On behalf of

Covid-19, Climate Finance and Stimulus Packages

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January 2021

1 Introduction

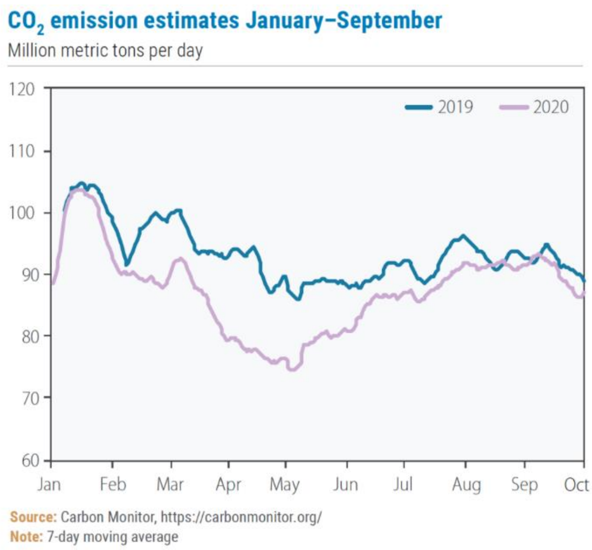
As Covid-19 vaccines start being administered by governments around the world, the end of the pandemic is in sight. However, the challenges of applying roughly 15 billion doses worldwide in the shortest time possible will prove to be a demanding race against time and a logistic crusade. Developed countries have taken the lead and most have already started vaccinating their populations, but to end this global crisis, everyone in the world needs to have access to Covid-19 immunizations. The global vaccine partnership COVAX, that seeks to ensure all countries have equal access to them, has secured two billion doses for use worldwide. The WHO expects to have delivered enough doses to protect health and social care workers in all participating countries by mid-2021 and provide sufficient doses to cover up to 20 per cent of their populations by the end of 2021, and further doses in 2022.

The unprecedented health and social crisis caused the largest recession since World War II and high unemployment in certain regions and countries. Nevertheless, the economic forecasts for 2021 are optimistic. Following a 4.3% contraction in 2020, the global economy is expected to expand 4% in 2021, according to the World Bank. But just as the impacts of the crisis varied in different countries, so will the expected recoveries. The forecasted GDP for the USA projects an increase by around 3.5% in 2021, after an estimated 3.6% shrinkage in 2020. In the Eurozone, GDP is expected to grow by 3.6%, following a 7.4% decline in 2020. China's economy is expected to increase by 7.9% this year, following 2% growth last year. Emerging market and developing economies (excluding China) are anticipated to expand by 3.4% in 2021 after a contraction of 5% in 2020. Still according to the World Bank, low-income countries' GDPs are projected to increase by 3.3% in 2021, after a contraction of 0.9% in 2020.

Despite the health, economic and social challenges of 2020, the Covid-19 pandemic provided a unique opportunity for the world to step up its efforts to address the climate crisis. Although important initiatives have been announced, more action is necessary to achieve the goals of the Paris Agreement.

2 GHG emissions

The world registered a record reduction of CO2 emissions from fossil fuels and industry in 2020: a drop of 2.4 GtCO, 2, 7% less than in 2019, a recent estimate shows. Emissions have fallen by 12% in the USA, 11% in the EU, 9% in India and 1.7% in China. The decline was most perceptible in April, when most of the world restricted economic activity and movements of people, leading to a daily global CO2 emission drop of 16.9% compared to April 2019. Since then, however, emissions have rebounded and by August 2020 they have returned to similar levels of the previous year.

