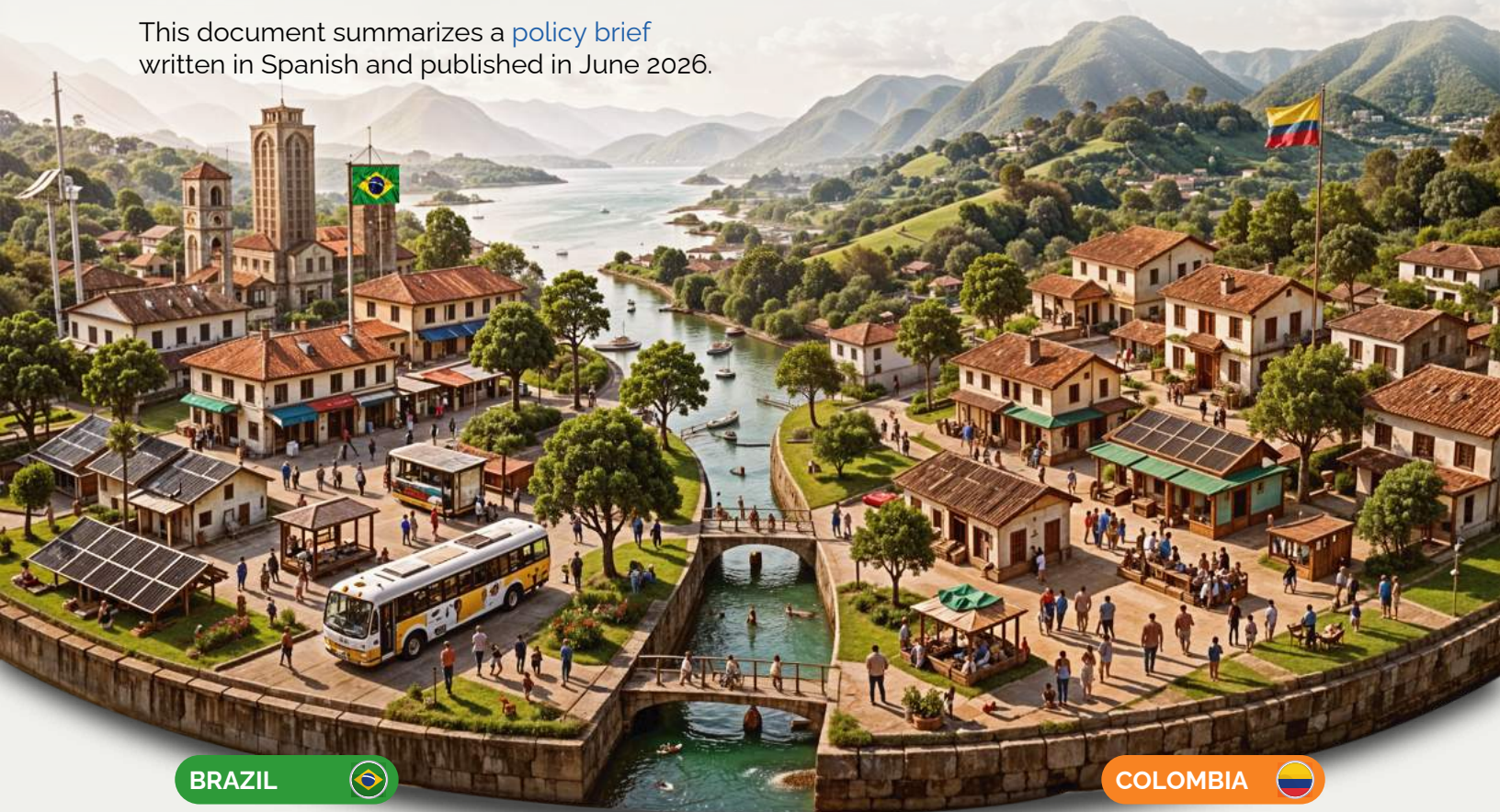


## EXECUTIVE SUMMARY

# Orderly reform of fossil fuel subsidies in Latin America:

## Case studies from Brazil and Colombia

This document summarizes a [policy brief](#) written in Spanish and published in June 2026.



BRAZIL



COLOMBIA



Paula Osorio | Óscar Hoyos | Diana Carolina Barba | Ana María Mogollón  
**Transforma**

Cássio Carvalho | Alessandra Cardoso  
**Instituto de Estudos Socioeconômicos (INESC)**

Special thanks to **Andrea Páez** for her contributions, and to **Jonas Kuehl** from the International Institute for Sustainable Development (IISD) and **Leonardo Rojas** from Polen Transiciones Justas, for their reviews.



**TRANSFORMA**



**Inesc**

# Introduction

Against the backdrop of a geopolitical crisis marked by soaring energy prices, which will drive up subsidies, particularly for consumption, both in Latin America and the Caribbean and globally, a recent trend has been disrupted. Over the past two years, fossil fuel subsidies in the region have fallen from USD 97 billion in 2022 to USD 52.8 billion in 2024 ([Fossil Fuel Subsidy Tracker, 2026](#)).



