A Green Recovery for Latin America and the Caribbean

Minimising the long-term economic impacts of COVID-19 by investing in green solutions

Oxford University Economic Recovery Project, Smith School of Enterprise and the Environment

in partnership with the United Nations Environment Programme´s Latin America and the Caribbean Office

Brian O'Callaghan, Em Murdock, and Maria De Las Mercedes Garcia Farina | 1st of February 2021

Contact: brian.ocallaghan@smithschool.ox.ac.uk

Executive Summary

Following COVID-19, nations in Latin America and the Caribbean risk missing a once in a generation opportunity to reorient their economies for future growth, pull millions of people out of poverty, and simultaneously make progress against climate change and other environmental goals. Without a strong focus on a sustainable economic recovery, Latin America and the Caribbean risks moving backwards in the years following the pandemic.

This report constitutes preliminary results of a broader analysis of the economic responses to the COVID-19 crisis in the Latin American and Caribbean region, and how the investments allocated can serve to recover economies while meeting climate change goals.

Governments in the region must prioritise green and climate-oriented 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 devastations 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.

This preliminary analysis of twelve Latin American and Caribbean countries shows that the region has made only small investments to economic recovery so far (USD51bn, which is 17.5% of total COVID-19 related spending), as in figure 1, and almost no investments that meet climate-oriented recovery criteria (0.3%). The region will need to shift focus to sustainable investment priorities to ensure a future that is economically, socially, and environmentally prosperous. High impact opportunities for the region are numerous and range from clean energy to natural capital solutions; a targeted list is included in Table 1. Investments in these areas can simultaneously create jobs quickly, reduce greenhouse gas emissions, and address several other social and environmental issues.

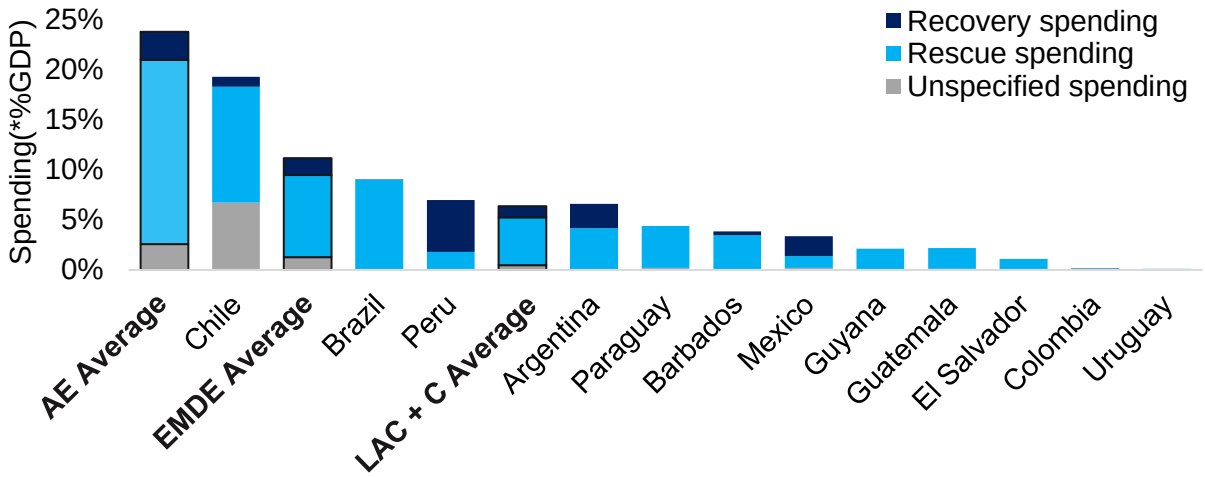

Figure 1. Regional fiscal spending in 2020. Data from Global Recovery Observatory. AE: Advanced Economies, includes largest 24 relevant nations as defined by IMF and excludes the European Commission; EMDE: Emerging Markets & Developing Economies, includes largest 21 relevant nations; and LAC + C: Latin American Countries and the Caribbean, includes only the 12 nations in the figure.