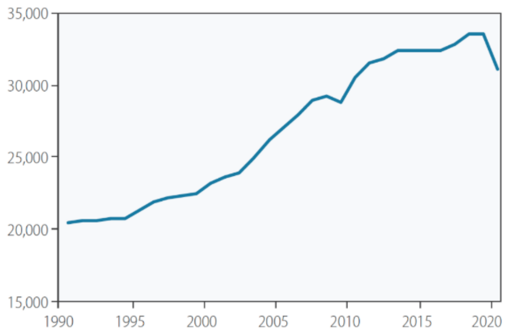


Although the drop of emissions is appreciated, an even larger decline would be necessary annually to meet the 1.5°C target of the Paris Agreement. According to the United Nations Environment Programme's latest Emissions Gap Report, global CO2 emissions would need to be reduced by 7.6% every year from 2020 to 2030 to meet the target. In fact, a 7% drop in emissions during 2020 translates to a reduction in global warming by 2050 of no more than 0.01°C.

According to the report, if governments followed the economic shutdown with a "green pandemic recovery", then by 2030 greenhouse gas emissions could fall by up to 25%, putting emissions at 44 GtCO2e, instead of the predicted 59 GtCO2e. Measures to prioritize green fiscal recovery include direct support for zero-emissions technologies and infrastructure, reducing fossil fuel subsidies, no new coal plants, and promoting nature-based solutions - including large-scale landscape restoration and reforestation. The low-carbon transition needs a new mode of production and consumption, and post-crisis investments must accelerate the economic transformation to ensure that we recover better.

CO_2 emissions from fuel combustion

Million metric tons per year



Source: IEA (2020), World Energy Outlook 2020, https://www.iea.org/reports/world-energy-outlook-2020 and CO_2 Emissions from Fuel Combustion, https://www.iea.org/reports/co2-emissions-from-fuel-combustion-overview

3 Increased Ambition

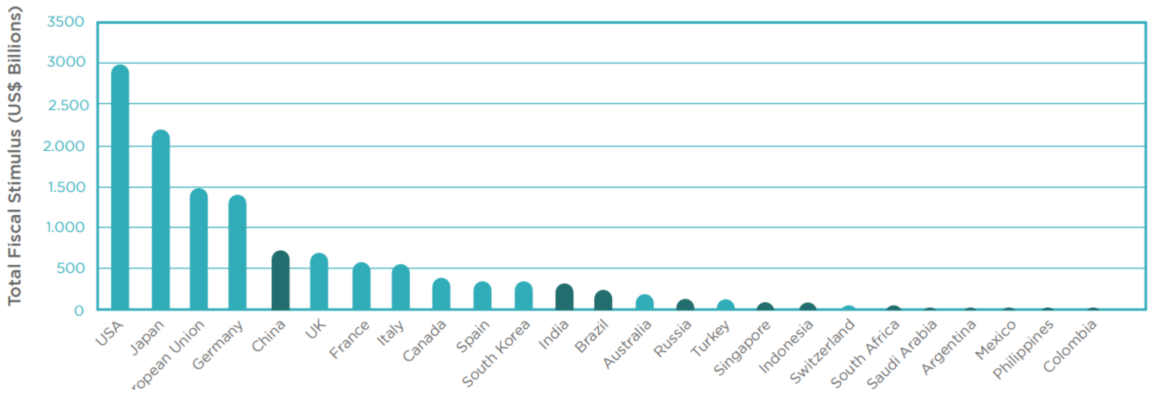
The large number of voices calling for a green recovery, combined with the fifth anniversary of the Paris Agreement, led several public and private stakeholders to increase their commitments to cut down GHG emissions. The European Council agreed to raise the EU's 2030 target for reducing emissions to 55% below 1990 levels, up from a previous target of 40%. As of December 2020, 50% of the world's GDP and half of the global CO2 emissions were covered by a net-zero commitment of 126 countries. Most have pledged carbon neutrality by 2050, while China announced it is set to join them by 2060. Moreover, 38 countries have already declared a state of climate emergency.

Leaders from 75 countries, civil society, business and city administrations met in the Climate Ambition Summit, in December 2020. However, the absence of the USA and other major economies such as Brazil, Russia and Indonesia, highlighted the need for greater involvement of the international community to tackle the climate crisis.