**USD 97  
billion**

**in 2022**

**USD 52.8  
billion**

**in 2024**

In response to this shifting landscape, this document aims to promote a clear pathway to the development of national inventories, identify strategies to advance subsidy reform, and underscore the critical importance of this process, especially in the current global energy crisis, when public resources will be strained to sustain inefficient subsidy schemes. Also, it supports the development of the Brazilian COP30 Presidency's roadmap on the transition away from fossil fuels, as well as ongoing regional efforts to advance fossil fuel subsidy reform, and contributes to the upcoming discussions leading to the second conference on transitioning beyond fossil fuels, building upon the outcomes of the [first conference in Santa Marta](#).

This document expands on the [policy brief published by Transforma in March 2025](#), focusing the fossil fuel subsidy reform with a new analysis on Brazil and applying the same methodology used for Colombia and Mexico in the previous document. Additionally, it maps out the full range of subsidies in both Colombia and Brazil in greater detail to create indicative inventories. Based on the prioritization results, the document identifies the specific process required to reform each selected subsidy, recognizing that variations among subsidies need tailored approaches in at least three areas: the associated regulatory framework to be modified, the stakeholders affected by the reform, and the timeline for implementation. Finally, it focuses on the concluding phase of subsidy reform, the redirection of funds, analyzing existing opportunities for public financing of the renewable energy sector within each country.

In this scenario, it is necessary to contrast these analyses with the experiences of other Latin American countries **that have already undergone processes of fossil fuel subsidies reform:**

# Lessons from recent reforms



## Bolivia



In 2025 ([Hernández, 2025](#)), Bolivia decided to eliminate fuel subsidies after more than 20 years, leading to the first significant price increases. It was implemented as a short-term response to the country's economic, political, and social crisis, compounded by a fiscal deficit nearing 30% of GDP by late 2025, lacking compensation mechanisms and flawed by weak communication strategies, which exacerbated episodes of social unrest in the short term.



## Ecuador



Ecuador has experienced a different path; since 2018, it has progressively implemented mechanisms to reform fossil fuel subsidies ([Inter-American Development Bank \(IDB\), 2024](#)), featuring a differentiated approach based on the type of fuel. This process has been accompanied by short-term mitigation and compensation mechanisms, such as the adoption of a price band system for certain fuels, which caps price increases or decreases within a range of 5% to 10% ([Redacción Primicias, 2025](#)).



## Argentina



In Argentina, the last change in administration has resulted in a reduction of subsidies, particularly targeting consumption, though this shift is not driven by a commitment to a just energy transition. From 2023 to 2024, demand-side subsidies saw a real change of -44%, while supply-side subsidies were cut by a mere 7.8%. For context, in 2023, supply-side subsidies were 69% higher than the entire budget of the Ministry of Environment ([FARN, 2025](#)).



## Mexico



Following the elimination of fiscal incentives for fuels announced on December 31, 2025, which reduced them to 0%, Mexico brought an end to a subsidy scheme that had been in place since 2007. Although this scheme remains partially active for certain fuels, such as Magna gasoline ([Flores, 2025](#)), the broad elimination of these incentives generated a notable increase of approximately 7.8% in fuel tax revenues.

# 1. Methodology to classify subsidies within an orderly framework

In [Osorio et al. \(2025\)](#), a prioritization and selection process for the subsidies to be evaluated was established, alongside the identification of the sectors toward which the released resources could be redirected within their reform process. This document builds on that methodology, aiming to comprehensively list all existing explicit subsidies, both for consumption<sup>1</sup> and production,<sup>2</sup> whether direct<sup>3</sup> or indirect,<sup>4</sup> within the legal and regulatory frameworks of the studied countries. In doing so, it provides signals for the necessity of establishing national inventories and seeks to quantify, for the majority of these subsidies, what the State pays to fund them.

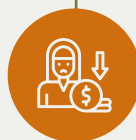
For this case, a bottom-up inventory approach is chosen, mirroring the OECD methodology. This includes "the fiscal costs of the covered supports, reflecting the preferential treatment granted to fossil fuel consumers and producers through direct budgetary transfers and foregone revenues due to lower tax rates applied to fossil fuels" ([OECD, 2025](#)), which aligns closely with the definition of a subsidy under the World Trade Organization's Agreement on Subsidies and Countervailing Measures (ASCM), agreed to by [166 signatories](#) (including Colombia and Brazil).

Once the inventory is completed, an analysis and prioritization of the identified subsidies lays the groundwork for building a roadmap to advance an orderly and comprehensive reform, starting with the subsidy's objective. To carry out this process, we incorporate the subsidy categorization methodology based on defined timelines by the International Institute for Sustainable Development (IISD), which allows each subsidy to be classified into one of three groups ([IISD, 2025b](#)):



## Quick reform:

subsidies whose removal is unlikely to affect current energy supply, affordability, or social and political stability because they benefit a narrow or high-income group, are small in scale or support economically marginal activities, apply only to future investments, have only indirect impacts on end-users, or can be easily replaced by more targeted and effective measures.