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

The World Bank has characterised Latin America and the Caribbean as the region hardest hit by COVID-19,[1] with an estimated GDP contraction of 8.1% in 2020.[2] Countries in the region lacked the strong healthcare infrastructure needed to manage outbreaks, leaving rural communities particularly badly affected.[3] In some countries, the unemployment rate has doubled in the past year,[4] though the high prevalence of work in the informal economy implies that these figures are likely an underestimate.

Latin American and Caribbean nations tend to lack economic diversification, being highly dependent on just a few sectors.[5] This has contributed to accentuated economic hardship, for instance in major oil-producing nations including Mexico and Brazil and in small tourism-dependent nations like most of the Caribbean countries.[6] These economic difficulties fall against the backdrop of a second longer-duration crisis: climate change. Though some nations in the region, like Uruguay and Paraguay are world leaders in renewable energy penetration, most economies continue to depend on fossil fuels for energy generation.[7] For all countries in the region, large portions of their economic product is tied to natural resources, especially through agriculture, forests, and tourism.[8] These resources are jeopardized by extreme weather events of increasing frequency and severity under climate change,[9] and by the widespread loss of biodiversity in the region.[10]

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. The mobilization of vast public resources represents a unique occasion to boost economic output and seed employment opportunities, while setting a prosperous economic development path for the next decade. In short, governments of Latin America and the Caribbean can use recovery efforts to guide sustainable development that boosts economic output, creates employment opportunities, 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,[11] have concluded that spending on recovery policies that prioritise the environment and sustainability can be a highly effective way to revitalise economies. However, driven by high existing debt burdens and the prohibitively expensive cost of new debt, many Latin American and the Caribbean countries have been forced into 'austerity'.[12] **The gap between necessary spending and actual spending highlights the strong need for foreign aid and debt relief for countries in the region.**

2. Green recovery investment in the region is severely lacking

Following COVID-19, a growing body of evidence suggests that large fiscal expenditures will be required to stimulate economic growth in Latin America and the Caribbean and globally, and that this spending must be directed to sustainable investment measures to secure a prosperous future. The *Global Recovery Observatory* from the Oxford University Economic Recovery Project (OUERP) and the Green Fiscal Policy Network shows that countries in Latin America and the Caribbean are lagging the rest of the world (figure 2) when it comes to both short-term rescue spending, aimed at saving individuals and businesses, and longer-term

recovery spending, intended to revive the economy. The 12 tracked LAC countries announced USD292bn (6.4% GDP) in total spending in 2020, of which USD219bn (4.8% GDP) is rescue-type and USD51bn (1.1% GDP) is recovery type, and the remaining portion is indiscriminate spending. In fact, only five out of twelve Latin American and Caribbean nations in the Observatory have announced more than 0.05% of GDP in recovery expenditure (figure 4). Peru has earmarked recovery spending to total 5.2% of GDP, Argentina 2.4%. Mexico 2.0%, Chile 1.0%, and Barbados 0.4%. Additional LAC countries in the study have certainly announced recovery-type policies, however these nations have not yet publicly allocated funding to support these endeavours. By comparison, non-LAC Emerging and Developing Economies (EMDEs) tracked in the Observatory announced USD2230bn (8.2% GDP) in rescue, USD458bn (1.7% GDP) in recovery and a total of USD3035bn (11.2% GDP) in COVID-related measures including indiscriminate spending.

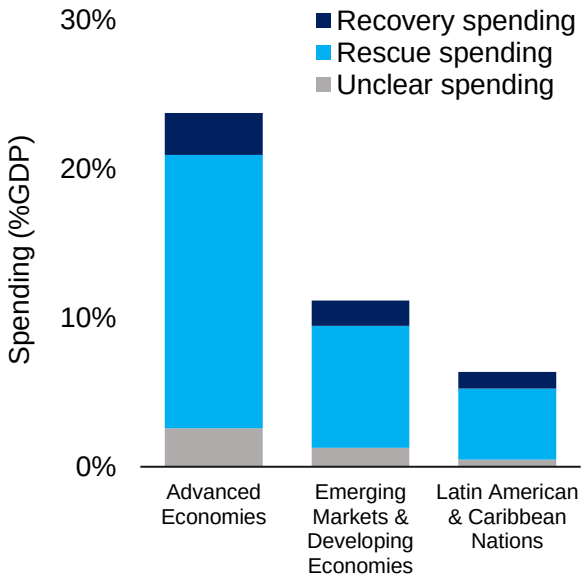

Figure 2. The Global Recovery Observatory indicates low total spending and low recovery spending in Latin American and Caribbean Nations compared to other EMDEs.