Although the USA officially withdrew from the Paris Agreement the day after the US election in November 2020, Joe Biden pledged to put the US to achieve carbon neutrality by 2050 and rejoin the Paris Agreement on the first day of his presidency on 20 January 2021. The US will also hold a climate summit of the world's major economies within 100 days of Joe Biden taking office.

4 Greenness of Stimulus Index

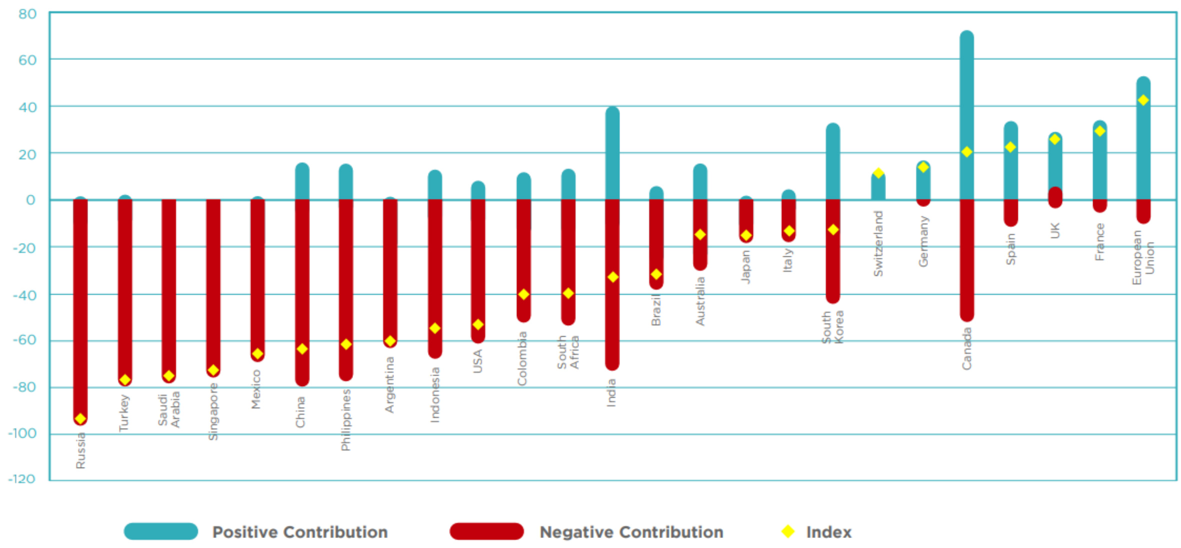
According to the think-thank Vivid Economics and Finance for Biodiversity, measures targeting recovery stimulus will on a global scale rather be harming than fostering sustainable practices: Governments from the major 25 economies are investing an estimated $12.7 trillion to foster jobs and growth, from which nearly a third - $3.7 trillion – is going to sectors that affect carbon emissions and biodiversity, namely energy, industry, waste management, agriculture and transport. However, only $576 billion were identified as green spending. Therefore, the majority of stimulus commitments will support unsustainable activities, which accelerate climate change.



Announced Covid-19 response fiscal stimulus packages. Source: Vivid Economics

A [Greenness of Stimulus Index]() has been established that assesses the sustainability of the pandemic response from the G20 economies, plus Colombia, Switzerland, Spain, Singapore and the Phillippines. The researchers argue that only 7 of 25 major economies' stimulus packages have a net-positive benefit for the climate and nature. Overall, Russia's stimulus package scored the lowest in the index, and among more developed countries, the US stimulus package stands out as the most damaging. Australia, Italy and Japan also present negative indices, mostly due to the existing negative impacts of their resource-intensive sectors, and their lack of decisive action to use the stimulus to restore nature and mitigate climate change.

Emerging economies dependent on resource-intensive sectors, such as mining and agriculture, and lacking strong regulatory oversight, have also failed to step up. China, India, Mexico, Turkey, among others, have all announced stimulus measures that reinforce negative environmental trends. However, promising measures come from Western Europe, South Korea and Canada.

