

# **Final Report**

**PROJECT "South South cooperation opportunities towards green  
fiscal policies: Emerging evidence and lessons learned from South  
America and developed countries" (Ref: INT/19/K13)**

**[April 2019 to July 2021]**



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# I. Background

From a long-term perspective, what has happened in the last two or three centuries is unprecedented. The product of collective effort, estimated by per capita Gross Domestic Product (GDP), has increased tenfold in the last quarter of the last millennium (Maddison, 2007<sup>1</sup>). The number of inhabitants did not fall, but quite the opposite: it increased sevenfold. If we look beyond GDP and population dynamics, the change was unheard of too. While life expectancy in the mid-nineteenth century was 26 years old, today it is close to 70. Only 6 out of 10 children lived beyond the age of 5; while 19 out of 20 do today. And there is more: not only do we live better and longer, but increased energy has also made us about 8 centimeters taller on average.

But this progress in well-being came up with costs. Since 1800, human activity is affecting global chemical, biological and climatic processes in such a way that some scientists, such as chemist Paul J. Crutzen, suggest calling this period the "Anthropocene", distinguishing it from the Holocene, which began some 11.700 years ago (Crutzen, 2002<sup>2</sup>). In the Anthropocene, human-induced changes in the environment have been considerable, and to a large extent irreversible. The most immediate is related to the transformation of energy: the burning of fossils and the change in the use of land released carbon dioxide (CO<sub>2</sub>) into the atmosphere, which is behind global warming. Thus, growing economies act as global heaters. A second change is related to the massive use of natural resources for fueling social progress, depleting non-renewable resources and destabilizing ecosystems in a way not seen in the past.

South American countries are part and parcel of these human-induced changes in the environment. First, they accelerated economic growth and social progress during the last decade and a half, increasing their contribution to global warming and the accumulation of natural liabilities for future generations. Second, they participate in the global production process by moving frontiers and providing natural resources as inputs for other countries in Asia, Europe or North America. By exploiting their comparative advantage, they are both heating the economy (in the case of agriculture) and decapitalizing future generations (by depleting non-renewable resources and altering ecosystems).

It is key to understand that these costs associated to climate change, depletion of non-renewable capital and destabilization of ecosystems' equilibria are not fully reflected in market prices. Many of these belong to a category of market failure called externality, which means that there are unaccounted consequences for others – including future people – of decisions made by each one of us. In this context, ecological scarcity and climate change are not reflected in markets prices; nature is underpriced. As Edward Barbier (2011) puts it, "We are using natural capital because it is valuable; the reason we are losing natural capital is it is

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<sup>1</sup> Maddison, A. (2007), *Contours of the World Economy, 1–2030 AD: Essays in Macro- Economic History*. Oxford: Oxford University Press.

<sup>2</sup> Crutzen, P. (2002), "Geology of Mankind". *Nature* 415, vol. 23.

free.”<sup>3</sup> Thus, nature under-pricing is an issue of public policy –both at global and national scales.

Globally, the agreement signed in December 2015 within the United Nations Framework Convention on Climate Change (UNFCCC) deals with greenhouse gases emissions mitigation, adaptation and finance (known as the Paris Agreement). It establishes “nationally determined contributions” (NDCs) to the achievement of the global goal but leaves to each country the strategy to meet these NDCs. This is where national policies enter into the picture.

There is an emerging awareness in several Latin American governments to combat climate change effects with different policy options, but development strategies are still strongly influenced by the previous path and traditional economy’s groups of interest remain strong. In Latin American initial efforts in this sense have been promoted from the Economic Commission for Latin America and the Caribbean (ECLAC)<sup>4</sup> under their program EUROCLIMA, in partnership with the European Union<sup>5</sup>. Red Sur/MercoNet members contributed to this process with initial analysis on possible green fiscal policy tools for dealing with the depletion of natural assets and the generation of natural liabilities in the region.

In this context, it is valid to ask if South American countries are moving towards a greener development strategy. More specifically, how is fiscal policy dealing with nature under-pricing in South America? Answering these questions and identifying emerging policy lessons learned that could inform South South cooperation on green fiscal policies and climate change within the region or with other developing countries is the main goal of this project.