## Gradual reform with a robust strategy:

subsidies whose removal may trigger public backlash or affect competitiveness and affordability, but which can be reformed with complementary measures.



## Deferred reform:

understood as a temporary exclusion from the gradual reform, includes subsidies that remain temporarily due to relevant policy objectives, such as ensuring energy access or environmental remediation. Political resistance does not justify an exemption.

<sup>1</sup> Consumption of fossil fuels refers to the stage at which fuels are combusted or used as raw materials by various end-use sectors, whether it occurs in motor vehicles, stationary engines, heating equipment or power plants ([IISD & OECD, n.d.](#)).

<sup>2</sup> Production of fossil fuels encompasses the following activities along the supply chain: exploration and extraction; bulk transportation and storage; and refining and processing ([IISD & OECD, n.d.](#)).

<sup>3</sup> Direct budgetary transfers: Payments made by governments, or bodies acting on behalf of governments, to individual recipients. This includes direct spending, e.g. for specific support programs, and government ownership (fully or through equity shares) of energy-related enterprises ([OECD, 2024](#)).

<sup>4</sup> Include tax expenditures typically provided through lower tax rates, exemptions, or rebates of consumption taxes, or measures to reduce the cost of extraction of fossil fuels, and other revenue foregone. Also include induced transfers (or price support or price gap) which are estimated subsidies due to market regulation and price support for lower end-use price relative to the full cost of supply ([OECD, 2024](#)).

For the purpose of this document, no specific timeline is assigned to each group because the timeframe proposed by the IISD may be overly ambitious for Latin American countries, where legislative processes tend to take longer than in developed nations and, based on regional experience, have even spanned multiple presidential terms. Also, the terminology of “phase-out” categories is replaced with “reform”, given that several subsidies require better targeting or a change in the specific beneficiary rather than complete elimination.



Furthermore, one or more subsidies are chosen to exemplify the specific short-term opportunities in each country, in order to understand the political complexities associated with their reform and to identify the legislative process required for their modification.



Finally, the most direct alternative for financing required in a just energy transition is revised: replacing fossil fuel sources with renewable ones.



### Colombia

Therefore, existing renewable energy subsidies are analyzed and characterized within the Colombian case to identify variables that reflect the effectiveness of the mechanisms.



### Brazil

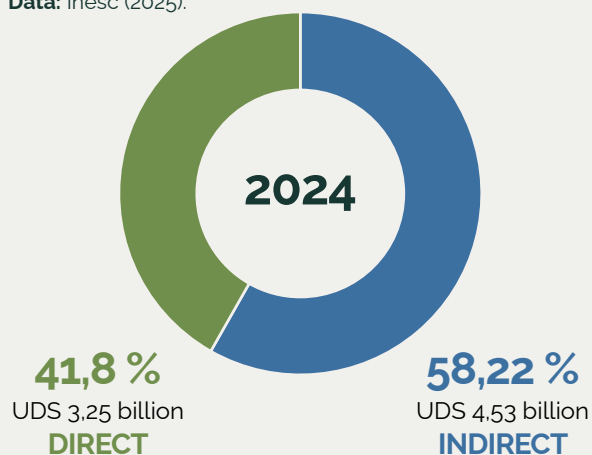
For the case of Brazil, the relevance of increasing the funds currently available for large-scale renewable energy is studied, while highlighting alternatives if further financing is not required.

# 2. Brazil inventory and prioritization order for its subsidy reform

Based on the inventory generated annually by the Institute for Socioeconomic Studies ([Instituto de Estudos Socioeconômicos \(INESC\), 2025](#)), which broadly adapts the methodology of the OECD to the Brazilian context, fossil fuel subsidies in Brazil reached USD 7.78 billion in 2024, a 53.23% drop compared to the previous year, when subsidies had totalled USD 16.62 billion. As the following graph shows, in Brazil, indirect subsidies represent the largest share; in 2024, they accounted for 58.22% (USD 4.53 billion), consisting mostly of tax benefits not accounted for by the Brazilian government as tax expenditures. Funding directed toward production accounts for 54% of the total, despite production subsidies representing only 4 out of the 10 identified subsidies (see the full detail of the fossil fuel subsidies inventory for Brazil in the full version of this document).

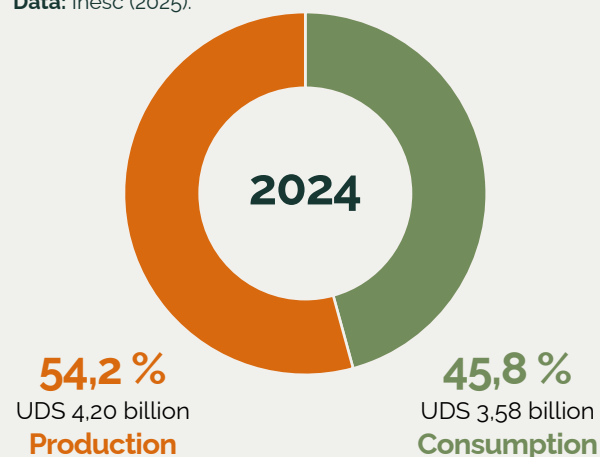
**Graph 1. Breakdown of identified subsidies for Brazil by type**

Data: Inesc (2025).



