Green Stimulus Index

An assessment of the orientation of COVID-19 stimulus in relation to climate change, biodiversity and other environmental impacts

This note is a living document updated weekly – please use the latest version. It is part of a series looking at climate change and biodiversity considerations in economic responses to COVID-19. Other notes are related to a corporate bailouts, international assistance flows into developing countries and labour market reforms. This work was undertaken by Vivid Economics, in partnership with the Finance for Biodiversity Initiative (F4B), and funded by the MAVA Foundation.

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Introduction

Over the past 2 months the world has witnessed unprecedented government financial interventions in response to Covid-19. Economic stimulus packages announced to date include a range of different bailout mechanisms. Currently stimulus packages range from $95 billion to $2.2 trillion with South Korea as the smallest and the United States as the largest.

Figure 1  Announced fiscal stimulus package by country


Note: Updated on April 22

Governments have rightly put people first and focussed on the immediate implications of the crisis – with the money going directly to households and those on the frontline. Governments have focused on securing employment, providing unemployment and cash benefits to workers and households, and providing liquidity to businesses across the economy.

At the same time, roughly USD 840 billion in announced stimulus, 11% of the total, will flow into sectors with high impacts on the environment – whether on climate change, biodiversity or local
pollution. This proportion will likely increase as stimulus efforts deepen for long-term recovery. It is critical that this funding help respond to the COVID crisis without risking future public health, job security, fiscal stability and environmental sustainability.

Figure 2  Total global stimulus – environmentally vs. non-environmentally related


Note: Updated on April 22

The coronavirus shows us that our fate is inextricably linked to that of the natural world, and governments have the opportunity and responsibility to ensure short-term emergency measures lead to a better more resilient future.
The Green Stimulus Index

The Green Stimulus Index examines 11 major economies to assess the green vs. brown orientation of their stimulus funding based on:

- the scale of funds flowing into environmentally relevant sectors
- the existing green orientation of those sectors, and
- the efforts to steer stimulus toward (or away from) sustainability.

To date, much of this stimulus funding is set to flow into existing sectors with no attempt to look forward and support the medium and long-term sustainability and resilience of these sectors. There remains significant scope for governments to more pro-actively ensure this funding strengthens sustainability and resilience.

In countries with inadequate existing climate and biodiversity policies, these flows are likely to reinforce unsustainable trajectories of high emissions and loss of nature. All countries have entered this crisis with large sectors of their economies still contributing significantly to greenhouse gas emissions, air and water pollution, and loss of biodiversity. Many countries also lack concrete policies to facilitate a transition in those sectors to a more sustainable and resilient trajectory. As a result, current stimulus into those sectors risks reinforcing a status quo that is significantly tilted toward brown, amplifying risks to citizens’ welfare and the natural world around them.

Where targeted efforts have occurred to specifically steer funding, they have more often removed incentives toward sustainability, although a few have added green incentives. The most significant examples of COVID response measure that steer environmentally relevant sectors include significant deregulation, subsidies or tax cuts to activities likely to worsen environmental outcomes, and large bailouts to the aviation sector. Only a few efforts have been made to support some improvements in the environmental sustainability of the industry, energy and transport sectors.
The analysis finds that the US and China are by far the most brown-oriented in the current pathway of their stimulus. This is due to a combination of poor underlying (pre-COVID) policies as well as specific measures – particularly in the US – which further undermine a shift to sustainability.

- The US has a current policy mix that means stimulus funds will be generally more tilted toward reinforcing a brown trajectory, and this has been made even worse by specific stimulus measures including environmental deregulation and the bailout of the aviation industry without green conditionality.

- China has a relatively brown sector base and poor underlying policy environment, which means its stimulus efforts will largely reinforce a brown trajectory unless concerted effort is made to avoid this. An expanded EV subsidy scheme is a positive sign, but countered by subsidies for fossil fuel vehicles and an easing of permits for coal mining.

The negative score in the US is particularly worrying, as it is also the country directing by far the most stimulus money (in absolute terms) towards environmentally-related sectors. We estimate that its absolute impact alone is many multiples of the impact of all other stimulus packaged combined.

Japan, South Korea, Canada, and Australia are also currently skewed significantly toward brown. They benefit from having somewhat better underlying (pre-COVID) policies and environmental performance than the US and China, but are channelling funds into a mix of sectors, with significant risks of reinforcing existing brown trajectories. They have also not put in place decisive measures to
assure a greener orientation. Japan and Australia have yet to take measure that ensure stimulus won’t undermine the sustainability and resilience of their economies. Canada and South Korea on the other hand have deployed a mix of targeted policies, both positive and negative, without a positive effect overall. Strong green commitments by South Korea’s newly re-elected government hold some promise for greater policy action over the coming weeks.

The EU countries analysed – Italy, Spain, France, Germany and the UK are more neutral in their overall orientation, but show specific nuances worth noting.

- Germany is the most negative of the EU countries examined, owing to the environmental intensiveness of its economy, good (but not exceptional) underlying policies, and lack of a clear action to ensuring its stimulus supports sustainability and resilience.

- Italy is broadly neutral. It has relatively good underlying policies (similar to other EU countries), but also some environmentally-intensive sectors that risk being reinforced. Italy has yet to enact any targeted measures to ensure its stimulus supports sustainability and resilience.

- Spain is also broadly neutral, having relatively good underlying policies, but also some environmentally-intensive sectors that risk being reinforced. The country has also put in place measures for environmental conditionality in loans to large companies, which has the potential to ensure stimulus supports a sustainable transition.

- France and the UK generally benefit from less environmentally-intensive sectors and above average policy measures. However, France’s and the UK’s emerging interventions – particularly the bailout of the aviation sector without green conditionality – could threaten to undermine this.

It is worth noting that to-date, the absolute flow of funds that are likely to tilt toward brown remains small, and there is a great deal of uncertainty about how such funds will be used. The current values of the index ranging from -49 to +2 reflect the fact that much of this stimulus funding directly toward environmentally-relevant sectors may still be considered “neutral”. As further clarity is provided about the uses of these stimulus funds, and as specific measures come into place (whether green or brown), we expect the spread of index values to increase.