

POLICY BRIEF

UNPACKING THE GREEN RECOVERY SPENDING

An assessment of seized and missed opportunities for a low-carbon recovery globally, in the EU and in the Nordic countries

Unpacking the 'green recovery' spending

An assessment of seized and missed opportunities for a low-carbon recovery globally, in the EU and in the Nordic countries

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This publication is also available online in a web-accessible version at <https://pub.norden.org/temanord2022-529>.

Summary

This policy brief presents recommendations on how to align future COVID-19 fiscal response measures with the Paris Agreement's long-term temperature goal globally, in the EU and, where data are available, also for selected Nordic countries.

This brief is based on the findings of a research project supported by the Nordic Council of Ministers Working Group for Climate and Air (NKL), entitled: "The impact of COVID-19 and recovery packages on emission pathways to 2030". This research project has been prepared as a specific contribution to the 2021 edition of the UNEP Emissions Gap Report.

Key findings

- Most recent studies show that global fiscal rescue and recovery spending since the beginning of the COVID-19 pandemic in early 2020 has only partially reflected governments' pledges to achieve a low-carbon or 'green' recovery. The share of low-carbon spending ranges between 0.5%–2.5% for studies considering both rescue and recovery spending and 18%–30% for studies considering recovery spending alone.
- Low-carbon fiscal rescue and recovery spending to date is likely to have an impact on emissions reductions only over a longer time horizon towards 2030 and beyond. The assessment of about 2,500 measures by 26 key emitters by May 2021 showed that only one-third of all low-carbon spending went to direct low-carbon measures with a rather immediate emissions reduction impact, while almost two thirds of the low-carbon spending was assessed to consist of *enabling* and *catalytic* low-carbon measures.
- Recent findings show that Norway, Finland, and Denmark currently perform above average compared to other advanced economies on both (1) spending above 1% of GDP on fiscal recovery measures, and (2) spending above 30% of all fiscal recovery measures on 'green' activities. However, the spending data indicate an insufficient focus on long-term human capital development.
- It was also found that there were a few rescue and recovery measures that were considered to support the status quo and that have not met the pledges to focus economic rescue and recovery measures on low-carbon activities effectively. Such measures comprise, among others, corporate liquidity support for airline companies and other large corporates without specific conditions for a low-carbon transition or VAT reductions without a specific focus on low-carbon products.

Policy recommendations for the EU and Nordic countries

- i. **Enhance the preparedness and develop capabilities to be able to better design economic rescue and recovery measures in line with a low-carbon transition.**
- ii. **Further streamline low-carbon spending into upcoming annual fiscal budgeting cycles to align with low-carbon transition objectives.**
- iii. **Provide increased and targeted financial support for developing countries to fund their urgent recovery efforts.**

1. Why are COVID-19 fiscal response measures also important for fighting climate change?

Keeping the Paris Agreement's temperature goals within reach requires immediate and transformational action. Greenhouse gas (GHG) emissions must be reduced by 2.7% annually from 2020 to 2030 for the world to get on track to limiting global warming to below 2°C and by 7.6% annually to get on track to reach the 1.5°C goal (UNEP, 2019). Emissions reductions of this magnitude have been unprecedented until now.

The COVID-19 pandemic has had a substantial impact on socioeconomic activities, and consequently GHG emissions unprecedentedly dropped by 5.4% in 2020 compared to their 2019 levels (UNEP, 2021). In response, governments have been looking at how to stimulate their economies since the outbreak of the pandemic in early 2020. The various economic recovery packages, if fully focused on a low-carbon transition, could have a transformational effect on future emissions.

The COVID-19 pandemic occurred at a critical time in the global climate policy process, just when a new round of nationally determined contributions was due in 2021 and the global stocktake mandated under the Paris Agreement set to occur in 2023. Economic recovery packages and the associated fiscal spending can play a significant role for emission levels in 2030 and thereafter. As the world is about to enter the third year of the global COVID-19 pandemic, the lessons learnt from governments' experiences since early 2020 need to be reflected urgently in future fiscal spending and policy-making to contribute to keeping the Paris Agreement's 1.5°C temperature goal alive.

