GLOBAL RECOVERY OBSERVATORY

KEY MESSAGES

1. **TOP LEVEL NARRATIVE: Are we building back better? Not yet.**

   - One year after the onset of COVID-19, the global economy is reeling. Globally, GDP contracted by 3.5% in 2020,[1] and lockdowns have resulted in hundreds of millions of job losses.[2]
   - Plummeting economic growth has reinforced existing inequalities within and between countries. These inequalities continue to be stretched by the growing climate, biodiversity, and pollution crises.
   - To ensure we are truly "building back better", COVID-19 recovery spending design must take into account long-term economic, environmental, and social objectives.
   - The Global Recovery Observatory is a live database of all COVID-19 related government spending in the 50 largest economies, with over 3,500 policies as of Feb. 2021 (more countries to be added soon). The Observatory tracks and assesses the potential impacts of COVID-19 spending policies on environmental (climate, nature, and pollution), social and economic impact.
   - The Observatory builds on foundational work done by University of Oxford in April 2020 and is a collaborative product the Oxford University Economic Recovery Project at the Smith School of Enterprise and the Environment (SSEE) and UNEP, supported by IMF, and GIZ through the Green Fiscal Policy Network (GFPN).
   - To the question, "Are we building back better?" the answer is: not yet. The spending announced in 2020 paints a disappointing picture for overall efforts thus far to build forward with green priorities.
   - In 2020, only 18.0% of recovery spending and 2.5% of total spending had positive green characteristics.

   (See a visual comparative overview of country spending in Annex 1 and a complete overview of green spending by type in Annex 2).

2. **The Global Recovery Observatory provides policy makers with inspiration and examples of green recovery spending to build back better.**

   - A one-dimensional focus on short-term economic recovery risks further exacerbating long-term social and environmental crises.
   - The Observatory gives users the opportunity to understand where governments are spending, and how they craft green investments. It is a natural port of call for governments looking to design recovery packages that align with their own national development priorities and support progress towards the SDGs, NDCs, and NBSAPs.
   - By urgently prioritising long-term economic, social, and environmental objectives, nations can demonstrate their ability to build back better.
   - Given the ongoing nature of the pandemic, most spending, USD11.1tn, was directed to 'rescue' type measures, intended to save lives and protect livelihoods. Only USD1.9tn was devoted to long-term recovery measures, intended to reinvigorate economic activity, and USD1.6tn was unclear spending.

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[1] IMF. (2021). World Economic Outlook Update, January 2021. International Monetary Fund.
https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
[2] ILO. (2021). ILO Monitor: COVID-19 and the world of work. Seventh Edition.

3. **Governments have moved with speed and scale to mitigate some of the worst impacts of the virus - but without international support, emerging markets and developing economies (EMDEs) are being left behind.**

   - In 2020, the world's fifty largest economies announced USD14.6tn in fiscal measures to address the crisis. When European Commission commitments are included, total spending approaches USD17tn,
   - While advanced economies (AEs) can borrow at record low rates and spend vast sums to safeguard populations and invest in recovery, many Emerging Market and Developing Economies (EMDE) are hamstrung by high borrowing costs and weak fiscal positions.
   - On a per capita basis, in 2020 the total spending in advanced economies was 17 times greater than in EMDEs.
   - EMDEs will require substantial concessional finance from international partners. Without it, debt constraints will restrict recovery and economic health, widening the already stark inequality between nations.

4. **The world has so far missed the opportunity to invest in green recoveries for securing growth and set a new course for prosperity, but there is still time to course correct.**

   - Overall, global green recovery spending has been incommensurate with the scale of the planetary crises of climate change, nature loss, and pollution.
   - For the vast majority of countries, recovery spending has been relatively low and minimally green. This is true even for countries with high carbon intensity of GDP.
   - Often, benefits of spending are neutralized by harms. For instance, approximately 16.0% of recovery spending may bring positive air pollution impacts, but 16.4% may act to increase net air pollution.
   - Only 3.0% of recovery spending is deemed to have significantly positive characteristics supporting natural capital, and up to 17.1% may have a significant negative impact on natural capital, mainly through expanded road transportation and defense services.
   - Although the world has so far fallen short of "building back better" rhetoric, given the continuing nature of the pandemic, opportunities to spend wisely on recovery continue. By urgently prioritising long-term economic, social, and environmental objectives, nations can build towards future prosperity.