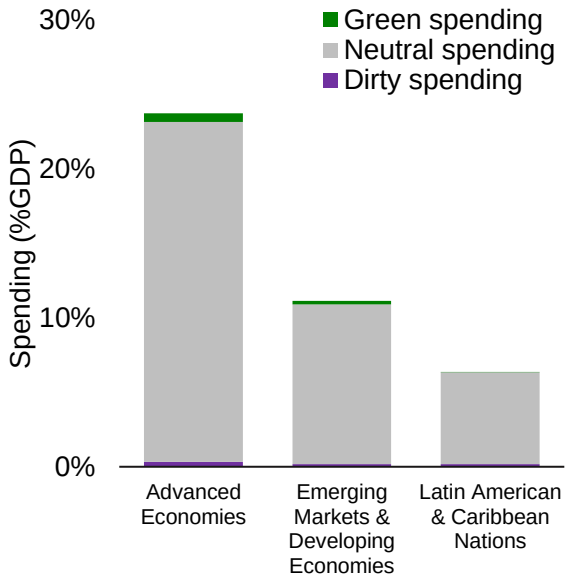

Figure 3. In 2020 spending around the world was overwhelmingly 'neutral' according to the Global Recovery Observatory. Note that 'neutral' includes unclear spending.

Vitally, in the region, green recovery spending has been almost zero (0.3% of total spending has been green). On net, all twelve assessed nations have a neutral or negative score on the sustainability of their 2020 COVID-19 fiscal spending practices (figure 5). In total, the 12 tracked LAC countries have announced green spending worth USD0.75bn (0.02% GDP), in comparison to USD63.8bn (0.23% GDP) for non-LAC EMDEs.

Nevertheless, we have seen some examples of green policies in the twelve analysed countries that may serve as a model for other countries in the region (figure 6). Notable green policies in the energy sector include financing for the Campo Largo and the Ventos de Santa Martina wind farms in Brazil, loans for renewable energy investment projects in Chile, and incorporation of renewable energy into the fishing industry in Argentina. In construction, Brazil has contributed to a Guarantee Fund to incentivise energy efficiency projects. In

agriculture and fisheries, Peru has dedicated funding to a new wood processing and agricultural plant, as well as a fishing landing in Arequipa and maintenance of canals in Chincha. In terms of green liquidity support, Barbados has instigated the Barbados Employment and Sustainable Transformation (BEST) to support the tourism sector, while Brazil has provided some level of support to transport networks.