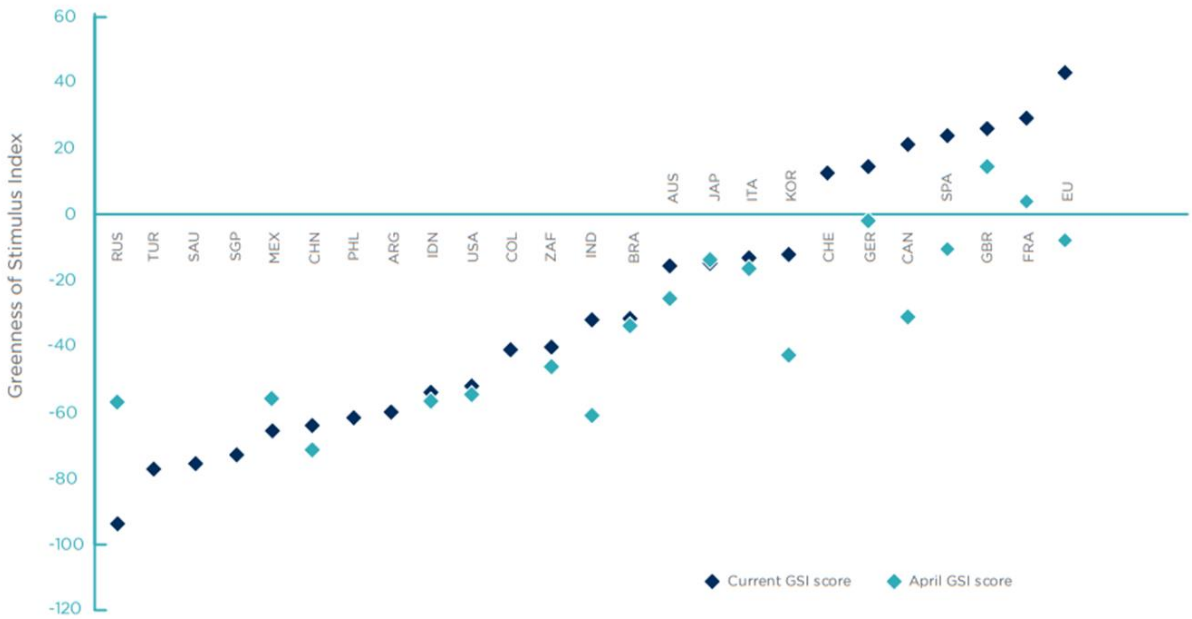


Greeness of Stimuluss Index – December 2020. Source: Vivid Economics

[Germany]() was the first to include widespread green measures in its recovery package, including funding for green infrastructure and R&D, particularly in the energy and transport sectors. [South Korea's]() 'Green New Deal' set the path for a significant shift towards sustainability over the next five years. [UK]()'s specific funding for green projects is relatively small compared with Germany and South Korea, but its underlying environmental performance confers it a positive score. France has attached significant green conditions to financial support, while Canada has announced green measures that go some way to counteracting the country's negative underlying environmental performance. Recovery packages from Switzerland and Spain were also judged to be net-positive for the environment.

The researchers indicate that the 'Next Generation EU' recovery package is the best aligned with low-carbon pathways. Of €750 billion announced for economic recovery, 37% will go to green initiatives, including targeted measures to reduce dependence on fossil fuels, enhance energy efficiency and invest in preserving and restoring natural capital. Moreover, all recovery loans and grants to member states will have attached 'do no harm' environmental safeguards.

Some important economies have clearly shifted the trajectories of their stimulus packages. The EU, UK, South Korea and Canada have lately significantly greened their recovery measures compared to April 2020, the first time the Greenness of Stimulus Index was released. The USA is projected for a significant turnaround based on the incoming new administration while China and Japan could also follow to more explicitly focus on … in the upcoming months. However, many countries are stagnant, and others are even going in the wrong direction, namely Russia and Mexico.



