Global Covid-19 stimulus continues to damage environment – but US could catalyse greener recovery

LONDON, Friday 12 February 2021 – Global Covid-19 stimulus measures are continuing to have a net negative environmental impact, reveals a report from thinktanks Vivid Economics and Finance for Biodiversity (F4B), but there are signs that the greenness of stimulus is slowly beginning to track upwards.

The findings - from the 5th edition of the Vivid/F4B 'Greenness of Stimulus Index (GSI)', which analyses the G20 countries and a further 10 national economies - show that most governments have thus far failed to harness the opportunity of combining economic recovery with sustainable growth by investing in climate and biodiversity. US$4.6 trillion of the total US$14.9 trillion stimulus announced to date has supported environmentally relevant sectors such as agriculture, industry, waste, energy and transport, but only US$1.8 trillion has been green.

Today's report, however, shows that momentum towards a green recovery may be building. It outlines the potentially transformative effect of the new administration under US President Joe Biden, along with improved scores for Canada, China, India and the United Kingdom, all of which point to a fiscal and policy shift by a number of countries who are now beginning to rise to meet the climate and biodiversity challenge. For the purposes of this analysis, 'green' refers to stimulus spending into the energy, transport, industry, agriculture and waste sectors that reduces greenhouse gas emissions or enhances nature and biodiversity.

The key highlights of the report are as follows:

- **17 countries improved their GSI scores, including the United States, which leapt by 36 points, the biggest increase of all.** The new Biden administration has already signalled a major shift in the geopolitics of climate change by re-entering the Paris Agreement, and the administration change also strengthens the United States' support of, and competitive position in, areas such as clean tech and other industries of the future that are likely to bring green job opportunities to the country.

  The country's GSI score was partially strengthened after the US$900 million bipartisan stimulus bill signed by former President Trump in December 2020, which included investment into public transit and clean energy, but much of this spending was still dedicated to the business-as-usual economy. A dramatic improvement to its score followed Biden's Executive Order for *Tackling the Climate Crisis at Home and Abroad* in January 2021, which signalled strong action in nearly all environmentally relevant sectors such as agriculture, fisheries, reforestation, efficiency, transport and energy decarbonisation, supported by intra-governmental coordination, and a new climate task force and envoy.

  Currently, a US$1.9 trillion 'American Rescue Plan' is making its way through Congress, which, if signed into law in its form as of 8 February 2021, would slightly improve the United States' GSI score by another two points, as the package is targeted more towards general economic recovery than climate change and biodiversity. Its score would be significantly bolstered, however, if Biden's proposed US$1.7 trillion *Climate Plan for Clean Energy and Environmental Justice* is implemented, jumping ahead of every other major economy on the index. But the US score remains negative in this edition of the GSI, showing that currently, the US stimulus continues to do more harm than good.

  The scale of the country's potential green recovery may be threatened by the Federal Reserve's Secondary Market Corporate Credit Facility (SMCCF), demonstrating the importance of policy alignment in all spheres. The GSI identified that approximately US$555 million in corporate bonds (10% of all transactions) have been purchased from companies identified as large emitters, those contributing to tropical deforestation, or large plastic polluters. This analysis is a first step towards exploring the role of central banks in the Covid-19 recovery, and how their operations might impact the greenness of renewal efforts.

- **One of the biggest climbers in this edition of the GSI was Canada**, building on its major improvements in the December GSI. Its *Healthy Environment and Healthy Economy Plan*, announced in December 2020, encompassed a huge range of nature-friendly initiatives including infrastructure investments in energy and transport, and the country has moved from a negative GSI score in October 2020 to third place in today's report.

- **The United Kingdom's** recent withdrawal of financial support for overseas fossil fuel sectors, plus commitments by 38 local authorities to reach net-zero emissions five years earlier than the national government (by 2045), also helped to pushed it upwards into fifth position overall.

- **Japan's stimulus of $600bn** accounted for more than a third of the total increase in this edition, bringing the country to the top of the rankings in Asia, ahead of South Korea, China, Philippines, Indonesia and Singapore. Whilst it improved its score due to actions to restore nature and mitigate climate change, it remained in negative territory overall.

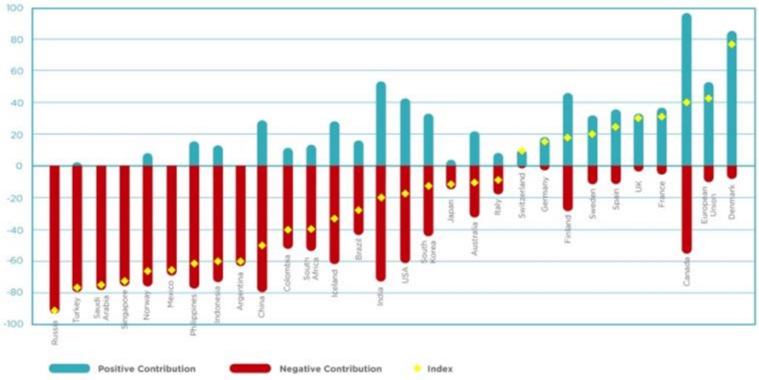
- **Emerging economies are often the most dependent on environmentally-intensive sectors, and have struggled to turn their stimulus green. China** saw its score improve as a result of its new ambition to reduce emissions intensity by 65% over 2005 levels by 2030, and by a colossal planned increase in solar and wind capacity, but it remained in negative territory overall, due in part to its stimulus package including unconditional support for its large and polluting industrial sector. **India's** recent stimulus announcement (two thirds of which was green) included incentives for battery production and solar, as well as renewable energy plans. Both China and India improved their GSI scores, but they remain in the negative. Their poor underlying environmental performance and ongoing support for coal means their stimulus continues to harm climate and nature.

- **Denmark, Finland, Iceland, Sweden and Norway were added to this edition of the GSI, with remarkably varying fortunes.** The results range from Denmark at number one in the global league table as a result of the significant proportion of its pandemic spending being devoted to green measures, right through to Norway in position 25 with a score of -67, due to its economic stimulus that supported airlines and the fossil fuel industry, counteracting the positives from its previously announced Green Transition plan.

"Much more action is required before we can see a truly green post-Covid recovery," said **Jeffrey Beyer, Economist, Vivid Economics** and co-author of the report, "but we are encouraged by the leaps in progress in some countries, most notably the US and Canada. The new US administration has signalled a dramatic shift in how climate and nature can be embedded into economic recovery programmes. The US Executive Orders are a model for how regulatory change can create jobs, reduce emissions, and protect nature. But, as the GSI shows, good policy is not enough – it must be accompanied by major public investment to catalyse a job-rich, green recovery.

"We believe the events of the past few weeks mark a turning point in US leadership in acting on climate change and biodiversity. The administration must now be held to account, and fulfil its pledge to integrate climate into fora like the G7 and G20, and be the geopolitical agent we need to supercharge global action on climate and nature."

Figure 1 | Greenness of Stimulus Index



Source: Vivid Economics using a variety of sources, consult Annex II for the entire list of sources
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About Finance for Biodiversity

The Finance for Biodiversity (F4B) initiative aims to increase the materiality of biodiversity in financial decision-making, and so better align global finance with nature conservation and restoration. It does this through publishing its own research and working with others. F4B was catalysed by The MAVA Foundation and involves Vivid Economics as a core partner.

About Vivid Economics

Vivid Economics is an operational partner within F4B. It is a strategic economics consultancy spanning public policy and support for commercial decision making with a broad, international focus, focusing on “putting economics to good use”. Vivid brings expertise on biodiversity, ecosystem services, natural capital accounting, environmental and social sustainability, and resource productivity.