Overview on the synthesis report

Contents:

- **Global review** of green recoveries and options for support through international climate finance

- **4 country perspectives** Brazil, India, Indonesia, South Africa + EU

URL distributed through webex chat and:

https://www.diw.de/de/diw_01.c.697920.de/projekte/strengthen_national_climate_policy_implementation__comparative__ical_learning__creating_linkage_to_climate_finance__-__snapfi.html
Overview on the synthesis report

Topic decided in project consortium in July 2020:

- To show how international climate finance can support green recoveries

- Goal is to bridge research and policy making in-country and internationally
Global review of socio-economic impacts of COVID-19 and how to deploy ICF in the context of green stimulus packages
Background
Low- and middle-income countries are particularly affected by the socio-economic impacts of COVID-19 and, hence, face difficult policy choices.
Greening ‘Red’ Recoveries
Stimulus packages of low- and middle-income countries have the potential to be enlarged in an environmentally sustainable way

- $12.7 trillion global stimulus
- 30% of recovery payments flow to sectors with high environmental impact
- GSI: Index assessing the ‘greenness’ of stimulus packages
- Most countries’ stimulus packages have a net negative environmental impact
- Emerging economies tend to have smaller and less sustainability-oriented stimulus packages
- This underscores the additional socio-economic and liquidity challenges faced by low- and middle-income countries
Green recovery has a vast array of benefits, ranging from economic growth to reduced inequality.

- Climate action
- Economic growth
- Resilience to future crises
- Reduced global inequalities
- Socio-economic co-benefits
International Climate Finance Instruments
A variety of international climate finance tools can assist low- and middle-income countries in greening their COVID-19 recovery plans

<table>
<thead>
<tr>
<th>ICF Instrument</th>
<th>Benefits</th>
<th>Potential challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>+ Immediate relief for countries drastically in need</td>
<td>- Potentially spent less effectively than loans as there is no market mechanism</td>
</tr>
<tr>
<td></td>
<td>+ Effective in redistributing wealth</td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>+ Market-based mechanism (interest payments) incentivizes efficient spending</td>
<td>- Exchange rate risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Additional pressure on debt account</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Less effective in wealth redistribution</td>
</tr>
<tr>
<td>Concessional loans</td>
<td>+ Reduced fiscal burden if debt servicing doesn’t begin until post-crisis</td>
<td>- This ‘bridge’ between grants and loans may not be sufficient if crisis lasts longer than expected</td>
</tr>
<tr>
<td></td>
<td>+ Partial market-based mechanism</td>
<td></td>
</tr>
<tr>
<td>Debt forgiveness</td>
<td>+ Frees up funding for stimulus and relief efforts instead of debt servicing</td>
<td>- Potential moral hazard issue</td>
</tr>
<tr>
<td></td>
<td>+ Decreases risk of recipients to default on debt</td>
<td>- Not clear if freed-up funds will be spent on COVID-19 measures</td>
</tr>
<tr>
<td>Conditional funding</td>
<td>+ Relieves acute COVID-19 impacts and promotes sustainability</td>
<td>- May lead to a lack of national ownership and adverse local reactions</td>
</tr>
<tr>
<td></td>
<td>+ Potential to jumpstart green sectors</td>
<td>- May create incentives to misreport progress</td>
</tr>
</tbody>
</table>
COVID-19 Green Recovery Evaluation
Recipient countries can use international climate finance to fund different types of green recovery policies, each with their unique benefit profile.

<table>
<thead>
<tr>
<th>Green Recovery Policy</th>
<th>Economic Effectiveness</th>
<th>Sustainability</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bailouts with green strings attached</td>
<td>High</td>
<td>Low-medium</td>
<td>Low-medium</td>
</tr>
<tr>
<td>Green public investment programmes</td>
<td>Medium</td>
<td>Medium-high</td>
<td>Medium-high</td>
</tr>
<tr>
<td>Loans / grants for green investment</td>
<td>Low-medium</td>
<td>Medium-high</td>
<td>Variable</td>
</tr>
<tr>
<td>Subsidies / tax reductions for green products</td>
<td>Variable</td>
<td>Medium-high</td>
<td>Variable</td>
</tr>
</tbody>
</table>
Areas for further research
Further research should make use of the new data that will become available as COVID-19 progresses to address important issues

- Have innovative climate finance instruments been used for green recovery, and ...
  - If so, have they been successful in achieving transformational change?
  - If not, why not? Could the stimulus have been improved with the use of innovative instruments?