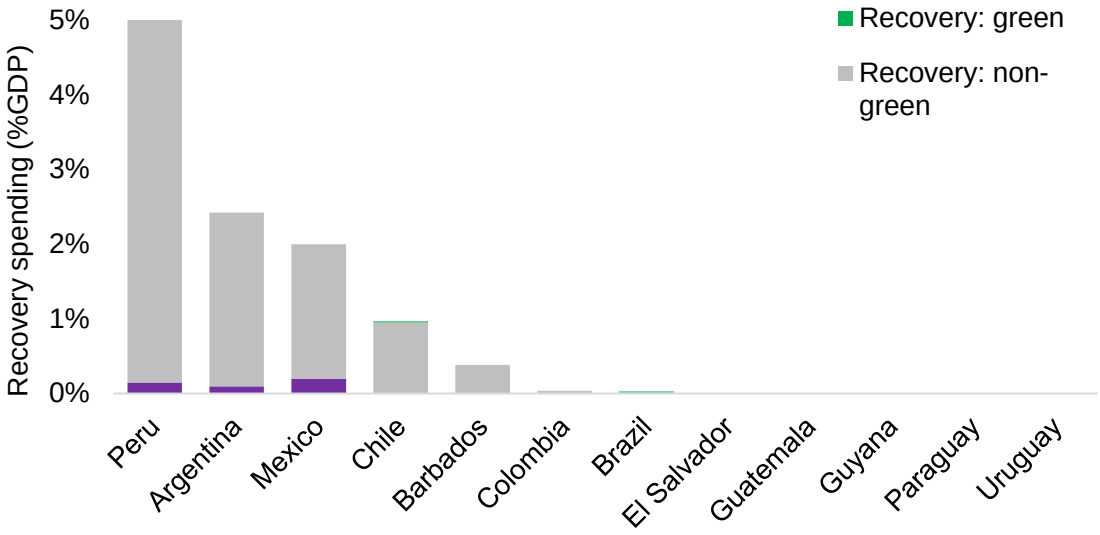

Figure 4: Green, neutral, and dirty recovery spending announced by Latin American countries in 2020. Data from Global Recovery Observatory.

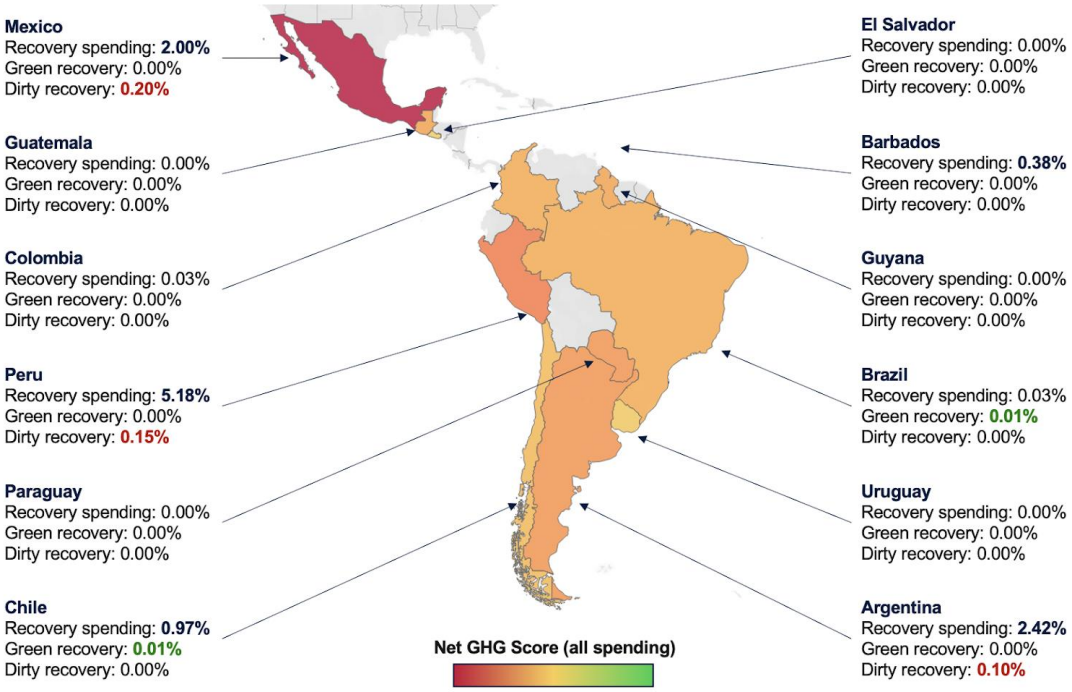

Figure 5: Comparative greenhouse gas (GHG) impacts of spending across the region. All studied nations are either neutral (orange) or dirty (red) when both rescue and recovery spending is considered. Data from Global Recovery Observatory.

