Global COVID-19 recovery investment is not aligned with COP rhetoric

Are We Building Back Better Update – COP26: Governments are not reorienting their economies to a green future and vulnerable nations are being left behind

28th October 2021

Although COP26 has been anticipated as an inflection point in the fight against climate change, governments have so far failed to take advantage of their greatest ever fiscal opportunity on climate change—the COVID-19 economic recovery.

At the onset of the pandemic, governments released the fiscal floodgates to rescue both their economies and their populations from the ravages of COVID-19, particularly in advanced economies with cheap access to capital. Yet as nations have shifted from a period of rescue into one of economic recovery, for advanced economies, spending has lacked the green characteristics necessary to maximise future prosperity, while low- and middle-income countries (LMICs) have struggled to access the capital desperately needed to support their recovery.

It is vital that remaining recovery stimulus advances environmental prosperity alongside economic and social objectives. If spending is not urgently redirected towards a global green recovery, ballooning debt could hinder future efforts to commit adequate funds to tackling climate change.

As global leaders gather in Glasgow, they must be held accountable for their inaction and empty climate commitments. But opaque spending processes make it hard to hold leaders to account. To combat this, the Global Recovery Observatory is democratising fiscal spending policy so that citizens can understand where their tax dollars are going and how that compares to other nations.

Governments in advanced economies have overwhelmingly failed to prioritise green investment in their COVID-19 recoveries. Research from Oxford University's Economic Recovery Project (OUERP) shows that only 21% of global recovery spending by Annex 2 countries is expected to enhance sustainability.[1] As a portion of total spending (rescue and recovery), green investment is a mere 3%.[1] Despite widespread political rhetoric in support of a green recovery[2], financing has fallen short of promises. Instead, trillions of dollars from Annex 2 nations are flowing to fund the unsustainable economic status quo. This is particularly perturbing for vulnerable nations who will disproportionately suffer the impacts of climate change, and yet have been unable to secure adequate climate finance under the Paris Agreement (Taconet et al., 2020; UNFCCC, 2021).

---

[1] Figure excludes as yet unallocated European Union spending.

[2] For example, in the United States, United Kingdom, and Norway. Although the United Kingdom and Norway have announced domestic climate targets that are close to or compatible with limiting global temperature rises to 1.5°C, international financing and domestic policies are insufficient to fulfil these countries' climate ambitions (Climate Action Tracker, 2021).