- How can international climate finance help make recipient countries more resilient to future crises or shocks?
Contact us

Vivid Economics Limited
163 Eversholt Street
London NW1 1BU
United Kingdom

T: +44 (0)844 8000 254
enquiries@vivideconomics.com

vivideconomics.com
Impacts of COVID 19 on the economy and status of the country’s recovery plan

Brazil

FGV team:
Annelise Vendramini
Camila Yamahaki
Gustavo Velloso Breviglieri
Impacts of the crisis on the Brazilian economy

- The national GDP is expected to fall by **4.66%**.

- Primary deficit should reach **12%** due to relief measures and lower tax collection (**0.85%** of the GDP in 2019)

- Economic stimulus package of USD 150 billion (including support the most vulnerable)

- **12.8 MM** unemployed - 11.8% in the 2Q 2020 (vs. 11.6 MM in Q4 2019)

Source: Brazilian Central Bank (2020); IBGE (2020)
Possible role of ICF to support a greener recovery

- The government has not proposed economic recovery initiatives with green objectives.
- Interested in resuming its reform agenda.
- Technical assistance for the design of **tax measures** aligned with the Paris Agreement and the tax reform (similarly to the Partnership for Market Readiness - PMR)
- Grants to support implementation of **anti-deforestation policies** (discussions to resume the Amazon Fund)
- Technical assistance on **public policy development**. E.g.: Central Bank launched its sustainability agenda (working in partnership with GIZ, CBI and the NGFS).
How to Structure Green Stimulus Packages after The COVID-19 Crisis and which Role can International Climate Finance Play?

Indonesia Perspective: The current state and finance opportunity

Budhi Setiawan, Phd
Climate Finance Management Expert
Climate Change Center, Bandung Institute of Technology

20 November 2020
Indonesia Context

As the COVID-19 cases projected to increase, The GoI will focus on the health sector, social safety net and economic stability as it mentioned on the National Economic Recovery Programs (PEN) (PP 23/2020)

The COVID-19 pandemic creates opportunities for Indonesia to enter a low carbon economy growth pathway. However, based on PEN and the 2021 APBN, there is no integration between the recovery program and the low carbon development agenda

Low Carbon Development Indonesia as the main strategy

- Encourage an inclusive green economic fiscal stimulus
- The use of public funds for investment
- Integrate climate risks and opportunities into the financial system and aspects of public policy (RPJMN)
- Opportunity for Green jobs
- Develop innovative funding schemes and policies to encourage the participation of non-governmental actors

2020-2021:
exercise the impact of the crisis to the green structure in climate budget, vice versa.

2022:
new design of green stimulus ➔ Technical supports are needed by countries in the form of assessing how stimulus packages can trigger green growth

Covid-19 case is projected to be increased until the vaccine invented
Current Climate Finance Instrument in Indonesia

<table>
<thead>
<tr>
<th>No</th>
<th>National</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Climate Mitigation and Adaptation Spending on State Budget</td>
<td>Green Climate Fund</td>
</tr>
<tr>
<td>2</td>
<td>Global Green Sukuk</td>
<td>Global Environment Facility</td>
</tr>
<tr>
<td>3</td>
<td>Green Sukuk Retail</td>
<td>Adaptation Fund</td>
</tr>
<tr>
<td>4</td>
<td>Environment Fund (BPDLH)</td>
<td>Loan &amp; Grant from MDBs</td>
</tr>
<tr>
<td>5</td>
<td>SDG Indonesia One</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Private Investment</td>
<td>Bond Investor</td>
</tr>
<tr>
<td>7</td>
<td>Sustainable finance (banking &amp; other financial sectors)</td>
<td>Equity Fund</td>
</tr>
<tr>
<td>8</td>
<td>Philanthropy</td>
<td>Pension Fund</td>
</tr>
<tr>
<td>9</td>
<td>-</td>
<td>Philanthropy</td>
</tr>
</tbody>
</table>

GREEN SUKUK as Potential Windows

The MoF needs to mobilize funding sources outside of state budget (APBN) such as by adding government debt papers (SUN) and sharia-compliant bonds (sukuk) so that efforts to achieve the NDC target can be on track. In contrast to issuance of loans which are more difficult to evaluate at this stage, considering the lag time between arrangement, issuance, and trading in secondary markets, GREEN SUKUK performed more promising investment.

