IIF Green Weekly Insight
Will COVID-19 reinvigorate the ESG agenda?

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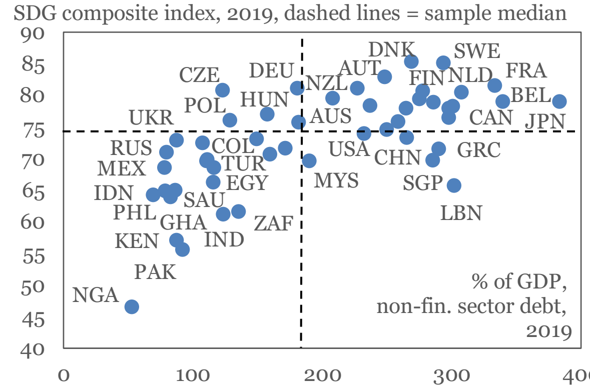
- Rising debt levels amidst COVID-19 may constrain capacity for investment in climate change mitigation and SDGs
- A green recovery is critical to reduce emissions but also to boost job creation: $1tn annually in green energy investment could create 9 million jobs in three years, while reducing emissions by 15%
- Some $11 trillion in global fiscal stimulus has been approved, but less than 1% of this pandemic response is "green"
- The European Commission's €750 billion budget proposal is by far the largest green package — but faces several obstacles in obtaining approval in European Council negotiations next month

From crisis, opportunity: The long-lasting effects of the COVID-19 pandemic underscore a key fragility of the global economy—beyond vulnerability to environmental shocks. Economies increasingly rely on creating debt to sustain activity—but debt too is subject to diminishing returns. The global fiscal response to the pandemic has been massive, with some $11 trillion deployed to date and another $5 trillion in the pipeline. With recovery still tentative and patchy, such additional support will likely be needed. Without aggressive action to create new jobs, another surge in borrowing needs could further undermine public and private sector balance sheets and could lessen the capacity of firms and sovereigns to respond to future shocks. Such constraints could hinder the investment necessary to tackle climate change and to achieve UN Sustainable Development Goals (Chart 1). Yet the COVID-19 crisis represents a unique opportunity for meaningful change in how we consume, save, invest and borrow. With strong political commitment, this shift could help bridge the gap between economic and environmental goals, and bolster inclusive growth.

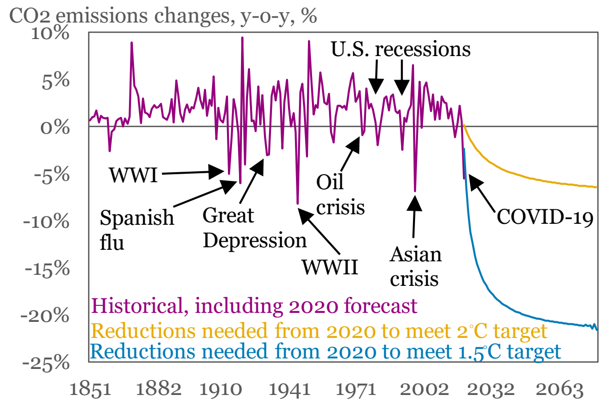
Although the global economic downturn is set to cut annual carbon emissions by some 4-7% this year, this will of course be temporary and the urgency of pursuing climate change mitigation and adaptation policies remains undiminished (Chart 2). With attention turning to medium-term recovery plans, now is the time to promote climate-resilient, carbon-neutral, and resource-efficient investment, particularly in a variety of carbon-intensive sectors such as energy and transportation. While geared towards minimizing pandemic-related job losses, such policy initiatives could at the same time make the recovery more sustainable and cost-effective. For instance, some 6 million jobs in energy-related sectors are at high risk or have already been lost during the

Chart 1: Rising global debt could curb progress on sustainable development goals



Source: SDSN, IIF. SDG index score could be interpreted as the percentage of achievement.

Chart 2: Global emissions drop sharply during recessions—but a temporary COVID drop doesn't advance climate goals



Source: Global Carbon Project, Robbie Andrew/CICERO, IIF pandemic; many of them may not come back as global energy investment is set to contract by some 20% in 2020. According to the [IEA](), investing $1 trillion in green energy inannually over the next three years could create nearly 9 million new jobs across a variety of energy-related sectors—while reducing global carbon emissions by some 15% from 2019 levels.