5. **In 2021, governments can use green <u>recovery spending</u> to bring stronger economic growth and social benefits**

   - The social co-benefits of carefully designed green policies can include significant improvements to health outcomes, reductions in the cost of energy, and increases in food security, as well as more, safer, and better paid employment opportunities.
   - The *Are We Building Back Better?* report identifies five core green policy areas that can deliver the economic returns needed for a strong recovery whilst addressing pressing environmental and social concerns: <u>green energy, green transport, green building upgrades and energy efficiency, natural capital, and green R&D.</u>
   - COVID-19 recovery spending may be the greatest—and perhaps the last —chance for governments to meaningfully spend on environmental and social issues.
   - As countries emerge from the immediate health crisis, most economies will require significantly more fiscal recovery stimulus to accelerate a rapid, sustainable, and equitable recovery.

- Several nations have announced significant green recovery investments that can serve as a template and example for others, and open opportunities for country dialogue and knowledge exchange on policy pathways for building back better.

- The conversation does not stop at spending policy: Research by Ed Barbier and UNEP indicates that one of the key lessons of the Great Recession is that spending, and stimulus efforts, need to be followed by reforms that address key market failures in pricing externalities.[3]
- Pandemic stimulus packages are an opportunity to accelerate action. The UNEP Emissions Gap Report found that a green recovery could cut 25 per cent off 2030 emissions, while we need to cut one-third of emissions by 2030 to get back on track for a +2°C world.

6. **The Global Recovery Observatory shows that 2020 green investment covered a broad range of priorities, skewing towards green energy and green transport:**

GREEN ENERGY: Focus on renewable energy with emerging interest in hydrogen.
- USD66.1bn in green energy spending has been announced to November 2020. Over a third of this investment (USD25.3bn) has been directed towards new or refurbished renewable energy generation facilities.
- Significant investment has also been announced in hydrogen (USD18.5bn)— with Germany and France emerging as global leaders.

GREEN TRANSPORT: Focus on public transport capacity extensions and electric vehicles with large potential to create new jobs and boost economic productivity
- Transport infrastructure featured heavily in stimulus packages (USD86.1bn) and are laudable for their job creation potential and propensity to boost economic productivity.
- Almost 30% (USD20.5bn) was directed toward public transport capacity extensions.
- Other significant investment: electric vehicle subsidies (USD21.5bn), electric vehicle transfer programs (USD11.0bn), and cleaning dirty transport (USD12.1bn).

GREEN BUILDING: Focus on retrofitting programs, most attractive in advanced economies.
- Total energy efficiency spending announced was USD35.2bn. The majority was on green retrofitting programs (USD30.6bn.)
- Spending on rooftop solar has been significantly less (USD4.7bn), though there may be some rooftop solar initiatives included as components of policies classified as green retrofitting programs.
- Opportunities in energy efficiency retrofits tend to be most attractive in advanced economies with high established housing stock. France has allocated USD9.5bn to sweeping investments in energy efficiency retrofits for buildings, while the UK has announced a total of USD6.2bn.

NATURAL CAPITAL: Focus on public parks and green spaces, bringing short- and long-term economic growth opportunities and positive social impact.

- Protecting natural capital has numerous long-run social and economic benefits and growth opportunities, including improving air quality and improved physical and mental health outcomes.