Green Sukuk provided several conditions such as:

- (1) Proceeds clearly earmarked for green investments which more trusted for investor.
- (2) Green sukuk as a state bond is automatically inherent in it a green certificate, which can be used as a means of financing green activities that have not been earmarked, by claiming the value of those activities through Climate Budget Tagging.
- (3) Sustainability-linked: Green sukuk considered as pandemic-related thematic ‘social’ financial instrument since Green Sukuk is focus on supporting social infrastructure such as the development of renewable energy in in various remote areas in Indonesia which could provide ‘job opportunity’ and a chance for ‘economic development’ for the locals.

Source: Fiscal Policy Agency, 2020
CLIMATE FINANCE OPTIONS

ENVIRONMENT FUND AGENCY

BPDLH (BLU) aims to support conservation, environmental management, biodiversity management, and addressing the impact of climate change.

Source of Fund:
- Non-Tax Revenue
- Revenue from Government Services and Investment
- Development partners (multilateral, bilateral, non-government)

Funding Scheme:
- Grant
- Loan
- Subsidy
- Carbon Trade

BPDLH Financing Mechanism:
- REDD+ Financing Mechanism:
  - REDD+ Norway USD 800 mil (RAPP)
  - REDD+ Indonesia USD 200 mil (Readiness Funds)
- Performance Assessment
- State Budget
- New Investment
- Emission Reduction
- REDD+ Projects (Part of NDC)
- Technical Assistant
- Implementation

SDG INDONESIA ONE

SDG Indonesia One is a blended finance platform managed by PT. Sarana Multi Infrastruktur (SMI) to facilitate philanthropic involvement, international donor agencies, aid allocation, green investors, commercial banks. Multilateral Development Banks (MDBs), etc.

Donor (Philanthropy) and Impact/Climate Funds
- Contribution:
  - Grant
  - Technical Assistance
- Objective:
  - Support pre-construction project development

Donor, Impact/Climate Funds and Development Banks
- Contribution:
  - Pinjaman, Hibah
- Objective:
  - Project de-risking (improving bankability)

Commercial Banks and Institutional Investor
- Contribution:
  - Loan, Bond, Sukuk
- Objective:
  - Construction / post-construction finance

Institutional Investor and Developer
- Contribution:
  - Equity
- Objective:
  - Investment in high impact / new frontier SDG sector

BPDLH Financing Mechanism:
- REDD+ Norway USD 800 mil (RAPP)
- REDD+ Indonesia USD 200 mil (Readiness Funds)
- Performance Assessment
- State Budget
- New Investment
- Emission Reduction
- REDD+ Projects (Part of NDC)
- Technical Assistant
- Implementation

BPDLH Financing Mechanism:
- REDD+ Financing Mechanism:
  - REDD+ Norway USD 800 mil (RAPP)
  - REDD+ Indonesia USD 200 mil (Readiness Funds)
- Performance Assessment
- State Budget
- New Investment
- Emission Reduction
- REDD+ Projects (Part of NDC)
- Technical Assistant
- Implementation

BPDLH Financing Mechanism:
- REDD+ Financing Mechanism:
  - REDD+ Norway USD 800 mil (RAPP)
  - REDD+ Indonesia USD 200 mil (Readiness Funds)
- Performance Assessment
- State Budget
- New Investment
- Emission Reduction
- REDD+ Projects (Part of NDC)
- Technical Assistant
- Implementation

SDG Projects

Source: Fiscal Policy Agency, 2020
# RECOMMENDATION ACTION

## Further Study (Technical Assistance)

1. **Calculating the risk of the change of NDCs implementation scheme** which being hampered by the changes in both policy and budget posture due to Covid-19 pandemic. This risk needs to be calculated in several time-based scenarios, such as creating a 1 year, 2 year, 3 year postponement scenario and so on.

2. Based on the results of the risk calculation, it is necessary to **restructure the NDC roadmap by prioritizing programs that have a large investment value** at the beginning in regard to keep the achievement of NDC still on track and open up greater funding opportunities, this aspect should be followed by more sustainable criteria such as job opportunities and emission reduction potential.

## Political Discourse

1. **Ensure that climate change programs are aligned with short-term policies** such as fiscal stimulus as well as medium-term policies such as Medium Term Development Planning, and long-term policies.

