

ARE WE BUILDING BACK BETTER?

Evidence from 2020 and Pathways to Inclusive Green Recovery Spending



Global Recovery
Observatory



Acknowledgements

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FOREWORD

One year ago, the world woke up to find itself unprepared for a public health crisis whose proportions far exceeded anything within our lifetimes. A crisis in all probability linked with nature loss and shrinking habitats – a message from nature. And one that comes on top of the existential, man-made crises of climate instability and growing levels of toxicity and pollution, making us painfully aware that the lack of resilience in our economies and societies is exacerbating existing inequalities within and between countries. The fiscal response to the pandemic from governments around the world has been admirably swift and ambitious in scale. Most governments, and those with the most capacity to do so, have taken extraordinary actions to tackle an unprecedented challenge. But as this paper shows, we risk wasting an opportunity to course correct and heed nature's warning by continuing to allocate spending to investments which degrade the natural environment and our more basic life support systems.

Let me be clear – we understand that rescue spending was and is absolutely essential to provide short-term and immediate relief to boost health services and to households and businesses to keep them afloat, and that governments have little discretion when it comes to designing rescue packages. But they do have choices when thinking about planning recoveries once short-term relief has been provided. This paper, and work by our partners from the Oxford Smith School of Enterprise and the Environment, clearly shows that we are not yet building back better when it comes to recovery spending. On the whole, so far global green spending does not match the severity of the three planetary crises of climate change, nature

loss, and pollution, leaving significant social and long-term economic benefits off the table. With this paper, we hope to shine a light on the choices countries have made in 2020 and provide a preliminary idea of how to align recovery spending at a global and national level with the 2030 Agenda and Paris Agreement. While looking back and measuring progress is a part of this exercise, this is not our main objective. Recoveries are just getting started and the bulk of recovery spending is yet to come.

Through the Global Recovery Observatory, and the work UNEP has been doing over the past year to bring evidence to bear on the benefits of investing and making peace with nature, we hope that countries will have the resources and knowledge needed to embed the environment into recovery plans and national economic policymaking. We are thankful for the partnership with the Oxford Smith School of Enterprise and the Environment in developing the framework which has allowed this novel analysis to come to fruition.



A handwritten signature in black ink, appearing to read 'Inger Andersen', written over a light-colored background.

Inger Andersen

Executive Director

United Nations Environment Programme

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ABSTRACT

A growing body of evidence, including Hepburn et al. (2020), suggests that green fiscal spending can deliver stronger economic returns than traditional spending alternatives. Additionally, studies show that well-designed green spending can counter the environmental crises of climate change, pollution, and biodiversity loss, while also delivering significant social benefits. In response to COVID-19, we find that the fifty largest economies announced USD14.6tn in fiscal spending in 2020, of which USD1.9tn (13.0%) was for long-term economic recovery. But have spending patterns aligned with the Sustainable Development Goals and Paris targets? In this paper, we analyse the characteristics of 2020 COVID-19 spending using over 3,000 spending policies from the Global Recovery Observatory's tracking of the fifty largest economies.

To the question, "Are we building back better?" the answer is: not yet. Early findings suggest that global green spending is so far incommensurate with the scale of ongoing environmental crises and that

associated economic and social gains are not being fully captured. Excluding currently uncertain packages from the European Commission, 18.0% of recovery spending, and only 2.5% of total spending, is expected to enhance sustainability. The vast majority of green spending has come from a small set of high-income nations. Debt constraints have restricted spending in emerging market and developing economies, suggesting that substantial concessional finance from international partners will be needed to dampen growing poverty and worsening inequality.

At the time of writing, the largest window for green spending is only now opening, as nations shift attention from short-term rescue measures to recovery. Using examples from 2020 spending, we highlight five major green investment opportunities to be prioritised in 2021: green energy, green transport, green building upgrades & energy efficiency, natural capital, and green research and development.

INTRODUCTION

The effect of the COVID-19 pandemic on lives, livelihoods, and economies has been profound and devastating. Emerging data reveals the extent of the damage, with the global economy contracting an estimated 3.5% in 2020 (IMF, 2021) and global extreme poverty increasing for the first time in over two decades (UNDP, 2020). Widespread business closures, extensive job losses, and deep recessions are just some of the immediate economic effects (World Bank, 2020a). Beyond economic impact, COVID-19 has exposed and, in some cases, exacerbated underlying social and environmental issues. These challenges have spurred calls to 'build back better' from political, corporate, and academic actors.

Chief among the pre-existing issues are widespread inequality and climate change. For the former, both the employment impacts and the health impacts of the pandemic are disproportionately burdening low-income communities, women and gender minorities, and other marginalised individuals (Mongey et al., 2020; Shadmi et al., 2020; Wenham et al., 2020), groups that are already set to be hit hardest by the unfolding climate crisis (Roberts, 2001). For the latter, while an early fall in greenhouse gas (GHG) emissions over the pandemic may seem like a positive effect, this came with significant costs and a full rebound in emissions is now all but inevitable (Le Quéré et al., 2020; Liu et al., 2020).