## II. Activities and products

The project evaluated to what extent South American countries are implementing fiscal policy tools for dealing with the depletion of natural assets and the generation of natural liabilities (what we call green fiscal policy) to develop recommendations and identify best practices, lessons learned and opportunities on green fiscal policies and climate change that can be relevant for other developing countries.

This project supported the production of case studies and a regional overview; these findings were discussed with policy makers and experts from other regions as a parallel activity of the

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<sup>3</sup> Barbier, E.B. (2011), Capitalizing on Nature. Ecosystems as Natural Assets. Cambridge University Press, Cambridge and New York.

<sup>4</sup> For more information see ECLAC’s synthesis paper at:

[https://www.cepal.org/sites/default/files/news/files/sintesis\\_pp\\_cc\\_cambio\\_climatico\\_y\\_la\\_economia\\_politica.pdf](https://www.cepal.org/sites/default/files/news/files/sintesis_pp_cc_cambio_climatico_y_la_economia_politica.pdf)

<sup>5</sup> See: <https://www.cepal.org/es/euroclima>

II United Nations' high-level conference on South-South cooperation that took place in Buenos Aires in 2019, on the occasion of the fortieth anniversary of the adoption of the Buenos Aires Plan of Action (BAPA) for Promoting and Implementing Technical Cooperation among Developing Countries.

The Buenos Aires Plan of Action represented a major milestone in the evolution of technical cooperation among developing countries (TCDC) as it provided the conceptual underpinning as well as a practical guide for realizing the objectives of TCDC. South South cooperation has been transformed since its adoption in 1978 and BAPA+40 was an opportunity to agree on a new multilateral framework, as well as to understand the state of the art of South South cooperation under the Sustainable Development Goals (SDGs).

**This project enabled:**

- An initial analysis of policy alternatives for green tax reforms.
- Better understanding of the most relevant policies that influence the size and speed of natural capital depletion in Latin America, recommendations and lessons learned identified for eventual reforms or effective economic instruments to make natural decapitalization sustainable.
- Improved knowledge of the most relevant policies that influence the achievement or not of the objectives established in the Nationally Determined Contributions (NDC), recommendations and lessons learned for reform or effective economic instruments to combat climate change and its impact on competitiveness.
- A set of policy proposals to better connect tax and competitiveness policy design with environmental international commitments and standards.
- A basis for an informal network of a set of LAC countries with clear will and commitment to advance NDCs agreed under the Paris Agreement, relatively small or mid-size, with an interest to engage in a multi-country broader initiative to advance this agenda and their peer-learning and support.

**Research products:** As a result of the project **three working papers, one concept note** and one **OpEd** were produced. The first working paper focused on Sustainable development and environmental taxes in Latin America and the second one on proposals for Environmental Fiscal Reforms in Latin America.

- **Working Paper N° 1/2020, Red Sur:** [Desarrollo sostenible y fiscalidad ambiental en América Latina](#)
- **Working Paper N° 2/2020, Red Sur:** [Propuestas para reformas fiscales ambientales en América Latina](#)
- **Working Paper N° 3/2020, Cinve/Red Sur:** [Cambio climático y la transformación estructural: una agenda de desarrollo para América Latina en el siglo XXI](#).

- **Concept Note:** “[La política Fiscal ambiental en el contexto del cambio climático y el COVID-19](#)” (Environmental fiscal policy in the context of climate change and COVID-19).

**Dissemination:** During the research implementation and in-preparation of both working papers Red Sur participated at the Second High-level United Nations Conference on South-South Cooperation (BAPA+40) which welcomed over 3,800 participants. During the Conference, Red Sur Coordinator carried informal bilateral dialogues with

South-South cooperation representatives from different countries on the content of the papers. The result of these exchanges and other exchanges carried out by the lead-researchers Luis Miguel Galindo, UNAM Economy professor, and Fernando Lorenzo, Red Sur President, was the interest of small and medium size developing countries in LAC to exchange and learn from other experiences how to build stronger strategies to achieve the Paris Agreement commitments with the existing policy space in taxes, trade and competitiveness.