With public awareness about the ESG factors on the rise (Chart 3), a growing chorus of heads of state, public and private sector actors are calling for a green recovery, including the IMF, the UN, and coalitions in the U.S., Europe, Australia, and elsewhere. However, the degree of green orientation in fiscal stimulus packages to date has been very limited. Across 29 G20/OECD countries, an estimated $931 billion of the announced fiscal measures exhibit green, sustainability, or climate objectives, while approved green packages only amount to around $84 billion. These green components are small relative to overall responses, representing only 6% and less than 1% of the announced and approved totals (Chart 4). Most importantly, the bulk of the broader stimulus measures are directed towards high-carbon sectors where these investments will "lock in" emissions over coming decades, largely offsetting reductions stemming from green investment. Nonetheless, these green initiatives represent significant steps forward in terms of content and volume relative to past stimulus efforts (Chart 5). Some notable packages include:

The European Commission's €750bn Next Generation EU recovery proposal is by far the largest green stimulus package, though approval is far from certain and it is subject to European Council negotiations in July.

Germany has unveiled a €130bn support program that omits financial aid for combustion-engine vehicles, while directing nearly €50bn to electric and hybrid vehicles, renewable energy, public transport and to reducing green surcharges on consumers' power bills.

South Korea's third supplementary budget of KRW23.9tn ($20bn) announced in early June focuses spending on green and digital industries, disease control, expansion of employment and social safety, and financial support for companies.

The **French** government is requiring that Air France reduce its CO_2 emissions on domestic flights by end-2024 in exchange for €7bn in direct loans and loan guarantees provided in April.

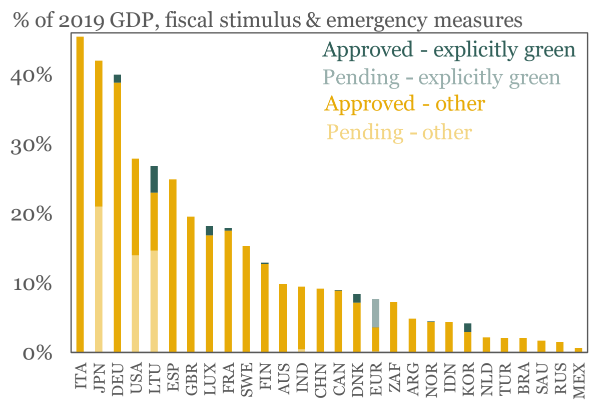
Denmark approved DKK20.2bn ($4.5bn) in green renovation of public housing in May.

Lithuania approved co-financing 20% of €250mn of climate projects as part of an emergency package in March and a long-term investment plan in May that includes €1.8bn in investments in climate change, infrastructure, energy, the digital economy, human capital, and research.

Chart 3: Surge of interest in ESG issues—greater awareness still needed

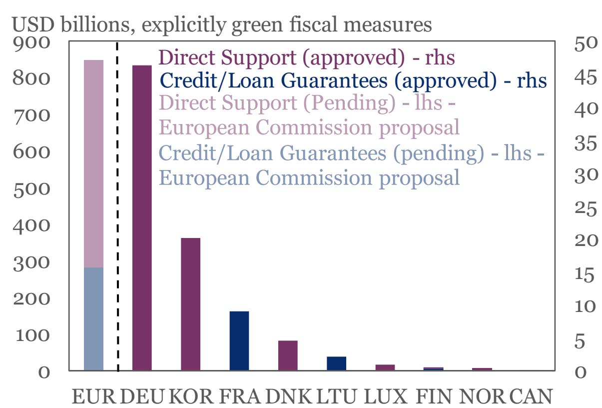
Source: Google Trends, IIF

Chart 4: Lots of fiscal stimulus, but it's not very green



Source: IMF Responses to COVID-19 Policy Tracker, IIF COVID-19 Global Policy Response Summary

Chart 5: Zooming in on green fiscal responses



Source: IMF Responses to COVID-19 Policy Tracker, IIF COVID-19 Global Policy Response Summary

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