**Graph 2. Breakdown of identified subsidies for Brazil by beneficiary**

Data: Inesc (2025).



The drop in subsidies in 2024 was driven by the reinstatement of the Social Integration Program (PIS) and the Contribution for Social Security Financing (Cofins) taxes on the commercialization of these fuels.

This was made possible by an international and domestic environment of lower pressure on fuel prices, and it resulted in savings of USD 6.80 billion for the public funds (Instituto de Estudos Socioeconômicos (INESC), 2025).

The previous year's inventory, which prioritized subsidies using the IISD methodology, was published in a report on G20 countries following the 2009 commitment made by these nations to phase out fossil fuel subsidies (IISD & Transforma, 2025). Beyond the data update for 2024, the main differences from that previously published inventory include: i) categorizing subsidies as 'reform' instead of 'elimination' or 'phase-out'; ii) removing the exclusive freight transport subsidy associated with the "auxílio caminhoneiro" (freight drivers aid), a policy that ended in 2022 but carried outstanding payment obligations until 2023, resulting in no program-related expenditures by 2024; and iii) adding the "bandeiras tarifárias" subsidy, which had not been previously quantified and is associated with a price-signaling system on electricity bills based on generation costs, though the cost ultimately falls on consumers.

It's important to mention that the 2024 data published by the OECD for Brazil show significantly higher figures compared to previous years and to Inesc's inventory data, reflecting a 400% increase between 2023 and 2024, concentrated in consumption subsidies. Among the methodological changes mentioned by the OECD, it remains unclear whether only the rates corresponding to the PIS/COFINS subsidy were modified, or if the subsidies are estimated based on the changes introduced by the 2024 tax reform (Constitutional Amendment No. 132), which reforms five existing taxes. Given that the amendment's implementation begins in 2026, but its full entry into force will not occur until 2033, accounting for it in the 2024 data would be a methodological error.