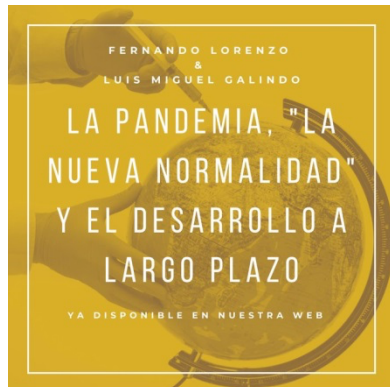
Two of the Working Papers were launched during the webinar “Economic recovery and the challenges of climate fiscal policy in the region” (Recuperación económica y desafíos de la política fiscal climática en la región), held on June 23, 2020, co-organized by Espacio Público, Red Sur and the International Development Research Centre (IDRC of Canada), jointly with AméricaEconomía.

The webinar had more than **330 participants** from governments, civil society, international organizations and the private sector from 17 LAC countries, 6 European and Asian countries (Austria, Belgium, Germany, Portugal, Spain, Uzbekistan), Canada and the U.S. and an extensive dissemination by all co-organisers online<sup>6</sup>. Project’s lead researchers, presented the Working Papers produced under this project analysed under COVID-19 scenario. This first webinar was moderated by Andrés Musalem, Director of AméricaEconomía Intelligence, with



<sup>6</sup> During the day of the webinar launching the papers, 6 tweets were published, which had a total of 38,308 impressions and 832 interactions in Espacio Público account, and Red Sur's tweets impressions related to the webinar and to this project's results reached 6,435. In IDRC site (co-founder of this project) when the last post was published during the webinar's day, the website registered 8,351 visits with 2,664 visitors.

the participation of José Luis Samaniego, ECLAC Director of the Sustainable Development and Human Settlements Division; and Jeannette von Wolfersdorff, Director of Espacio Público and Executive Director at Observatorio Fiscal.



During the last week of July 2020, the project's lead researchers, published the OpEd "La pandemia, la 'nueva normalidad' y el desarrollo a largo plazo", in La Diaria, Montevideo Portal, UY.PRESS, ECONOSFERA, and from there it was widely disseminated in Red Sur and its partners social media, newsletters and websites, mostly in the Latin America and the Caribbean region<sup>7</sup>.

**Identified challenges:** In a COVID19 context, regional meetings were not possible face to face, then the solution was to go online. Thus, the project started with an initial webinar and bilateral online conversations with the different policy makers and governments to be part of an informal network to promote green fiscal policies as a strategy to build back better. Lead researchers of the project met online environment and finance authorities and experts from Costa Rica, Dominican Republic, Guatemala, Paraguay and Uruguay. A final online regional meeting took place to finalize the project and bring all these officials together with representatives from regional banks and other actors to promote this informal network.

The final webinar took place in October 22, 2020. Espacio Público, Red Sur and the International Development Research Centre (IDRC of Canada), together with AméricaEconomía, held the final webinar with the title "Latin American Climate Agenda in times of COVID: vision from practice". The results of the project were presented to an online audience of 148 out of a total of 237 registered, with the title "Fiscal instruments for climate change and NDCs: new trends in a pandemic scenario", by Luis Miguel Galindo, Professor of Economics at the Autonomous University of Mexico (UNAM), and Fernando Lorenzo, President of the South American Network of Applied Economics/South Network. The activity was moderated by Annie Dufey, director of Espacio Público, and included comments by María Dolores Almeida, international consultant on taxation and climate change.}

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<sup>7</sup> Available in: <http://bit.ly/3196Wka>; <https://bit.ly/3eJ7Bxq>; <https://bit.ly/30AO2Cu>

# III. Policy proposals and future research agenda<sup>8</sup>

The main objective of the project was to evaluate to what extent South American countries are implementing fiscal policy tools for dealing with the depletion of natural assets and the generation of natural liabilities (what we call green fiscal policy) to develop recommendations and identify best practices, lessons learned and opportunities on green fiscal policies and climate change that can be relevant for other developing countries.

In parallel to this project, during 2020, the South American Network on Applied Economics / Red Sur developed a **Platform for Information, Analysis and Debate** on public policies on climate change, sustainable development and environmental taxes. The objective of Red Sur is to build a platform for discussion, analysis and debate, supported by cooperation between peers on public policy strategies, with emphasis on fiscal strategies, which can contribute to moving towards sustainable development, addressing climate change in the region and identifying common agendas, challenges, experiences and regional differences.

