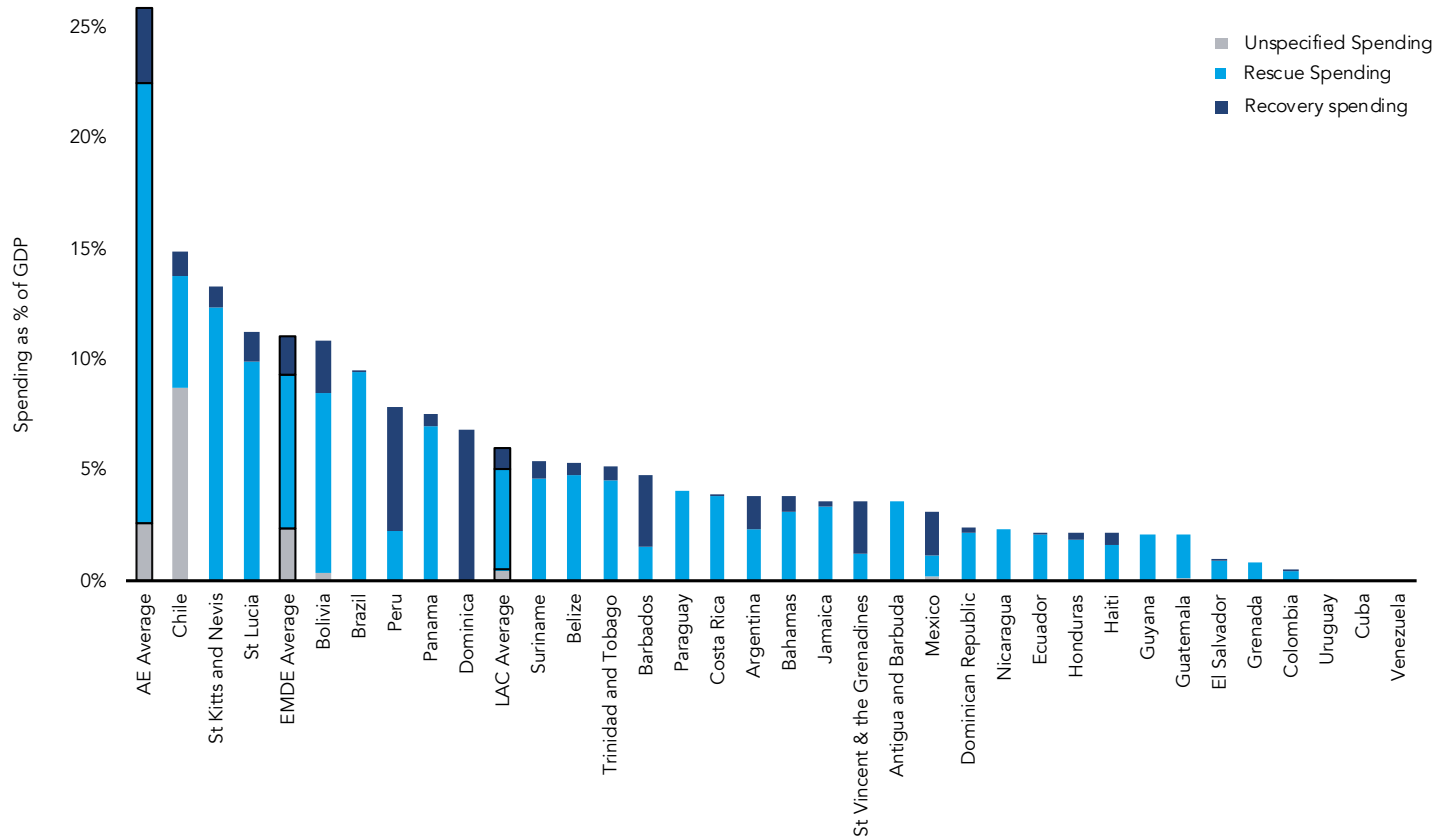


Figure A1. Regional fiscal spending to May 2021 in all LAC nations (by GDP).

Data from LAC Recovery Tracker and Global Recovery Observatory. AE: Advanced Economies, includes largest 24 relevant nations as defined by IMF and excludes the European Commission; EMDE: Emerging Markets & Developing Economies, includes largest 65 nations; and LAC: Latin American and the Caribbean. Averages are weighted by 2019 GDP.

# Appendix B. The LAC Recovery Tracker and the Global Recovery Observatory

The *LAC Recovery Tracker* is a database and visualisation tool designed to bring greater transparency to government spending practices in response to COVID-19. The Tracker provides a subset of *Global Recovery Observatory data*.

The *Global Recovery Observatory* is run and managed by the University of Oxford Economy Recovery Project (OUERP). It tracks spending and assesses policies for potential social, environmental, and economic impacts. The initiative includes 89 countries and over 5,500 policy items as of May 2021. The project is supported by the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP), the United Nations Partnership for Action on Green Economy (UNPAGE), and the Green Fiscal Policy Network (GFPN). The GFPN includes UNEP, the International Monetary Fund (IMF), and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

In both the *Global Recovery Observatory* and the *LAC Recovery Tracker*, an environmentally-sustainable spending policy is one that is likely to reduce GHG emissions, reduce air pollution, and/or strengthen natural capital, compared to a scenario in which the policy was not implemented. Policies are assessed for environmental sustainability through application of an archetype-based methodology. In this case, policies are categorized into one of 40 archetypes and one of 158 sub-archetypes. The policies then take on the potential environmental impact scores of the relevant sub-archetype. Environmental impact scores for each sub-archetype were derived through literature review, interpretation of a 2020 survey of leading economists and policy makers,<sup>36</sup> and robust direct input of leading experts. See a detailed explanation of this methodology in *Global Recovery Observatory Draft Methodology Document* available at: <https://recovery.smithschool.ox.ac.uk/global-recovery-observatory-draft-methodology-document/>

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