The socio-economic impacts of COVID-19 and how to deploy international climate finance in the context of green stimulus packages

Summary of the SNAPFI webinar, 20th November 2020

The webinar pursued the objective to present results of the 2020 synthesis report of the IKI funded project Strengthen national climate policy implementation: Comparative empirical learning & creating linkage to climate finance (SNAPFI). During the webinar, a global review on status of green recovery strategies and options to deploy international climate finance were presented, which was followed by country perspectives on the same topic by Brazil, India, Indonesia, South Africa and the European Union. Contents of the webinar are summarized in the following sections. As Heiner von Lüpke of DIW Berlin stressed, it is hoped that these results will help bridge the gap between the research community and the policy makers.

Opening the webinar, Karsten Neuhoff of DIW Berlin pleaded for the necessity of global coordination in the economic response to the pandemic, underlining the key role to be played by international climate finance (ICF) in supporting green national processes. Karsten Neuhoff further acknowledged the benefits of sustainable action, which he described as being timely and important in catalyzing a much-needed transition.

In the light of the COVID pandemic, Susan Krohn of BMU pointed to the fact that socio-economic priorities have shifted and momentums for climate action are currently harder to create. However, it is also a time where tremendous sums of money (i.e., in the form of recovery packages) are flowing into the economy. Simultaneously, it is worth noting that the pandemic has also had an exacerbating effect on the pre-existing debt crisis, leaving many countries with little to no flexibility in the elaboration of their recovery plans. More than ever, it is thus of utmost importance to structure these financial flows so that they contribute to reaching the individual NDCs.

From a global perspective, Alessa Widmaier of Vivid drew attention to the fact that emerging economies have been hit particularly hard by the pandemic, reducing their flexibility in promoting green recovery and leaving the governments with extremely hard policy choices. Considering emerging economies bear a disproportionate burden, Alessa Widmaier underlined the responsibility of Western economies to help these countries on their way to a green recovery. It may be noted here that green recoveries do not only have the benefit of tackling climate change; they can also contribute to reducing global inequality, promoting long-term economic growth, generating socio-economic benefits and building up resilience for future crises.
Alessa Widmaier outlined the vast array of instruments at the disposition of ICF to induce such a green recovery. They include grants, loans, concessional loans, debt forgiveness and conditional funding, each of which have their own pros and cons. It is important to emphasize that there is no such thing as a “one size fits all”, but that international finance mechanism need to be tailored on the context of both donor and recipient countries. How these funds are then used (bailouts, green public investment, loans or grants for green investment, subsidies or tax reductions for

green products) is an open question, which needs to be carefully examined in terms of economic effectiveness, sustainability and equity.

Moving on to the particular country summaries, it was highlighted by Camila Yamahaki, from Fundação Getulio Vargas, that Brazil's economy is still reeling from the pandemic's impact, its GDP being expected to fall by 4.66% this year, while both primary deficit and unemployment continue rising. As a response, although Brazil does not have a structured economic recovery plan or economic recovery measures with green elements, the government plans to resume its economic reforms from pre-covid. She identified several ways in which ICF could potentially play a role in helping Brazil towards a greener recovery. They included assistance in the design of tax measures in alignment with the Paris Agreement (i.e., carbon tax), grants and capacity building to support implementation of anti-deforestation policies, possibly on a sub-national level, and technical assistance on the development of public policy development (e.g. contributions from international organisations to Central Bank's Sustainability Agenda).

According to Budhi Setiawan of Bandung institute of technology, the case is similar in Indonesia, where the ongoing pandemic is forcing the government to reallocate the climate budget in order to prioritize the health sector, the social safety net and net economic stability. While Budhi Setiawan outlined huge opportunities for low carbon development in Indonesia, there are lacking signs of such a green recovery in National Economic Recovery Programs. In his opinion, the role of ICF is thus characterized by technical assistance in the assessment of the impact of COVID-19 on the climate budget on the one hand, and in the design of green stimuli on the other hand.

In India, Ritu Ahuja of The Energy and Resources Institute reported, the pandemic has created a three-pronged challenge owing to the social, health and economic crises. As a result, its recovery packages of close to USD 280 bio. have largely been focusing on enhancing self-reliance by incentivizing domestic manufacturing and production, sustaining the supply chain and boosting the domestic demand. While a package of approx. USD 6 bio. was dedicated to the transportation of coal and while the package didn't comprise any explicit green recovery, several green initiatives were embedded in the recovery package including USD 8 mil. for afforestation, support for the manufacturing of solar modules, support for the dissemination of electric vehicles and the Green Railway initiative. The role for ICF was identified by Ritu Ahuja as follows: support in developing innovative funds and initiatives for a reduction of emissions in the MSME sector; Green Window Approach for investment; 'debt for nature swaps' or blended finance.

The impact of COVID-19 on South Africa, Samantha Keen of the University of Cape Town noted, was particularly aggravated by the fact that the country had been in a recession prior to the outbreak of the pandemic. Coming up with a recovery package meant for the government to reallocate funds, including from social security and development and environment. The rescue and recovery spending is all socio-economic in nature. Samantha Keen argued that ICF could help greening the recovery by focusing on adaptive co-benefits (supporting vulnerable people to increase future resilience to shocks), investing in socio-economic co-benefits, supporting initiatives that foster job creation and low-income livelihoods, support debt relief and debt forgiveness, and provide transition finance such as through the proposed Just Transition Transaction in South Africa.

Heiner von Lüpke concluded on the EU's perspectives and conclusions. While the EU has also suffered economic consequences from the pandemic, it is striking that, in contrast to the above-mentioned countries, its commission has proposed a recovery plan of Euros 1.7 trio. in July. Of this plan, 30% have been earmarked for green recovery. Instruments of the plan included a recovery and resilience facility, a just transition fund and a connecting Europe facility. While this plan was rejected by Hungary and Poland, it is clear that the EU will include green elements in its recovery because the commission sees it as part of modernizing the EU, making it more resilient and digital. This framing is one of the lessons which can be learnt from the European case, amongst with the importance of creating synergies.

In relation to overall conclusions from the synthesis report, Heiner von Lüpke mentioned that while the analysis of the country cases has revealed little focus on greening in the recovery packages, gaps towards a greener recovery were recognized and provide strategic options for ICF. Connectivity of socio-economic fields with green recovery were underlined here, as well as the role of ICF in reducing risks for private sector investors (triggering green investments) by strengthening the regulatory framework.

Karsten Neuhoff closed the webinar by acknowledging the stark contrasts between the national statuses of green recovery strategies. While a comprehensive plan with a long-term strategy has been put up by the EU, Brazil, Indonesia, India and South Africa's responses to the pandemic are still largely emergency driven. Karsten Neuhoff concluded by underlining the necessity of recognizing urgent needs and better understanding the ways in which ICF can help addressing them in a greener way.