2. It is necessary to **involve all stakeholders**, both academic institutions, non-governmental organizations or the general public to encourage the acceleration of studies, investment and implementation of green policies. The needs of integrating this aspect to the development of Technologies and Information considered catalysed the planning-implementation process.

3. Based on a study of Indonesia's rise from the economic recession in 1998, **political and bureaucracy concern** plays an important role in determining the effectiveness of the recovery process. Thus, this aspect is also need to be considered as an aspect to be transformed.
Economic output plummeted by 23.9% year-on-year in the second quarter of CY 2020 (FY Q1 2020), marking the worst reading since current records began in 1996.

The impact was worse for the large component of the Indian economy employed in the informal sector leading to a severe socio-economic and health crisis.

India’s recovery package, close to about $280 billion, was revealed in three tranches

- **May 2020**: USD 266 billion: Atma Nirbhar Bharat (Self Reliance) Scheme- with a package of about 10% of India’s GDP
- **October 2020**: USD 10 billion- focussed on incentivise consumer spending to thereby boost demand
- **November 2020**: USD 4 billion- support to production linked incentives, boosting housing demand and job creation
THE GREEN VS THE BROWN

Green Components

Supporting India’s Green Initiatives

- Allocation of about USD 8 billion for afforestation program via the CAMPA fund. Has further co-benefits of developing rural livelihoods.

- There has been support for furthering renewable energy including incentives for LED and manufacturing of solar modules. Especially in the 10 production linked incentives, introduced in the last tranche of recovery plans.

- Support for electric vehicles - especially the policy introduced by the Delhi government. Several state governments have developed EV policies, furthering investment in EV and charging infrastructure.

- Green Railway Initiative

Brown Components

The transition for coal is difficult and politically challenging especially in this economic downturn

- In the recovery package, about USD 6 billion was for facilitating coal transportation and offering 50 mining blocks for auction.

- This support persists despite the government announcing its plants to shut some of the oldest and most polluting coal plants.

- The annual output target for state-owned Coal India Ltd., the world’s biggest miner of the fuel, was boosted 18% to 710 million tons, an ambitious target fuelled by government expectations that power demand will continue rise.
ROLE OF INTERNATIONAL CLIMATE FINANCE

While there are no explicit areas of green financing highlighted under the recovery plan, ICF can support in the following manner:

1. ICF can support in developing innovative funds and facilities for supporting Indian MSME sector minimize its emissions

2. Green Window Approach to further investment in some of the key climate relevant areas.

3. Other instruments used can be Debt for Nature Swaps and Blended Finance
Thank you
ICF support for a greener recovery in South Africa

“Strengthen national climate policy implementation: Comparative empirical learning & creating linkage to climate finance”
SNAPFI Webinar - 20 November 2020
Samantha Keen
SA economy prior to the COVID crisis

“Prior to the onset of the pandemic, the economy was in recession, the rate of unemployment was at its highest level in over a decade, poverty and inequality remained deeply entrenched, and the fiscal situation was deteriorating due to lower than expected revenue earnings and growing sovereign debt (The Presidency Republic of South Africa, 2020).
South Africa economic rescue and recovery package

<table>
<thead>
<tr>
<th>Funding sources</th>
<th>ZAR bn</th>
<th>EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Guarantee Scheme</strong></td>
<td>R 200</td>
<td>€ 10</td>
</tr>
<tr>
<td>Baseline reprioritisation</td>
<td>R 130</td>
<td>€ 7</td>
</tr>
<tr>
<td><em>Borrowings from multilateral finance institutions and development banks</em></td>
<td>R 95</td>
<td>€ 5</td>
</tr>
<tr>
<td>Additional transfers and subsidies from the social security funds</td>
<td>R 60</td>
<td>€ 3</td>
</tr>
<tr>
<td>Budget of Dept of Social Development 2020/2021 appropriation</td>
<td>R 15</td>
<td>€ 1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>R 500</td>
<td>€ 25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Spending (announced)</th>
<th>ZAR bn</th>
<th>EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>(all are socio-economic)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes debt and debt relief <strong>domestically</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Health interventions</strong></td>
<td>R 20</td>
<td>€ 1</td>
</tr>
<tr>
<td><strong>Municipalities support</strong></td>
<td>R 20</td>
<td>€ 1</td>
</tr>
<tr>
<td><strong>Social grants</strong></td>
<td>R 50</td>
<td>€ 3</td>
</tr>
<tr>
<td><strong>Job support</strong></td>
<td>R 100</td>
<td>€ 5</td>
</tr>
<tr>
<td><strong>Wage guarantees</strong></td>
<td>R 40</td>
<td>€ 2</td>
</tr>
<tr>
<td><strong>Loan guarantees</strong></td>
<td>R 200</td>
<td>€ 10</td>
</tr>
<tr>
<td><strong>Tax and payment deferrals and holidays</strong></td>
<td>R 70</td>
<td>€ 4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>R 500</td>
<td>€ 25</td>
</tr>
</tbody>
</table>
How can ICF support greening the recovery?