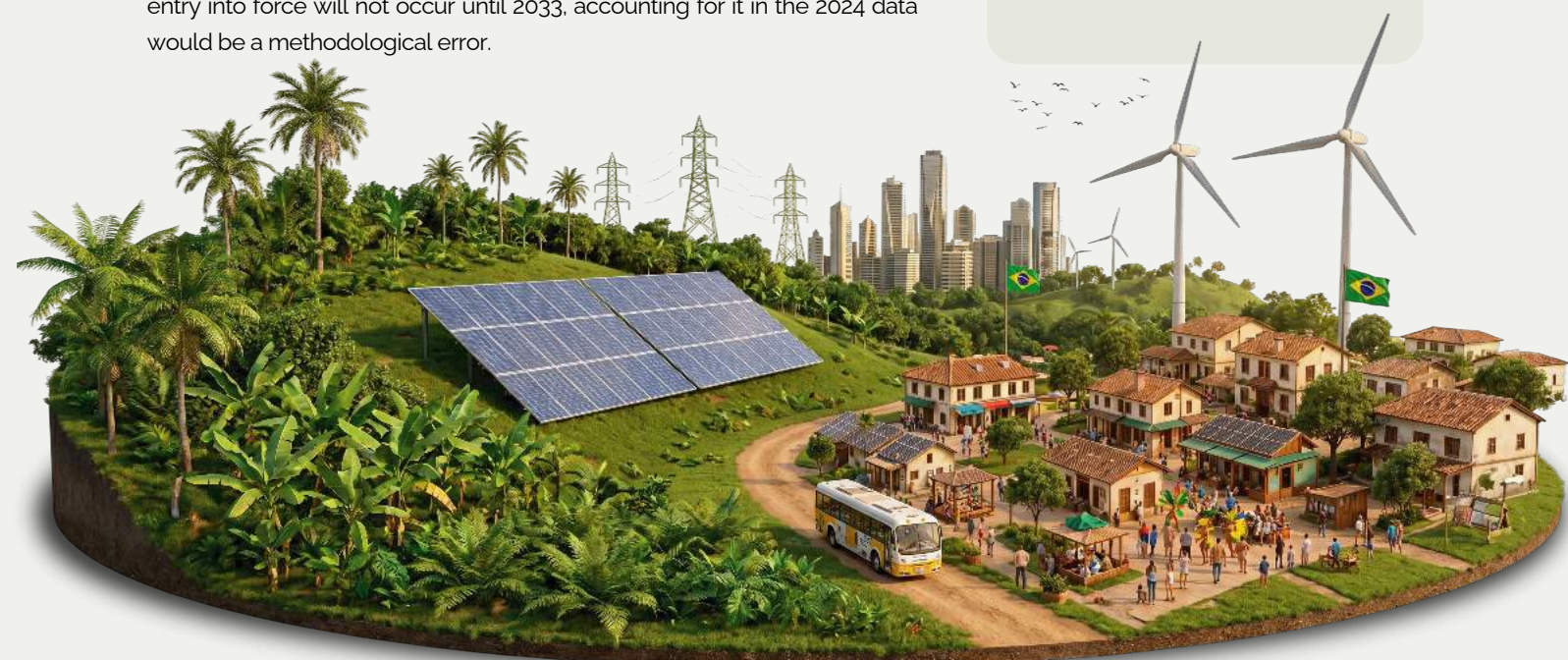
# 53,23 %

**Reduction in subsidies  
between 2023 and 2024**



# USD 6,80 billion

**Savings for  
public funds in 2024**



## 2.1 Reform opportunities for specific subsidies in Brazil

Based on the inventory, five subsidies are identified under the “quick reform” classification, of which three are production-side and two are consumption-side. Ordered by fiscal value, the largest subsidy within the quick reform category (and overall) is REPETRO.

### Quick reform classification



5 subsidies identified



3 production - side subsidies



2 consumption - side subsidies

### REPETRO

The Special Customs Regime for the Export and Import of Goods Intended for Research and Exploitation Activities of Oil and Natural Gas Deposits (Repetro) allows for the export and import of specific goods designated for these activities, with the suspension of applicable federal taxes (II, IPI, PIS, and COFINS). It stands as the main incentive instrument for the fossil fuel industry in Brazil.



USD 2,80 billion

In 2024, incentives granted through Repetro totalled BRL 13,60 billion (USD 2.80 billion), representing nearly one-third (29%) of all fossil fuel subsidies in Brazil.



53%

And more than half (53%) of those directed toward production.

REPETRO was extended through a legislative measure in 2017, setting the expiration date to 2040. However, the approval of the consumption-based tax reform (National Congress of Brazil, [2023a](#), [2025b](#)) has created a window of opportunity for the instrument to be re-evaluated rather than renewed. Under this reform, a mandatory five-year evaluation of all special tax regimes was established, based on criteria of efficiency, effectiveness, and efficacy. The first five-year evaluation cycle is scheduled to take place in 2030, presenting a crucial opportunity and an essential step for the country to progress toward its non-renewal past 2040.

Developing evaluation parameters for all special regimes, including REPETRO, should include the **regime's efficiency and additionality**, considering aspects such as the relationship between the fiscal benefit and induced investment; the impacts on net tax revenue; productive linkages and their relationship with technological and regional development; and the fiscal opportunity cost, taking into account potential alternative uses of public resources, as well as social and environmental criteria.





In relation to the expected benefits of REPETRO, the public stance of the Brazilian Petroleum Institute (IBP) is that REPETRO is essential for the competitiveness and investment attractiveness of the Brazilian O&G industry (IBP, 2024). Quantifying the ratio between the cost of subsidizing production solely through REPETRO and the benefit perceived through foreign direct investment for extraction in the Oil & Gas sector reveals that in 2018, receiving **1 dollar in investment implied a cost of USD 1.4 in subsidies; however, by 2022, that same inward investment cost the State USD 12.6.** This indicates a loss-making relationship where costs far outweigh revenues.



### CDE/Carvão - Conta de Desenvolvimento Energético - Carvão Mineral

The subsidy for the operation of coal-fired thermoelectric power plants is one of the mechanisms embedded within the structure of the Energy Development Account (CDE) and, unlike the other two subsidies analyzed in this chapter (which derive from tax benefits), is financed directly by electricity consumers. According to Inesc, using data from the National Electric Energy Agency (Aneel), the funds allocated to this subsidy remained relatively stable between 2023 and 2024, moving from **BRL 1.12 billion** (USD 230 million) in 2023 to **BRL 1.21 billion** (USD 249 million) in 2024, representing an **8.04% increase**.



### Termoeletricidade & Gás Natural Liquefeito (GNL)

These two subsidy policies (Thermoelectricity and Liquefied Natural Gas), which involve tax exemptions, are directed toward the consumption of fossil fuels for electricity generation. Combined, these two subsidies totalled **BRL 2.68 billion** (USD 552 million) in 2024, representing 6.40% of the total subsidies directed toward fossil fuel production in Brazil.

To reform these subsidies, first it is needed to define a termination date for the Priority Thermoelectricity Program, which is not yet the case, even with an electricity mix that is far more diversified today than it was when the program was created in 2000; furthermore, a maximum timeframe must be established for a project to remain included in the program, as well as expanding transparency, aiming for the highest possible level of disaggregation of these tax expenditures by beneficiary and by thermoelectric power plant.

The reform of this subsidy faces resistance, primarily due to the interests of the coal industry in Brazil. The viability of coal mined in the country is virtually restricted to electricity generation (Arayara, 2025), as it lacks competitiveness for export or for use in other sectors. Consequently, its production depends on incentives on the electricity supply side, even when it is not necessary to guarantee energy security, for instance. Thus, 100% of the installed capacity of coal-fired thermoelectric plants is dependent on the subsidy, and the lobby of the beneficiary companies is strong enough to maintain it, even when renewable energies are already cheaper, working to extend the validity of these subsidies, which currently runs until 2040 (Arayara, 2025). The reform will have to provide socioeconomic compensation, for job losses and the economic restructuring of the country's coal-mining region, as well as a structural reform of the electricity sector, to optimize the operation and revise possible social impacts that could happen through electricity cost changes.