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[3] UNEP. (2020). Building a greener recovery. https://www.greengrowthknowledge.org/guidance/building-greener-recovery-lessons-great-recession

- However only 3% of recovery spending is deemed positive for natural capital, while up to 17% may negatively impact natural capital, mainly through expanded road transport and defense.
- Almost 35% (USD19.2bn) of total spending (USD56.3bn) has been provided for investment in public parks and green spaces, dominated by a US policy for the restoration of national parks, and a Chinese policy aimed at air, water, and soil pollution prevention.
- Other significant investment include tree planting and biodiversity protection initiatives (USD13.1bn), as well as waterway protection and enhancement (USD18.7bn).

GREEN R&D: Focus on energy and multiple sectors with long-term economic potential in high-tech industries.
- There is strong evidence that green R&D has very large long-term benefits and impels new industries and jobs in later years, however the policy is not particularly well suited to inducing immediate economic growth or jobs.[4] [5] [6]The short-term employment benefits are primarily directed at highly skilled workers in high-tech industries and so should be balanced by other support mechanisms directed to lower skilled green professions.
- USD28.9bn in green R&D spending was announced in 2020. Approximately one third of this investment (USD9.7bn) was directed toward green energy R&D. Another USD7.0bn was directed towards 'other sectoral R&D' (i.e., not specifically energy, agriculture, or industrial programs), with large spending from EU recovery funds and from the 'France Relance' recovery package.

(See a visual comparative overview of country spending in Annex 1 and a complete overview of green spending by type in Annex 2).

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[4] Yang, J. et. al. (2011). Finding the time lag effect of the R D activity for a government research program of Korea. 2011 IEEE International Summer Conference of Asia Pacific Business Innovation and Technology Management. https://doi.org/10.1109/APBITM.2011.5996327

[5] Piva, M., & Vivarelli, M. (2017). Is R&D Good for Employment? Microeconometric Evidence from the EU. Institute of Labor Economics.

6 Wang, D., et. al (2016). The Time Lags Effects of Innovation Input on Output in National Innovation Systems: The Case of China. Discrete Dynamics in Nature and Society, 2016, 1–12. https://doi.org/10.1155/2016/1963815