This policy brief presents recommendations on how to align the future COVID-19 fiscal response measures with the Paris Agreement's long-term temperature goal globally, in the EU and, where data is available, also for selected Nordic countries. This brief is based on the findings presented in the UNEP Emissions Gap Report 2021's Chapter 5 (Brian O'Callaghan et al., 2021), which presented a review and synthesis of recent research reports, as well as the authors' own analysis (Hans et al., 2022).

2. Since the outbreak of COVID-19, low-carbon spending represented only around 18%–30% of total recovery spending worldwide

Most recent findings show that fiscal rescue and recovery spending since the beginning of the COVID-19 pandemic in early 2020 has only partially reflected governments' pledges to achieve a low-carbon recovery (Global Recovery Observatory, 2021; Green Recovery Tracker, 2021b; Hans et al., 2022; IEA, 2021; O'Callaghan & Murdock, 2021; Brian O'Callaghan et al., 2021; OECD, 2021a).¹

The share of low-carbon spending ranges between 0.5%–2.5% for studies considering fiscal spending in both the economic *rescue* phase and the subsequent *recovery* phase, and 18%–30% for studies considering recovery spending only.² These findings indicate a severe shortcoming in climate considerations and a focus on the low-carbon transition in governments' fiscal responses to the global pandemic.

Fiscal rescue and recovery spending to date is not likely to trigger substantial emissions reductions towards 2030 but might do so beyond 2030, given the substantial investments in measures that are considered *enabling* and *catalytic* in nature.

In the medium term, for example, the IEA's Sustainable Recovery Tracker estimates energy-related CO₂ emissions to have fully rebounded to 2019 levels in 2021 and to continue to increase towards 2023, given existing fiscal rescue and recovery measures until October 2021 for more than fifty countries (IEA, 2021). These measures include USD 470 billion spending on clean energy, representing around 2% of all rescue and recovery spending tracked by the IEA.

Low-carbon fiscal rescue and recovery spending to date is only likely to achieve its impact on emissions reductions over a longer time horizon towards 2030 and beyond (Hans et al., 2022). The assessment of the likely impact on greenhouse gas (GHG) emissions for 2,500 measures of 26 key emitters representing 67% of global GHG emissions excluding LULUCF in 2019 suggests that only one-third of all low-carbon spending of the total of USD 230 billion goes into direct low-carbon measures with a rather immediate emissions reduction impact (Hans et al., 2022). Almost two thirds of the low-carbon spending of the total of USD 641 billion can be considered *enabling* and *catalytic* low-carbon measures. This implies that the emissions impact

1. We treat the term 'green', used in the referenced studies, as synonymous to 'low-carbon' throughout this policy brief.
2. The project report provides a complete overview of all recent studies.

of these expenditures will only unfold over a longer time horizon beyond 2030. These findings suggest that governments have placed a distinct emphasis on measures triggering transformational change over time within their low-carbon spending, not just exclusively focusing on measures generating the direct emissions reduction impact.

3. Nordic countries are frontrunners in supporting a low-carbon recovery compared to many other developed economies

Fiscal rescue and recovery spending by Nordic countries (Denmark, Finland, Iceland, Norway, Sweden, the Faroe Islands, Greenland) has been covered to varying extents in existing analyses (Energy Policy Tracker, 2021; Green Recovery Tracker, 2021a; B. O'Callaghan et al., 2021; OECD, 2021a).