April and December 2020 GSI Scores. Source: Vivid Economics

5 Green Recovery Initiatives

Several initiatives were launched recently to build on the momentum of a green recovery. On 12 December 2020, the NAMA Facility launched the Ambition Initiative, its biggest Call to date. With EUR 174 million committed funding from the United Kingdom, Germany and the Children's Investment Fund Foundation (CIFF), the Ambition Initiative is going to support countries to implement their enhanced Nationally Determined Contributions (NDCs) and build back greener as they recover from the Covid-19 pandemic.

The Climate Investment Funds launched on 15 December 2020 the CIF Covid-19 Technical Assistance Response Initiative for Green and Climate Resilient Recovery, with $25 million funding from the governments of the United Kingdom, Netherlands and Switzerland. The program will offer technical assistance and capacity building to support low- and middle-income countries to integrate green, low carbon and climate-resilient policies and investments into their Covid-19 recovery plans.

The European Investment Bank (EIB) has approved a EUR 1 trillion green investment package to be spent by 2030. Under its Climate Bank Roadmap, the EIB committed to increasing its lending to climate action and green activities to more than half of its funding activities by 2025. The bank will end funding for fossil fuels and airport expansion by the end of 2022 but continue to support large road-building projects. It comes a year after the EIB became the first multilateral bank to agree to stop funding all unabated oil and gas projects by the end of 2021 and promised to launch "the most ambitious climate investment strategy of any public financial institution anywhere".

The first-ever global summit of development banks occurred in November, the Finance in Common (FiC) summit. A group comprised of 450 financial institutions that together manage $11.2 trillion toward economic activities for the public good. Hosted by Agence Française de Développement, the summit underscored the crucial role of Public Development Banks in reconciling short-term countercyclical responses with sustainable recovery measures that will have a long-term impact on the planet and societies. The first deliverable of the Finance in Common Summit was a joint declaration of all Public Development Banks stating their willingness to contribute to the recovery and align with sustainable finance principles.

During the One Planet Summit for Biodiversity, co-hosted by France, the UN and the World Bank, an alliance of more than 50 countries committed to protect at least 30% of the planet's land and oceans by 2030, and launched the High Ambition Coalition for Nature and People. During the summit, more than $14 billion of new funding was promised for the Great Green Wall for 2021-2025, including new commitments from the African Development Bank, the World Bank, the European Investment Bank and Agence Française de Développement.

China's carbon emissions trading scheme is finally open for business. After years of trials and delays, the long-awaited carbon market will allow industries to exchange carbon quotas. Initially, the emissions trading scheme will only cover the thermal power industry, which accounts for about 40% of China's emissions. That sector alone is responsible for twice the emissions of the EU carbon market, until now the world's biggest. However, unlike the EU's emissions trading scheme, the new market does not put a cap on carbon emissions. Instead, it imposes carbon intensity limits for every unit of electricity a power plant generates. Operators whose plant are below the benchmark will be able to sell their carbon allowances on the new market. Those that overshoot it will be forced to buy additional quotas. Although the scheme is projected to achieve only modest results at first, the expectation is that with time the rules will become stricter.

6 Outlook

The pandemic created an opportunity for changing behaviors and establishing sustainable, counter-instinctive patterns. In previous crises, packages to tackle pressing short-term economic needs were designed regardless of environmental sustainability. With Covid-19, however, calls for a green recovery led to a growing awareness of relevant institutions and countries, which responded with green stimulus measures and low-carbon corporate commitments. The first issue was whether they will be sufficient, but now the question arises whether the momentum will remain. The world economy is picking up speed once again, and the risk of falling back into old behavioral patterns should not be ignored. The continued and unsolved dilemma between growth paradigm and limited resources calls for bold and innovative responses. It is key that the world properly establishes an international framework to share the burden of required changes between nations on different developmental levels and with different resource intensity. Only then will nations be on the right track to solve the climate crisis.

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