As part of this initiative, Red Sur has held a series of bilateral meetings with national counterparts from El Salvador, Guatemala, Dominican Republic, Mexico, Paraguay, Costa Rica, Ecuador, Peru and Chile to identify the main needs for analysis, the issues to be discussed and the best way to build a network. This network emerged from the initiative "Fiscal instruments for climate change and NDCs: trends and opportunities in the pandemic scenario", led by Espacio Público and the South American Network on Applied Economics/Red Sur, with support from the International Development Research Centre (IDRC of Canada).

The interviews conducted with relevant climate change actors in various LAC countries made it possible to identify the core issues for discussion regarding the public policies on climate change and sustainable development at the regional level.

The elaboration of the conceptual framework for a climate change agenda in Latin America and the Caribbean and the interviews with policy makers and experts on climate change in the region allow us to infer some general comments and recommendations.

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<sup>8</sup> All this section comes from the papers produced under this project:

Depetris, Nicolás (2017). [Economic Transformation, Natural Resources and Sustainability in Africa](#), Working Paper N° 9 / Red Sur Working Document Series 2017 - 2018.

Fanelli, José María (2017). [Desarrollo, sostenibilidad y recursos naturales en América del Sur. Marco conceptual y agenda de investigación](#). Working Paper N° 8 / Red Sur Working Document series, Natural Resources and Development Flagship Report 2016-2017.



The evidence indicates that to continue with the actual style of development or an inertial economic growth is not consistent with the mitigation targets on the Nationally Determined Contributions (NDC) derived from the Paris Agreement on climate change and on the Sustainable Development Goals (SDG). Therefore, structural transformations to the current development style are necessary to achieve a sustainable development path and, therefore, to meet the targets in the NDC and the SDG.

However, carrying out these structural transformations requires a set of public policies for the 21<sup>st</sup> century that simultaneously incorporate the economic, social and environmental dimensions in the context of sustainable development.

In this sense, Latin America and the Caribbean have observed important conceptual and institutional advances in climate change and sustainable development. However, these conceptual and institutional advances are still insufficient considering the magnitude of the structural transformations that are required.

That is, in order to advance in the construction of public policies to contribute to the required structural transformations, more and better information and a set of tools for qualitative and quantitative analysis are required. For example, it is essential that the countries of Latin America and the Caribbean have a centre for analysis, collection and exchange of information and experiences, specific to:

1. Systematized and updated information and possible emission trajectories under different prospective scenarios.
2. Cost-benefit and/or cost-effectiveness analyses of various mitigation and adaptation measures by sector.
3. Knowledge and debate on possible public policy proposals and their potential impacts and consequences, with focus on:
  - Processes of mitigation and adaptation to climate change
  - Green or environmental fiscal policies (carbon taxes).
  - System of tradable permits.
  - Other economic instruments.
  - Green growth strategies.
  - Environmental and energy regulations.
  - Urban development and mobility strategies.
  - Energy policy strategies.
  - Valuation of ecosystem services, ecosystems and biodiversity
  - Construction of a public policy matrix to support the transition to sustainable development.
4. Elaborate studies, reports, manuals and a set of tools to support the design of public policies on climate change and sustainable development.

5. Development of analysis models that allow for the simulation of public policies and prospective scenarios.
6. Elaboration, implementation and evaluation of public policies on climate change and sustainable development.
7. Development of a new analytical matrix where economic, social and environmental aspects are appropriately linked and gender issues are included. For example, the transition to a new economy implies a continuous economic growth that is consistent with social inclusion and the preservation of the environment. This transition requires the recognition of the existence of different ecosystem services that contribute to the economic activities and the human welfare, but that do not have, at the moment, any economic value. Therefore, it is important, in particular considering the costs and benefits of climate change public policies, the identification of new metrics and accounts including these social and environmental consequences.
8. To share and debate diverse regional experiences in the implementation of public policies on climate change and sustainable development. This should support collaboration among Latin American and Caribbean countries.
9. Information and financial tools in order to access to green and climate finance.
10. Courses and seminars on climate change and sustainable development.

The main actors and beneficiaries of the project are policy makers from the South American countries as well as researchers, private sector and civil society. Indirect beneficiaries are policy makers, researchers, private sector and civil society actors from other developing countries that may be interested in green fiscal reforms considering lessons learned from South America emerging reforms and debates.

The findings and key messages resulting from this research will continue to be disseminated electronically to target audiences since the SDG agenda is gaining attention under the 2030 Agenda and developing countries are reconfiguring their own commitments and priorities at the national and local level.