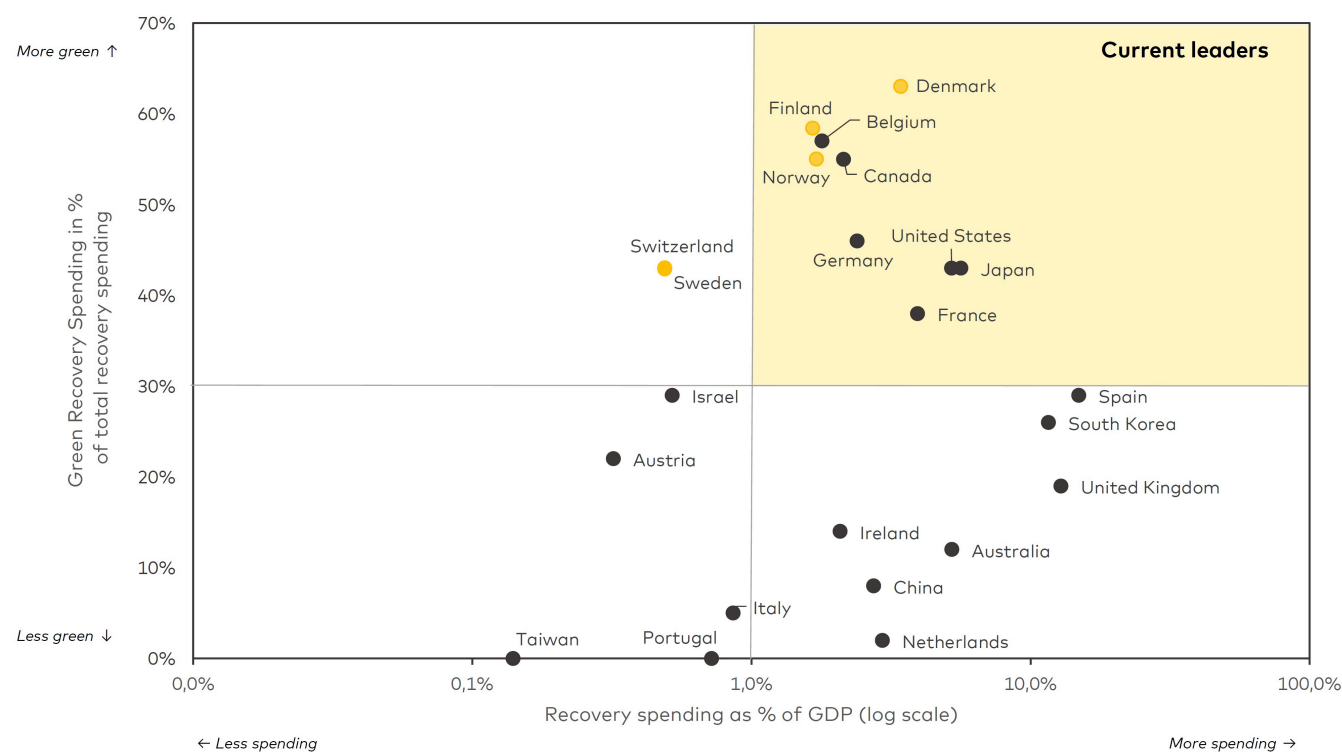
Most prominently, the Global Recovery Observatory shows that Norway (55%), Finland (58%), Denmark (63%), and Sweden (43%) all spent above 40% of their fiscal recovery spending on low-carbon measures as of February 2022 (B. O'Callaghan et al., 2021). In the case of Finland, the Green Recovery Tracker (2021a) confirms this finding, showing that 59% of all recovery spending can be considered either very positive (27%) or positive (32%).

However, the Energy Policy Tracker (2021) focusing on energy-related spending only identifies larger shares of *conditional* and *unconditional* fiscal spending on fossil-fuel measures in Norway (94.7% of USD 13.9 billion), Finland (59% of USD 4.7 billion), and Sweden (37.4% of USD 4.1 billion).

The OECD Green Recovery Database tracked all low-carbon fiscal stimulus spending for Nordic countries as of April 2021 (OECD, 2021a), identifying USD 14.8 billion for Norway (3.7% of GDP in 2019), USD 4.7 billion for Finland (1.7%), USD 4.5 billion for Sweden (0.8%), USD 1.6 billion for Denmark (0.5%), and USD 80 million for Iceland (0.3%).