Countries with fiscal capacity have responded to the economic challenge of COVID-19 with massive spending packages and more is expected. In the first phase of response, packages mainly functioned as emergency rescue spending; to protect lives and livelihoods. In some nations,

subsequent packages have focused on recovery spending to repair struggling economies by stimulating consumer demand and economic growth. Whilst some of these fiscal packages have supported supplementary objectives to counter social and environmental challenges, in many cases these needs have been ignored.

A one-dimensional focus on short-term economic recovery risks further exacerbating long-term social and environmental crises. Given the harsh consequences of the pandemic and high costs of inaction, public policy and finance are front and centre for reenergizing growth and ensuring more inclusive and sustainable recovery pathways. Transparency is required to track government progress against long-term economic, environmental, and social objectives, as well as alignment with debt obligations, and contributions to the 2030 Agenda for Sustainable Development and the UNFCCC Paris Agreement.

In response to this critical need, Oxford University, UNEP, and partners have produced the Global Recovery Observatory (the Observatory), supported by IMF and GIZ through the Green Fiscal Policy Network (GFPN).¹ The Observatory tracks the fiscal rescue and recovery spending initiatives of the fifty largest economies at the policy level. Additionally, the Observatory assigns each policy to an exhaustive and mutually exclusive taxonomy of 40 archetypes and 158 sub-archetypes, including spending and some taxation measures.

Based on archetypes, policies are assessed on a variety of economic, environmental, and social impact characteristics, providing indications of potential impacts on major global crises including

¹ The views represented in this paper do not necessarily reflect the view of the GFPN partners, including the UNEP, GIZ, and IMF.

climate change, nature loss, pollution, and inequality.

Here, we present early data outputs from the Observatory to understand COVID-19 fiscal spending priorities in 2020 and which environmentally and economically desirable policies are facing underinvestment. We explore generalised policy types that present positive characteristics and countries that may reap particularly high benefits from these policies. In chapter 1 we examine the economic impacts of COVID-19 on countries in 2020 and consider the temporal dimension of global spending. Chapters 2-6 each explore the characteristics of announced spending in one of five priority green policy areas: green energy investment, green transport

investment, green building upgrades and energy efficiency investment, natural capital investment, and green research and development (R&D) investment. Throughout these chapters, policy examples from countries were selected based on congruence to the green spending archetype categories to illustrate how these policies are being applied.

These should not be interpreted as examples of perfect policy making. Policy design and uptake will vary significantly between nations depending on their specific contexts and needs. We conclude by highlighting next steps for nations to realise their ambitions for a more sustainable and inclusive recovery.²

² This report and the Observatory do not in any way aim to project the precise impacts of policy. Indeed, evolving economic circumstances and inherent difficulties in a priori assessment render any such exercise impossible at a global scale. Instead, this report aims to explore

government spending practices thus far, giving broad indications as to actions that may affect GHG emissions, nature loss, air pollution, inequality, and broader sustainability goals.

1. THE 2020 STORY OF GLOBAL COVID SPENDING

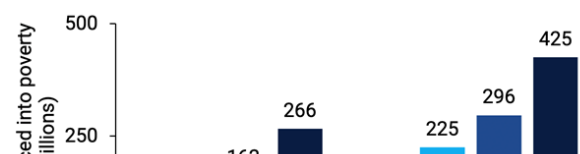
1.1 The economy is on a ventilator

One year after the onset of COVID-19, it is difficult to appreciate the tremendous damage done to economies around the world. Few sectors have remained immune to the pandemic's effects. The most recent World Economic Outlook update (January 2021) paints a grim picture, estimating ~3.5% global growth in 2020 (IMF, 2021). At the time of writing in January 2021, extensive mobility restrictions remain in place in many countries, with a large proportion of businesses closed or operating at reduced capacity. Due to both health and economic factors, the pandemic has had far reaching consequences on lives and livelihoods, likely to last for many years (IMF, 2020b). Job losses, long-term furlough schemes, and impeded schooling have all acted to erode human capital with negative long-term effects to social wellbeing and economic productivity.

Reduced human capital also acts as a headwind against efforts to effectively grow clean industries and transition to a low-carbon future. Existing inequalities in healthcare access and pre-existing conditions have pushed the disease burden onto

of previous epidemics on economies of all income levels (Gabriela & Narita, 2020). Women and gender minorities have also been disproportionately impacted (Wenham et al., 2020).

Figure 1 illustrates the potential impacts of the pandemic on low-income earners globally under various Gini scenarios,³ with even a 2% Gini increase leading to 225 million more people living under \$3.20 a day (equivalent to more than two thirds of the entire US population). The World Bank's most recent Global Economic Prospects (2021a) estimates that total new people in poverty in 2020 was likely 119-124 million under the \$1.90 poverty line, and 228-236 million under the \$3.20 poverty line, with the vast majority concentrated in South Asia (respectively, accounting for 60% and 67% of new poor under the \$1.90 and \$3.20 baselines).



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