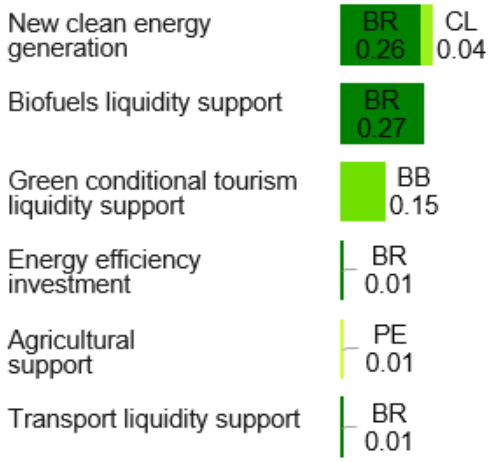

Figure 6: Green spending by 12 Latin American countries in 2020 (rescue and recovery). Data from Global Recovery Observatory. BR: Barbados; BR: Brazil; CL: Chile; PE: Peru. Not scaled to fig 4.

Despite positive signs in climate-oriented spending, dirty spending has so far been more prominent in the region, largely driven by Mexican investments in fossil fuel energy production (figure 7). Dirty investment continues the unsustainable and fiscally irresponsible status quo where economic growth is driven by fossil fuel emissions.

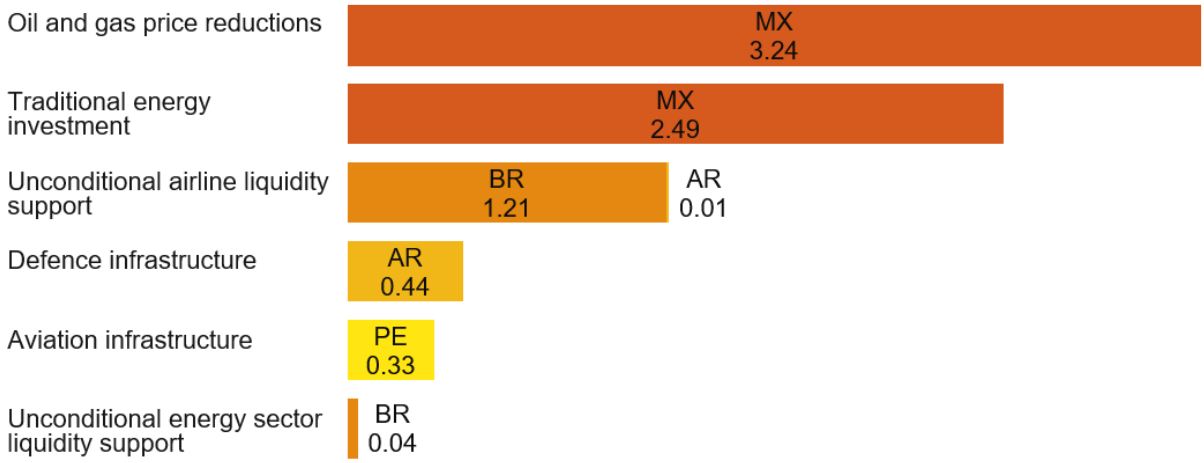

Figure 7: Dirty spending by 12 Latin American countries in 2020 (rescue and recovery). Data from Global Recovery Observatory. AR: Argentina; BR: Brazil; MX: Mexico; PE: Peru. Not scaled to fig 3.

3. Policy recommendations for Latin America

Several policy investment areas have the potential to boost the economy while simultaneously generating significant environmental and social co-benefits. Of course, the strengths and applicability of each policy area varies between countries.

Table 1: Policy recommendations, benefits, and applications for Latin American & Caribbean nations.

Policy area	Possible benefits alongside economic & climate strength	Use case applications
Clean energy investment 	• Reduce vulnerability to volatile fossil fuel prices • High economic multiplier • Improves energy security • Key enabler of CO2 reduction in other sectors	• Countries with lower renewable energy penetration
Electric vehicle incentives 	• Air pollution benefits • Productivity improvements (reduced congestion) • Strong job creation • Manufacturing opportunities	• Countries with existing car manufacturing capacity • Countries with congested urban centres
Energy efficiency retrofits 	• Quick implementation • High economic multiplier • Reduces energy expenditure for consumers	• Extreme climates • Particularly useful in more developed urban centres
Natural capital & afforestation 	• Reduces air pollution • Strengthens tourism & disaster resilience • Provides employment for lower-skilled workers	• Tourism-reliant countries • Countries with recent large-scale deforestation • Countries with high climate disaster risk (all LAC)
Sustainable agriculture 	• Address growing source of GHG emissions • Improve food security • Reduce likelihood of future disease outbreaks	• Agriculture-heavy economies
Transmission infrastructure 	• Facilitate expansion of renewables • Improve energy access and reliability	• Countries where renewables are growing
Walking & cycling infrastructure 	• Physical health and safety co-benefits • Tourism co-benefits	• Tourism reliant countries • Countries without vehicle manufacturing capacity

