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Economic Climate Monitor

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Sustainability in times of a crisis and the consequences for our climate

- **COVID-19 resulted in setbacks for many social and economic sustainable development goals.**
- **For climate change it holds an opportunity – directly reducing CO2 emissions, accelerating indirect trends impacting CO2 emissions and higher determination to solve shared problems.**
- **For emerging economies, the pandemic had a disproportionately negative impact aggravated by existing structural problems and vulnerability, with feedback loops affecting their climate mitigation efforts and economic recovery ability.**

During 2020 the question arose whether we are still able to meet the Sustainable Development Goals as a global community in the wake of the COVID-19 pandemic considering the severe impact it had on society and economies. The United Nations published a Sustainable Development Goals Outlook 2020 to address this concern. The conclusion is that the pandemic resulted in severe setbacks for goals related to society and economies, while it created opportunities for environmental goals. Meeting the SDGs were already a challenge, and COVID-19 aggravated structural problems in emerging markets of unemployment, in particular youth unemployment, access to education and housing, while reducing financial capacity to address the triple outlay of the existing structural problems, pandemic related setbacks and transition cost in relation to climate goals.

This article summarises and adds nuance to the impact of the pandemic on the direct and indirect climate related SDG's and resulting feedback loops for emerging and Least Developed Countries (LDCs).

17 Sustainable Development Goals (SDGs)

17 SDGs were set in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. They are included in a UN Resolution called the 2030 Agenda or what is colloquially known as Agenda 2030. The Stockholm Resilience Centre developed The Wedding Cake Model to visualize these 17 goals into 3 broad categories representing the biosphere as the largest bottom layer, which support a healthy society above it, which in turn supports a healthy economy, with a cake topper of Partnership for the Goals.

Source: Stockholm Resilience Centre

Biosphere:

(13) Climate Action
(14) Life Below Water
(15) Life On Land
(6) Clean Water and Sanitation

Economy:

(8) Decent Work and Economic Growth
(9) Industry, Innovation and Infrastructure
(10) Reducing Inequality
(12) Responsible Consumption and Production

Society[1]:

Individual *(1) No Poverty*
(2) Zero Hunger
(3) Good Health and Well-being
(5) Gender Equality

Institutional: *(4) Quality Education*
(7) Affordable and Clean Energy
(11) Sustainable Cities and Communities
(16) Peace, Justice, and Strong Institutions

(17) Partnerships for the Goals

[1] Discussion arose around the ordering of society and the economy, with some arguing that a healthy society is dependent on a healthy economy. An additional classification has been added for individual and institutional goals.

Achieving the SDGs in the wake of COVID-19

The United Nations published the SDG outlook 2020 to address the question whether we can still meet the SDG following the pandemic impact. Below is a brief summary of the severe setbacks for goals related to society and economies, and framing of the opportunities created, in particular related to climate change.

Considering the setbacks

The first impact comprises the direct health effects of the virus and on its heels the effects arising from crisis response measures such as social distancing and mandated lockdowns. Impacts vary across individuals and include lost livelihoods, forced absences from the classroom, foregone vaccinations against other infectious diseases, stresses on mental health, and for women in particular, a disproportionate increase in the burden of care work as well as greater risk of domestic violence. These directly impacted individual level societal goals three, four and five - Good Health and Well-being, Gender Equality, as well as Quality Education.

In addition the physical and individual impact, lockdowns resulted in significant loss of output, employment, and income. ABN AMRO Group Economics expects global output to shrink by around 4%. EM output (GDP) is estimated to reduce by 3.1% during 2020, followed by a rebound of 5.8% growth in 2021. The pre-pandemic EM projections for 2020 and 2021 were 4.1% and 4.4% respectively. 2021 growth is driven by emerging Asia especially China, with Africa and Latin America lagging in recovery.