Annex 1: Comparative spending profiles of nations in the Global Recovery Observatory
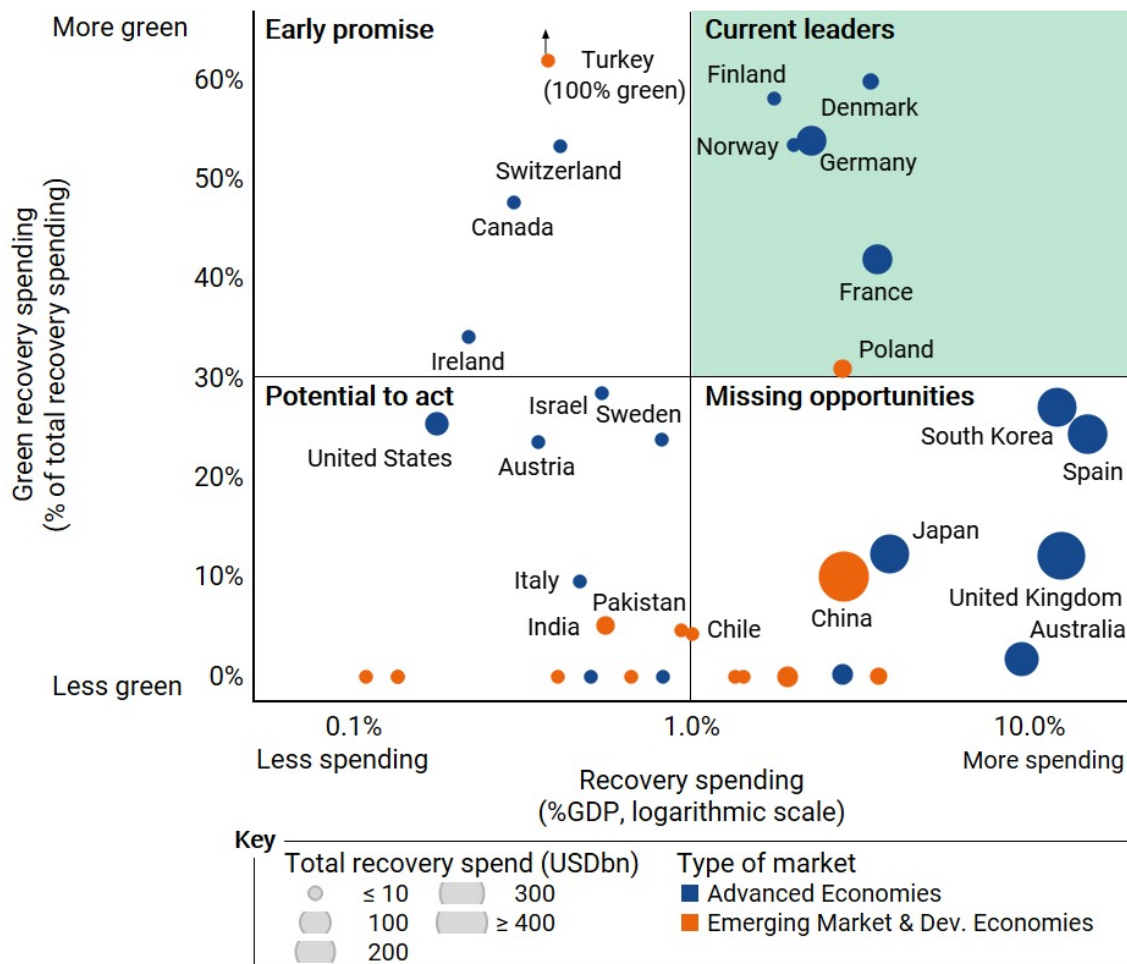
Notes: *Colour represents market type. Turkey's recovery spending (0.4% of GDP; 100% green) is a commendable outlier, not accurately represented on the graph due to visual limitations. Many countries are clustered at 0% green recovery spending, from left to right on the figure: South Africa, Thailand, Malaysia, Egypt, Saudi Arabia, Argentina, Portugal, Nigeria, Peru, Iraq, Mexico, the Netherlands, and the Philippines. Countries with less than 0.1% recovery spending as %GDP do not feature and are listed in appendix A of the main report. Advanced, emerging market, and developing economies defined by IMF 2020a and limited to those covered by the Observatory (appendix B). Sources: Global Recovery Observatory; interest rate data from OECD (2020c) and CEIC (2021).*

Annex 2:
Overview of spending based on announced fiscal policy measures in the largest 50 economies until December 2020. Excludes European Commission funds.

	Total (USDbn)
Green energy	66.1
- Renewable energy	25.3
- Biofuels & other renewable fuels	2.6
- Transmission infrastructure	0.3
- Distribution infrastructure	3.7
- Hydrogen	18.5
- Battery and storage	0.5
- Carbon capture and storage	3.8
- Cleaning dirty energy assets	6.0
- Other spending	5.4
Green transport	86.1
- EV transfer programs	11.1
- EV subsidies	21.5
- New public transport systems + line expansions	4.2
- Public transport capacity expansions	20.5
- EV charging infrastructure	7.9
- Cycling and walking infrastructure	4.3
- Cleaning dirty transport	12.1
- Other spending	4.6
Building Upgrades and energy efficiency	35.2
- Green retrofitting programs	30.6
- Rooftop solar programs	4.7
Natural capital	56.3
- Public parks and green spaces investment	19.2
- Tree planting and biodiversity protection	13.1
- Ecological conservation initiatives	5.3
- Waterway protection and enhancement	18.7
Green research and development	28.9
- Energy	9.7

- Industrial	5.5
- Other sectoral	7.0
- Other (general) spending	6.7
Other Green spending	95.4
TOTAL	368.1