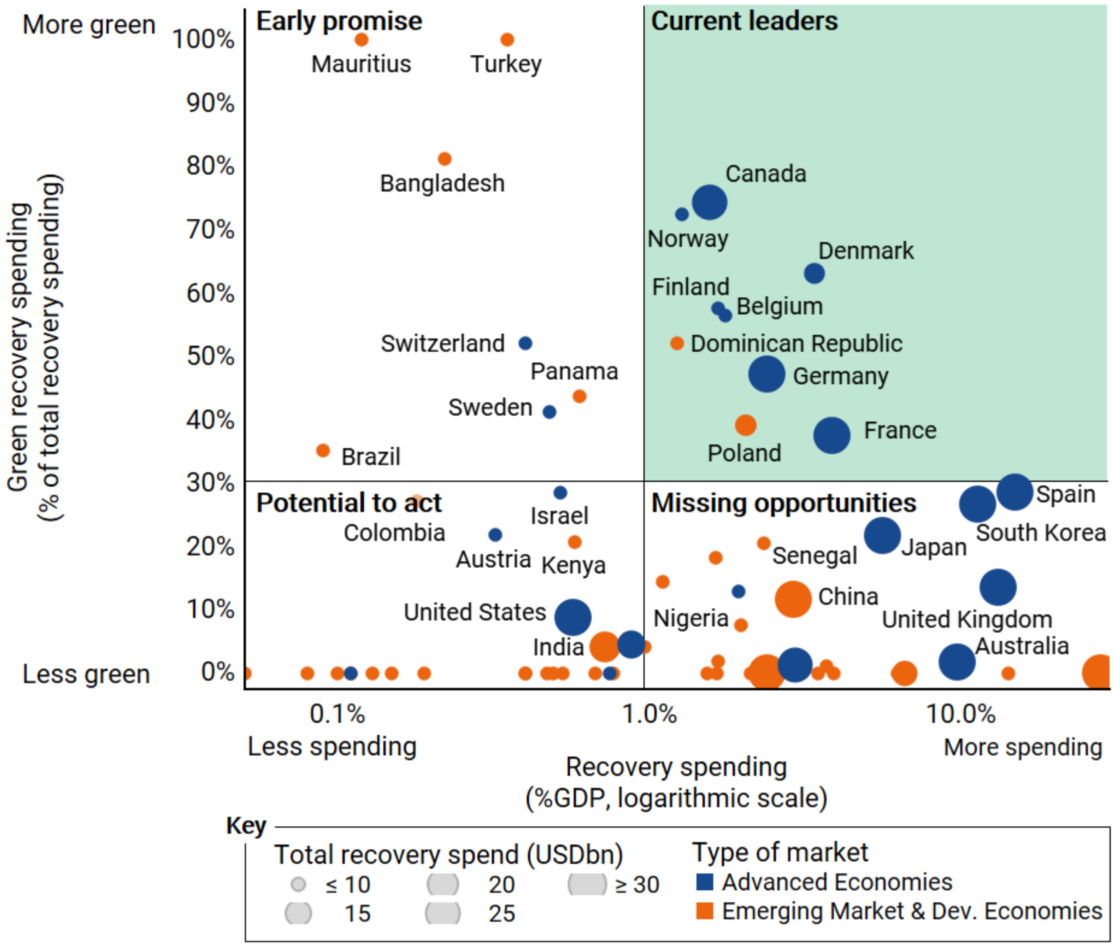

Figure 1: Green recovery spending as a percentage of total recovery spending versus recovery spending as a percentage of GDP. Countries that have spent 0% green but less than 1.0% of GDP on recovery include, arranged by contribution, Antigua and Barbuda (0%), Cuba (0%), Guatemala (0%), Guyana (0%), Iran (0%), Nicaragua (0%), Paraguay (0%), Rwanda (0%), Uruguay (0%), Vietnam (0%), Venezuela (0%), Indonesia (0.01%), Romania (0.01%), Singapore (0.03%), Costa Rica (0.04%), Russia (0.05%), Czech Republic (0.07%), El Salvador (0.08%), UAE (0.10%), Ecuador (0.11%), Taiwan (0.11%), Malaysia (0.13%), Thailand (0.15%), Honduras (0.19%), Egypt (0.40%), Kazakhstan (0.40%), Haiti (0.47%), Belize (0.49%), Saudi Arabia (0.53%), Trinidad and Tobago (0.67%), Portugal (0.75%), and Kyrgyz Republic (0.77%). Countries that have spent 0% green and more than 1.0% of GDP on recovery include Saint Lucia (1.54%), Saint Kitts and Nevis (1.65%), Ghana (2.12%), Iraq (2.38%), Mexico (2.38%), Saint Vincent and the Grenadines (2.50%), Bahamas (2.97%), Grenada (2.99%), Suriname (3.05%), Bolivia (3.49%), Morocco (3.90%), Dominica (6.29%), Peru (6.61%), Mongolia (14.27%), and the Philippines (28.12%).

In vulnerable nations, the green recovery has been hamstrung by barriers to finance. These countries often do not enjoy the same fiscal freedoms or near-zero borrowing costs that advanced economies do. While economic recoveries are typically built on debt, high interest rates and low credit scores make debt difficult to come by in Emerging Market and Developing Economies (EMDEs). The result is a clear spending gap between advanced economies and vulnerable nations, with consequences likely to shape economic growth pathways into the medium- and potentially longer-term (Volz et al., 2020).

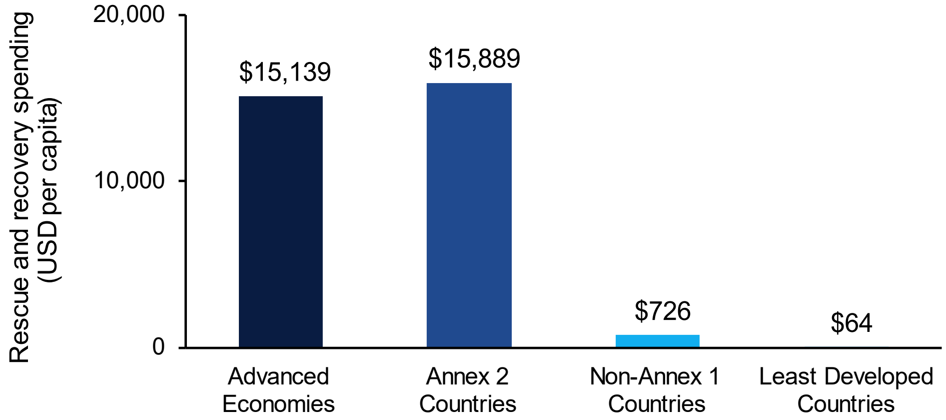

Figure 2: Covid-related spending per capita across development categories (USD)

Advanced economies continue to eschew aid for vulnerable nations and abrogate their responsibility to assist EMDEs. The promise of USD 100 billion in climate finance for Non-Annex 1 nations by 2020 remains unfulfilled more than a decade after it was made (Bhattacharya, 2020), despite Annex 2 economies spending 14.8 trillion USD on their responses to COVID-19—14.4 trillion of which is unsustainable. In the context of such significant spending, the excuses made to dodge aid obligations are insulting.

The climate and green aid targets set by advanced economies are underwhelming. This pandemic has shown they are unwilling to fund even these unambitious commitments.

To avoid the worst effects of climate change and protect vulnerable nations from its consequences, more ambitious targets must be set and achieved. The COVID-19 economic recovery is an unmissable opportunity to raise ambitions and finance improved targets.