## 2.2 Redirecting funds freed up following the reform of fossil fuel subsidies

Given the context of a consolidated renewable energy sector in Brazil, which does not require additional support to promote the entry of these technologies into the interconnected system, the resources freed up from fossil fuel subsidy reform could be redirected toward public policy initiatives that:



**Promote an energy transition with social justice,** strengthening its social acceptance and political viability by boosting distributed generation through community initiatives, such as associations and cooperatives, targeted, for instance, at small-scale rural producers.



**Guarantee greater resilience of the electricity system,** especially through investments in energy storage and operational flexibility in response to the growing context of curtailment.



**Drive the decarbonization of energy-intensive and/or hard-to-abate industries, as well as transport,** which represents the most extreme case, as it still maintains a 74.3% dependency on fossil fuels, stemming particularly from freight transport.



# 3. Colombian inventory and prioritization order for reform

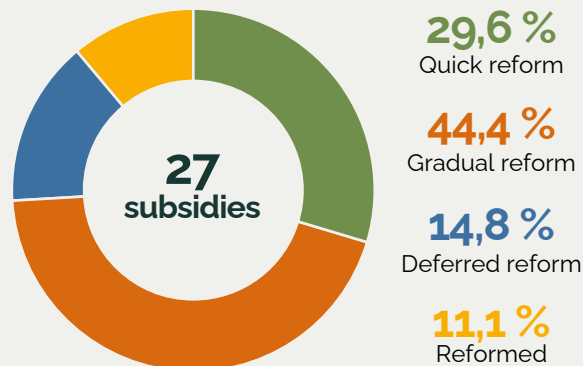
Based on the inventory, the annual fiscal cost of fossil fuel subsidies to the State is at least COP 46.2 trillion (USD 10.5 billion), more than double the construction cost of the first line of the Bogotá Metro (Metro de Bogotá, 2017).

Of the 27 tax or regulatory benefits included in the inventory, 10 have been quantified based on information published by the OECD, two of which have already been reformed, meaning their current costs lag from the operation of those subsidies. Of the remaining subsidies yet to be quantified, 9 are based on public finance documents issued by the Government, one of which has already been reformed but is being phased out, thereby still generating costs for the State. Consequently, 8 of the subsidies included in the inventory lack a quantification of their cost, mostly because they are tax benefits not disaggregated in beneficiaries' tax returns, making them unobservable in public documents (see the full detail of the fossil fuel subsidies inventory for Colombia in the full version of this document).

The distribution of the subsidies between the reform categories and beneficiaries is shown below:

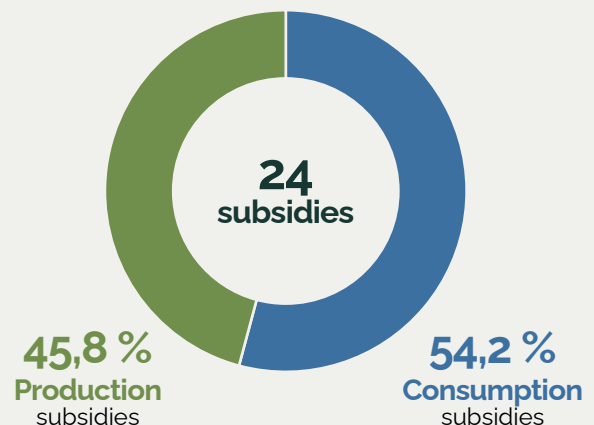
**Graph 3. Distribution of the subsidies identified for Colombia across the prioritization categories for the roadmap**

Source: Author's analysis.



**Graph 4. Breakdown of identified subsidies for Colombia into consumption and production subsidies**

Source: Author's analysis.



It is highlighted that, both in terms of the number of subsidies (44%) and the amount they represent for the State relative to total subsidies (72%), the majority of subsidies require gradual reforms. This is because they need changes in the targeting of subsidies to benefit low-income consumers, or a redirection of production-side supports currently tied to fossil fuels toward segments of the energy sector and transition minerals required within the framework of a just energy transition.

Regarding the type of subsidy, 6 of them (25%) are direct subsidies compared to 18 (75%) indirect subsidies, and in terms of fiscal value, the disparity is even wider, as 90% of the cost of these 24 subsidies is tied to indirect ones. This information can be useful when advancing the reform process, given that the majority of these indirect subsidies are tax benefits whose reform requires the same legislative process.



## 3.1 Reform opportunities for specific subsidies in Colombia



### Ctel subsidy (Tax Credit for Investments in Science, Technology and Innovation)

**USD 834  
Million**

**7,97 %**  
of total fossil fuel  
subsidies

The exemplified subsidy is associated with the reduction of taxes payable granted under Colombia's Tax Statute, specifically defined as the Tax Credit for Investments in Science, Technology, and Innovation (CTel), which accounted for 7,97% of the amount of subsidies, with a spending of USD 834 million for 2024. Under this mechanism, companies can obtain a tax credit (a security intended for tax payments) for 50% of the amount invested in science and technology projects, provided they partner with micro, small, or medium companies (Art. 256-1 E.T.). It has no activity limitations; therefore, it applies to multiple economic developments, including coal mining, gas and oil production, and electricity generation.