**Adaptive co-benefits:** support highly vulnerable people in low-and middle-income countries to increase resilience to future climate shocks, e.g. finance for human health system capacities, social protection instruments

Invest in: **socio-economic and environment co-benefits**, e.g. water and sanitation, sustainable (green, safe, affordable, reliable) transport; initiatives that **foster job creation and low income livelihoods**, like renewable energy, energy efficiency, climate-proofing homes

Support **debt relief, debt forgiveness, debt restructuring** to eradicate expensive sovereign debt, for example in return for GHG emission / air pollution reduction

Provide **Transition Finance**, e.g. the **Just Transition Transaction in SA** to create a blended (public-private, international-domestic) finance vehicle that will accelerate the phase-out of (electricity) coal and establish a Just Transition Fund to protect affected workers and livelihoods
European Union: Status of the EU’s recovery plan & considerations for ICF

SNAPFI webinar “How to deploy ICF to support green recovery strategies”

Heiner von Lüpke, DIW Berlin
20th November 2020
All Member states faced shrinking GDP: EU = minus 11.4 % during the second quarter of 2020

Economic impacts (growth, employment), however, differ for each member state
1. EU recovery plan

EU Commission proposed:
- EU budget for 2021-2027 of 1.100 bn EUR
- EU recovery budget for 2021-2024 of 750 bn EUR (“Next Generation EU”)
→ 30 % of total recovery program climate change and adaptation

Selected instruments:
- Recovery and Resilience Facility (670 bn EUR): cross-cutting key instrument for recovery
- Just Transition Fund (up to 107 bn EUR): targets – among others – transformation of existing carbon-intensive industries
- Connecting Europe Facility (30 bn EUR): funding instrument to promote growth, jobs, and competitiveness through targeted infrastructure instrument at European level.

EU budget proposal blocked by Hungary + Poland (most recent status)
1. Motivations for a green recovery in the EU

- **Discussions did take place** whether it was more important to first revive the economy and create jobs than worry about climate protection.

- However, neglecting green elements in an economic stimulus packages was seen as **risky** in light of high level of national debt and risk of **financing stranded, high-carbon assets**.

- Also **evidence from past crises**: inclusion of climate-friendly elements in an economic policy led to:
  - Economic growth and jobs (short term) – **green growth and creating jobs is not a contradiction**
  - Creates basis for **long-term innovations** and climate-friendly economic development.

Addressing climate change is understood by EUcomm as part of a package to transit the EU towards modernization: to become greener (achieving 2030/2050 climate goals), more digital, and more resilient.
1. What can be learned from the EU case?

- Climate change can be framed as part of a recovery package leading to modernization, appealing to policy actors.

- **Budget constraints** even more pressing in emerging economies /developing countries, trying to structure recovery packages.
  - Therefore: even more important to **realize synergies** from green recovery.
  - And: how international support can help there?

- These can become **strategic options** for EU’s efforts to support green recoveries internationally.

- **Recommendation** that countries analyze strategic entry points to enhance green components in their recovery programs such that ODA / ICF can work effectively.
Overall conclusions from the report

- Analysis of Brazil, Indonesia, India and South Africa: recovery strategies focus mostly on red issues

- Gaps towards a greener recovery strategy were identified and these provide strategic options for ICF:
  - Broad economic problems (e.g., solvency) can be connected with climate change actions which also produces socio-economic benefits

- If ICF can contribute to strengthen regulatory frameworks, and thus reduce risks for private sector investors, it can trigger additional investments in e.g., renewables, efficiency and public transport systems

- ICF instruments for green recovery support:
  - May not alter, but scale of cooperation may be reconsidered
  - Might be measured even more for red-green synergies