At COP, the Oxford Smith School and The Green Fiscal Policy Network are reinforcing the call made at the launch of the Global Recovery Observatory in April 2021 with the following three recommendations:

1. **Green the recovery to align our economies with climate action and get them back on track**

   Green stimulus embodies strong fiscal recovery characteristics. High economic multipliers, brought about by jobs creation and the crowding-in of private investment, enhance the impact of every green dollar spent (O'Callaghan and Murdock, 2021). Reduced waste and improved efficiencies are also attractive attributes of green investments (Hepburn et al., 2020). Governments around the world are doing their citizens a disfavour by ignoring these benefits, opting for policy choices that do not optimise for future prosperity. Funnelling funds into traditional infrastructure that reinforces the unsustainable status quo makes it harder and more expensive to change course later.

   Effective green investment can also bring positive social and environmental outcomes. Health benefits are realised through reduced air pollution (Alvarez-Herranz et al., 2017; Kampa and Castanas, 2008), mitigated heat stress, and healthier lifestyles (IEEP, 2016). The mitigation of climate change can also cultivate sustainable ecosystems amongst many other environmental benefits (Malhi et al., 2020). To reap these benefits, governments should tie environmental sustainability provisions to any spending that has already been announced, and any new stimulus should be designed with a green lens.

2. **Reinforce the green recovery with a lasting shift to green budgeting**

   As post-COVID fiscal spending tightens, it will be vital for governments to understand the full ramifications of stimulus on competing priorities. Governments should adopt and sustain a wholistic approach to budget decision making.

   Spending should be assessed for its impact on economic, developmental, social, and environmental priorities. Green recovery spending can drive progress on each of these goals, as evidenced by the economic recovery from the Great Recession (UNEP, 2020). In contrast, brown and colourless spending often exacerbates social issues and damages the environment, causing economic pain in the future.

   Governments should capitalise on the momentum created by green recovery spending to renew the budget process. A wholistic approach to budgeting will ensure that the most deserving policies are funded and will drive us toward a greener and more prosperous future.

   To assist Governments with—and keep them accountable to—green budgeting after the COVID-19 economic recovery, OUERP, UNEP, and UNDP are developing a sustainable, performance-based approach to budgeting for normal times.

3. **Dramatically increase the climate support provided to vulnerable nations**

   While the effects of climate change are felt globally, they have disproportionately been caused by advanced economies as a by-product of their historical rise to economic prosperity. The governments of these countries must now face up to the consequences of their past actions by providing aid to those vulnerable nations that lack the means to sufficiently respond to the threats posed by changing climate conditions.

   Advanced economies can address worsening inequality by directing aid to international green initiatives that help strengthen EMDE's macro-fiscal sustainability. Better access to financing and lower costs of debt can support EMDEs in their economic recovery, while helping them to reach their climate ambitions at the same time. In this way, green financing and aid can close widening international development gaps, establish channels for sustainable finance, and set vulnerable nations on a path of long-term growth.

The case for a green economic recovery is only reinforced by the ongoing global energy crisis. It is imperative that Governments respond to the energy crisis by committing to sustainable clean energy solutions, rather than doubling down on fossil fuels. Green recovery stimulus, and persistent green budgeting practices, can help us emerge from the health and energy crises while tackling the climate crisis.

Recovery stimulus for brown or colourless initiatives wastes valuable fiscal space that should be used to tackle climate change and spur sustainable growth instead. As debt grows and the immediate pain of the pandemic subsides, political and public enthusiasm for spending is likely to wane, following patterns that have followed previous crises. If governments don't earnestly invest in a greener future now, it may be many years before our next chance. But climate change won't wait—we need to act now. Next time may be too late.

ABOUT

The Global Recovery Observatory is an initiative led by the Oxford University Economic Recovery Project (OUERP), and supported by UNEP, the International Monetary Fund and GIZ through the Green Fiscal Policy Network (GFPN), as well as UN PAGE. Data visualisation support is provided by the UNDP Data Futures Platform.

The Global Recovery Observatory brings transparency to global government spending during the COVID-19 crisis. The intent of the Observatory is to showcase exemplary policy solutions, identify lost opportunities. and direct governments towards more impactful and sustainable investment.

The Oxford University Economic Recovery Project is housed in the Smith School of Enterprise and the Environment. The project advises global policy, business, and third sector leaders on the topic of sustainable public finance in response to economic crises and particularly the COVID-19 pandemic. It is supported by the Green Fiscal Policy Network, the United Nations Environment Program, the Children's Investment Fund Foundation, and the ClimateWorks Foundation. Brian O'Callaghan is supported by the Rhodes Trust.

The Green Fiscal Policy Network is a partnership between the United Nations Environment Programme (UNEP), the International Monetary Fund (IMF) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to promote knowledge sharing and dialogue on green fiscal policies. It is supported by the International Climate Initiative (IKI) of the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMU).

Contact: Brian O'Callaghan, Lead of the Oxford University Economic Recovery Project and Fellow at the Harvard Kennedy School, Harvard University.