4. Conclusion

Latin American nations can safeguard their economic futures by investing in green recovery policies. This could stimulate economic growth in the wake of the COVID-19 crisis while building progress against Paris climate objectives.

However, countries in Latin America have not yet taken advantage of this unprecedented opportunity. With high debt and high interest rates, most nations in the region lack the ability to invest heavily in economic recovery. International partners must step up with generous programs to support debt relief and deliver foreign aid oriented to the long-term. However, countries in the region cannot expect this kind of support without strongly shifting away from spending on dirty fossil fuel investments. Through strategic investments in green policy areas with high economic multiplier potential, nations can protect their populations from the worst of both the COVID-19 economic crisis and the climate crisis.

Endnotes

[1] https://www.worldbank.org/en/region/lac/overview
[2] https://www.imf.org/en/Publications/WEO/weo-database/2020/October
[3] https://www.worldbank.org/en/news/press-release/2020/06/16/latin-america-caribbean-health-emergency-covid-19
[4] https://www.imf.org/en/Publications/WEO/weo-database/2020/October
[5] https://www.worldbank.org/en/region/lac/overview
[6] https://www.worldbank.org/en/region/lac/overview
[7] https://irena.org/lac
[8] https://repositorio.cepal.org/bitstream/handle/11362/43965/131/S1800836_en.pdf
[9] https://www.nature.org/en-us/what-we-do/our-insights/perspectives/latin-america-natural-resources-climate-change/
[10] https://www.cbd.int/gbo/gbo4/outlook-grulac-en.pdf
[11] https://academic.oup.com/oxrep/article/36/Supplement_1/S359/5832003
[12] 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.

ABOUT THE AUTHORS

Brian O'Callaghan is Lead Researcher and Project Manager of the Oxford University Economic Recovery Project. He has advised governments and business groups on issues relating to the energy and climate transitions on six continents and works closely with major multilateral institutions including the UNEP and UNDP. He is a Rhodes Scholar and Consultant at the Robertson Foundation, covering topics in Energy and the Environment.

Brian is currently on a leave of absence from Boston Consulting Group (BCG). Before BCG Brian was a Junior Fellow for the Australian Centre for Innovation and International Competitiveness. Brian holds degrees in Engineering (First Class Honours with the University Medal) and Commerce (Finance and International Business) from the University of Sydney.
Contact: brian.ocallaghan@smithschool.ox.ac.uk

Em Murdock is a Research Assistant for the Smith School of Enterprise and the Environment.

Maria De Las Mercedes Garcia Farina is…

ABOUT THE OXFORD UNIVERSITY ECONOMIC RECOVERY PROJECT

OUERP is the world's hub for developing and communicating long-term economic perspectives on recessionary fiscal spending. The project develops leading original research, as well as core advisory services to governments and multilaterals, businesses, and non-profit institutions. Core initiatives include tracking of global COVID-19 government recovery spending, assessment of spending effectiveness, and development of core perspectives on how to incorporate long-term economic, social, and environmental objectives into immediate stimulus action.

The project is generously supported by the Children's Investment Fund Foundation, ClimateWorks Foundation, Green Fiscal Policy Network (United Nations Environment Program, International Monetary Fund, and GIZ), and University of Oxford Social Sciences Division.

The OUERP is housed within the Smith School of Enterprise and the Environment (SSEE). The SSEE was established with a benefaction by the Smith family in 2008 to tackle major environmental challenges by bringing public and private enterprise together with the University of Oxford's world-leading teaching and research.

For more information on OURP please visit https://recovery.smithschool.ox.ac.uk/, and for more information on SSEE please visit: http://www.smithschool.ox.ac.uk