Compared to other advanced economies, recent findings show that Norway, Finland, and Denmark currently perform above average on both (1) spending above 1% of GDP on fiscal recovery measures, and (2) spending above 30% of all fiscal recovery measures on 'green' measures. The Oxford Global Recovery Observatory considered these countries to be 'leaders' in low-carbon recovery for 2021 (Brian O'Callaghan et al., 2021).

Figure 1. Green recovery spending as a percentage of total recovery spending versus recovery spending as a percentage of GDP as of March 2022 (B. O’Callaghan et al., 2021).



4. Green recovery opportunities seized by Nordic countries

Since the early days of the pandemic outbreak, a vast range of academic literature and policy advocacy has been prepared to provide guidance to policy-makers on how best to capitalise on the opportunity for low-carbon and climate-resilient fiscal spending for both the initial *rescue* phase and the subsequent *recovery* phase (Brian O'Callaghan et al., 2021). The landscape of fiscal rescue and recovery spending presented above allows initial conclusions to be drawn on how governments have 'seized' or 'missed' these opportunities since early 2020.

Governments have introduced over 500 low-carbon rescue and recovery measures worldwide (Brian O'Callaghan et al., 2021). These measures cover most emerging and established low-carbon industries such as clean energy generation, clean transport, and natural capital investments.

Despite the overall scope of low-carbon fiscal spending across areas, spending on worker retraining and educational initiatives has remained low across countries. Although a few promising examples exist, such as Denmark's provision of educational benefits to provide unemployed individuals with an opportunity to learn new skills aligned with the low-carbon transitions' new job functions and competencies (Brian O'Callaghan et al., 2021, Annex B.2), the analysis indicates an insufficient focus on long-term human capital development.

Table 1. Examples of measures considered 'low-carbon' in Nordic countries. Source: Global Recovery Observatory (B. O'Callaghan et al., 2021) and OECD (2021b), based on the framework of Hans et al. (2022).

Country	Measure	Type	Explanation
Denmark	Loans for environmental project and support to small and medium-sized enterprises (SMEs) financing	'Low-carbon' measure	The Danish government signed a EUR 60 million ten-year loan agreement with the Danish Ringkøbing Landbobank (RLB) to finance environmental projects and support SMEs in Denmark. This initiative is part of Nordic Investment Bank's (NIB) special support programme for sustainable business during the COVID-19 pandemic (Nordic Investment Bank, 2020; B. O'Callaghan et al., 2021).
Finland	Phasing out oil-heating in residential and municipal buildings	'Low-carbon' measure	EUR 45 million in grants to phase out oil-heating in both households and municipal buildings (Finnish Government, 2020; B. O'Callaghan et al., 2021).
Iceland	VAT reduction for green transport	'Low-carbon' measure	In 2020, the government introduced a number of VAT reductions for environmentally friendly modes of transport (OECD, 2021b). The VAT reductions will be phase out in 2023.
Norway	Low-emission research funding	'Low-carbon' measure	NOK 75 million allocated to strengthen work on low-emission research. The funding will promote research, development and innovation of new solutions that can lead to Norway reducing greenhouse gas emissions while stimulating business development (Norwegian Government, 2020; B. O'Callaghan et al., 2021).
Sweden	Improved energy efficiency in buildings	'Low-carbon' measure	Funds to support retrofitting and energy efficiency improvements of residential homes, with SEK 900 million allocated in the 2021 budget, SEK 2.4 billion in the 2022 budget, and SEK 1.0 billion in the 2023 budget (Government of Sweden, 2020; B. O'Callaghan et al., 2021)

5. Green recovery opportunities missed by Nordic countries

Missed opportunities for a low-carbon and climate-resilient recovery comprise both distinct fiscal spending on high-carbon measures (e.g., spending on fossil-fuel infrastructure) and measures supporting the status quo (e.g., corporate bailouts without conditions for net zero transition). As for the former, specific high-carbon investments have mainly been undertaken in the traditional fossil fuel-based transport sector and the carbon-intensive parts of the energy sector.