Considering that this subsidy is enshrined within the Tax Statute and is national in scope, changing or repealing these articles depends on a bill presented by the National Government within the framework of a tax reform. Historically, tax reforms have been enacted during each presidential term (which lasts four years), with some terms even seeing two tax reforms (Casas, 2024). As a timeline reference, the process to implement the most recent tax reform took approximately five months, beginning with the sitting government presenting the bill before the Congress of the Republic of Colombia in August 2022, and being enacted into law in December 2022.

A flaw in this tax reform is highlighted regarding the reform process of the subsidy "Deduction of royalties paid for the exploitation of non-renewable natural resources, subtracting them from their taxable income base". This is because the Constitutional Court, in Ruling C-489 of 2023, struck down the paragraph that prohibited deductibility, determining that the design violated the principles of tax equity and justice. Therefore, reforms must have a careful regulatory design that: i) respects the principles of equity, progressivity, and internal coherence of the tax system; as well as ii) precisely defines the taxable event and the taxable base of the tax.



#### FUTURE REFORMS



**Need for careful  
regulatory design  
and equity-based  
tax principles**

## 3.2 Redirecting funds freed up following the reform of fossil fuel subsidies to renewables

Several of the existing subsidies in Colombia to boost the deployment of Renewable Energy are analysed, including tax benefits, which are the most widely known, alongside other subsidies that include direct transfers through programs and indirect subsidies through debt, adding up to 9 subsidies in total. To date, these totals COP 2.791 trillion, equivalent to USD 631 million since 2014.

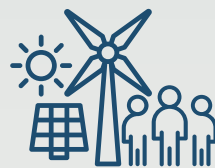
Analyzing data on the impact and positioning of the subsidies related to direct and indirect transfers that ultimately impact attractive project development conditions, as well as on their emission mitigation results, the availability of information was restricted to how long the subsidy has been available, how much funding it has provided, and in some cases, how much emissions it mitigated (TCO<sub>2</sub>). Therefore, the first step is to standardize the information tracked for all subsidies directed to renewable energy, in order to effectively track mitigated CO<sub>2</sub> emissions, for example.

In terms of the mitigation impact achieved per billion pesos allocated, combined with its tenure in the market, Bancóldex's Sostenible Adelante credit line has been a successful mechanism for renewable energy financing. On the other hand, funds directed through the Institute for the Planning and Promotion of Energy Solutions for Non-Interconnected Areas (IPSE), due to its focus on a just energy transition and its implementation of projects that integrate Non-Interconnected Zones into the National Interconnected System (SIN), can also emerge as a strategic instrument by combining emission mitigation with the closing of social gaps.



### **BANCÓLDEX** **Sostenible Adelante**

- ✓ High mitigation impact per billion pesos allocated.
- ✓ Has demonstrated sustained market interest.
- ✓ Successful mechanism for renewable energy financing.



### **IPSE** **Just Energy Transition**

- ✓ Focus on Non-Interconnected Zones (NIZ).
- ✓ It has been providing funds for 10 years.
- ✓ Combines energy transition with the closing of social gaps.





# 4 Key findings and recommendations



1

## Lessons learned from reform experiences in the region:

Latin American experience demonstrates that successful reforms depend on thorough planning and communication. Ecuador stands out for implementing a progressive process since 2018, reforming subsidies to increase their targeting and progressivity. Conversely, Bolivia (2025) represents a case to avoid, where the elimination of subsidies occurred abruptly due to fiscal pressures, without effective communication or compensation mechanisms, resulting in social unrest and supply shortages.

The requirement for intra-governmental coordination among the tax agency, relevant ministries, and the presidency is highlighted. This coordination is essential for the reform process to succeed both in legislative terms, avoiding failures like the reform to the tax deduction of royalties in Colombia, which was overturned for failing to adhere to principles of tax justice, and in fiscal terms, preventing situations like Bolivia's, where the reform was proposed when there was no time to implement it properly. It is also crucial for communication with previously benefited stakeholders to contain potential pressures, as seen with coal-fired power generation subsidies in Brazil, which persist for political reasons rather than energy security.



### Plan

Thorough planning and coordination lead to successful reforms



### Communicate

Clear communication and stakeholder engagement are essential



### Avoid abrupt reforms

Reforms without planning or compensation can trigger social unrest



### Coordinate

Intra governmental coordination is key for legislative and fiscal success



2

## Need for targeted and progressive reforms to inefficient subsidies:

Current subsidies in the region often lack targeting and efficiency. On the production side, several subsidies cover multiple sectors, also benefiting fossil fuels even when this is not the primary objective of the subsidy, and/or exhibit low fiscal efficiency. This is the case with the REPETRO subsidy in Brazil, where, in 2022 for every dollar of foreign direct investment received the State assumed a cost of USD 12.6 in subsidies, a figure that rises to nearly USD 30 when environmental and global warming costs are factored in. On the consumption side, the lack of targeting means they also benefit high-income consumers instead of focusing exclusively on low-income populations or those without energy alternatives due to their location, resulting in low distributive progressivity. Those that cannot be further targeted are considered temporarily deferred from the reform process; for Colombia and Brazil, these account for 6 of the 37 subsidies analyzed across both countries combined.

## 4. KEY FINDINGS



3

### Construction of national inventories:

It is fundamental for countries to develop comprehensive and public inventories of subsidies (direct and indirect, explicit and implicit) under clear, detailed methodologies that incorporate international best practices. This allows for the quantification of their total cost and lays the foundation for a comprehensive reform roadmap.

To achieve this, government entities involved in the operation of subsidies, which in Colombia's case include the DIAN tax agency, the Ministry of Finance and Public Credit, and the Ministry of Mines and Energy, must standardize the recollection process of the information to make it observable. This is particularly urgent for tax benefits, whose quantification is constrained by how beneficiaries report data, currently posing a future fiscal risk. Furthermore, these entities must unify their vision regarding what is conceived as a subsidy and other technical definitions, ensuring the inventory reflects a national stance, often already established within the legislation, that subsequently enables the reform to be implemented within the country's regulatory framework.



4

### Adoption of an orderly roadmap:

It is recommended to classify subsidies into three groups for prioritization:

- **i) Quick reform** for those with high fiscal costs and low impact on energy security or vulnerable groups (e.g. hydrocarbon exploration incentives);
- **ii) Gradual reform** with a robust strategy for subsidies that require compensation mechanisms or deep regulatory changes to prevent negative social impacts;
- **iii) Deferred reform** for those essential to basic energy access, which must be periodically re-evaluated.

The greater the difficulty in targeting very specific groups, the more time subsidies tend to require for reform. In contrast, more regressive subsidies, applied to a large number of beneficiaries without filtering their needs, or that represent higher fiscal costs or greater future fiscal risks, tend to require reform with higher urgency.



### National Inventories

Quantify total subsidy costs



### Shared definitions

Common criteria for identifying subsidies



### Subsidy classification

Foundation for reform prioritization



### Quick reform

High fiscal cost and low impact on vulnerable groups



### Gradual reform

Requires compensation or deep regulatory changes



### Deferred reform

Essential for basic energy access; re-evaluate periodically

## 4. KEY FINDINGS

---



5

### Leveraging legislative windows of opportunity:

In Brazil's case, the mandatory five-year evaluation of special regimes in 2030 should be taken as an opportunity to prevent the renewal of REPETRO toward 2040. Likewise, a definitive termination date must be set for the Priority Thermoelectricity Program.

In Colombia, tax reforms are the required vehicle to reform the majority of the identified subsidies, and the fact that they occur multiple times within a single presidential term can be used as an advantage. These reforms should aim to exclude fossil fuels from benefits that encompass multiple sectors and activities, redirecting those resources toward a just energy transition, which can range from renewable energy to economic diversification strategies in the territories.



6

### Strategic redirection of funds:

Resources freed up by the reform of fossil fuel subsidies should contribute to the country's fiscal sustainability and support a just energy transition. This can be achieved by designing and strengthening efficient financing mechanisms with specific objectives and beneficiaries:



**In Colombia**, it is recommended to increase financing channelled through instruments like Bancóldex's "Sostenible Adelante" credit line or IPSE projects, which integrate emission mitigation through renewable energy with the closing of social gaps in non-interconnected zones, holding potential to support economic diversification.



**In Brazil**, the financing state for large-scale renewable energy, particularly wind energy, is self-sustaining, meaning that an increase in subsidies in that area is not required. Instead, community distributed generation can be incentivised to provide electricity access to low-income communities or those in grid-isolated locations. Funds can also support enablers for the efficient use of renewable energy, such as storage, which still faces deployment barriers and the decarbonization of energy-intensive industries and hard-to-abate sectors.

## 4. KEY FINDINGS



7

### **Standardisation and transparency in impact measurements of renewable energy subsidies:**

A structural difficulty was found in comparing the effectiveness of renewable energy subsidies in Colombia due to the lack of homogeneous standards among the different funding entities to report their benefits, such as mitigated CO<sub>2</sub>eq emissions.

Governments should require entities managing funds directed toward energy transition to report standardised impact metrics, including emissions mitigated per money invested, job creation, and improvements in energy access within the territories.



8

### **Targeting and justice:**

Any reform must prioritise communities and territories with fewer alternatives for energy access and service provision, whether due to geographical difficulties or financial constraints.

Moreover, for subsidies directed at energy-intensive industries and hard-to-abate sectors, reforms that fail to generate energy alternatives could lead to the relocation of these industries to neighbouring territories with fewer regulations.

It is recommended to redesign consumption subsidies to make them progressive, ensuring that support reaches those who truly cannot afford the service cost or lack energy alternatives in the short term, while seeking to generate them in the long term, all while eliminating them for beneficiaries with the capacity to pay or who do not require them.