As for the latter, measures supporting the status quo cannot be explicitly coded as high-carbon or low-carbon but substantiate current business-as-usual practice (Hans et al., 2022). Such measures would have presented an opportunity for policy-makers to implement accompanying distinct conditions for a low-carbon transition coupled with the respective fiscal rescue and recovery spending item.

Across 26 key emitters as of May 2021 representing 67% of global GHG emissions in 2018, around 35% of fiscal spending can be considered to be supporting the status quo and have not met the pledges to focus economic rescue and recovery measures effectively on low-carbon activities (Hans et al., 2022).

Such measures comprise, among others, corporate liquidity support for airline companies and other large corporates without specific conditions for a low-carbon transition or VAT reductions without a specific focus on low-carbon products (see Table 2 for examples in Nordic countries). This suggests that governments might have pursued other socio-economic considerations, especially during the initial rescue phase, and showed limited capabilities or willingness in times of immediate socio-economic crisis to align all emission-relevant fiscal spending with the Paris Agreement's objectives.

Table 2. Examples of measures considered 'high-carbon' or 'supporting the status quo' in Nordic countries. Source: Global Recovery Observatory (B. O'Callaghan et al., 2021) and the Energy Policy Tracker (2021), based on the framework of Hans et al. (2022).

Country	Measure	Type	Explanation
Denmark & Sweden	Unconditional liquidity support for SAS airline	'Supporting the status quo' measure	EUR 300 million liquidity support to the aviation company Scandinavian Airlines System (SAS) in the form of loans by Swedish and Danish governments (each EUR 150 million granted) (European Commission, 2021; B. O'Callaghan et al., 2021)
Finland	Interest rate for adjusted payment arrangement for VAT reduced	'Supporting the status quo' measure	Business support measures to reduce the business tax burden unconditionally will reduce government revenue by EUR 753 million in 2020 (Finnish Government, 2020; B. O'Callaghan et al., 2021).
Norway	Deferral of taxes related to oil and gas production	'High carbon' measure	The Norwegian government introduced a temporary easing of tax rules for oil and gas companies totalling around USD 10–11 billion in April 2021 (Energy Policy Tracker, 2021; Solsvik & Adomaitis, 2021).

6. Policy recommendations for the EU and the Nordic countries

The following recommendations are based on the latest summary findings presented in this policy brief and recently published literature (Hans et al., 2022; Brian O'Callaghan et al., 2021).

- i. **Enhance the preparedness and develop capabilities to be able to better improve the design of economic rescue and recovery measures in line with a low-carbon transition.** For example, policy-makers might consider proactively introducing guidelines and legal frameworks to make corporate liquidity support in times of immediate crisis conditional on low-carbon transition requirements. Governments can further emphasise the overall importance of well-developed project pipelines in line with national climate targets and the Paris Agreement's objectives. Governments should also consider the multiple opportunities of well-designed worker retraining and educational initiatives to foster skills and competencies aligned with the low-carbon transition. These actions allow targeted economic rescue and recovery spending to be accelerated in a timely manner once required in direct response to an emerging crisis.
- ii. **Further streamline low-carbon spending into upcoming annual fiscal budgeting cycles to align with low-carbon transition objectives.** Two years into the COVID-19 pandemic, low-carbon budgeting becomes particularly relevant considering the high level of public indebtedness and the scarce public resources available in many European countries going forward. Low-carbon budgeting comprises the sustainability-proofing of budgetary processes and increasing policy coherence across sectors (Brian O'Callaghan et al., 2021). For example, policy-makers can opt to implement green budget-tagging processes or the use of more advanced green public financial management frameworks.
- iii. **Provide increased and targeted financial support for developing countries to fund their urgent recovery efforts.** Governments in the EU and Nordic countries can help identify, analyse and support green recovery measures that can effectively cater to the distinct recovery needs and development priorities of developing countries and in addition provide increased and targeted financial support for these countries to fund their urgent recovery efforts (Marquardt & Fearnehough, 2021; Brian O'Callaghan et al., 2021). As of October 2021, emerging markets and developing economies have suffered disproportionately from the pandemic and their recovery spending has been low, due, among other reasons, to restricted access to affordable finance.

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