The loss of employment and income is a setback for Decent Work and Economic Growth (8) - and in turn make it more difficult to achieve poverty and hunger (goals 1 and 2). The UN report estimates global poverty headcount to increase by as much as 100 million people reversing the declining global trend in poverty of the last twenty-plus years. Hunger is also projected to increase, with the number of people facing acute food insecurity doubling to about 265 million by the end of 2020. It is likely to hit children, women, and the elderly in particular. These deprivations have a disproportionately large impact in LDCs. The aggregate effects reported also include falling public revenues and shrinking fiscal space, price increases or quantity disruptions, balance of payments stress due to capital flow reversals, collapses in tourism, decreases in commodity exports and more persistent inequalities. The negative impact on education quality, which is higher in poor areas with slower (or no) internet, can translate into life-long deficits, perpetuating inequalities across generations (goal 10). Considerable uncertainties remain about the exact magnitude of these impacts, but with the recent successes in vaccine trials hope is returning that it may be at the more optimistic range of earlier projections. While vaccine roll-out will take precedence in developed economies – the second order impact on emerging economies is significant through resurgence in tourism and the export of natural resource, in particular oil and gas.

Considering the opportunities

Overall the pandemic is a tragedy, but as economies went into lockdowns and reduced movement it also presented a chance for the biosphere to recover. CO2 emissions fell and the quality of air and water temporarily improved. SDGs impacted are Climate Action, and Clean Water and Sanitation.

In addition to the biosphere, the UN report highlights opportunities that arose with increased awareness about the necessity of robust and universal healthcare and social protection systems. Healthcare, social protection, and overall governance systems adopted emergency measures in order to overcome their weaknesses in dealing with the COVID-19 crisis which can now be built upon.

For the goal Peace, Justice, and Strong Institutions (16) it is unclear whether the pandemic created a clear setback or an opportunity. There may be positive impact related to awareness of social protection and emergency healthcare, however considering the number of protests seen in 2020, in particular against national lockdowns, it may also pan out as a setback. In countries where institutions and governance were already weak, it may also cause further hollowing out and abuse of temporary authoritarian behaviour.

Climate goals – direct and indirect impacts

As stated above the pandemic created additional setbacks for many SDGs, but for climate change it may have re-laid the global economy to a lower emissions path. We will focus on the direct and indirect impacts of the 2020 crisis on climate change and the feedback loops aggravating impacts on emerging and least developed countries from here. Indirect climate goals, in particular energy, industry and consumption related goals are crucial in meeting overall CO2 emissions targets and the associated climate change SDG.

Positive trends

CO2 emissions fell by 17% in April 2020 with current estimates for 2020 4-7% lower than 2019. Cumulative CO2 increased despite this reduction, with the latest readings of atmospheric CO2 concentration coming in at 410 parts per million (ppm). The pre-industrial long term average was about 280 ppm, while 450 ppm is considered dangerous and associated with an irreversible shift out of conditions of the Holocene (past 10 000 years) which allowed the development of agriculture and civilization.

The immediate question arising is how can we hold onto the reductions made during 2020 and keep momentum to further reduce emissions toward zero? To reach the targets of the Paris agreement and remain within a 1.5°C pathway we need a 50-60% reduction in the next 10 years[2] . There is no silver bullet here – it would be a collective effort between various governments, industry, the financial sector, research institutions and individuals to adjust behaviour and consumption patterns collectively. With the shared commitment to resolve the global challenge of the corona pandemic, the overall cake topper of Partnerships for the Goals(17) may potentially be impacted positively. Relating to the partnership needed for climate change action - many countries strengthened their commitments during 2020.

Potential trends

In addition to the direct emission reductions from reduced flying and driving, existing trends on SDG's that indirectly have a significant impact on CO2 emissions were affected – the extent and direction is uncertain however.

Responsible Consumption and Production (12) behaviour may be altered long term. Many people worked from home with shops closed at various points during the year which further normalized online shopping. The share price of Amazon, the largest global online shopping platform has increased by 81% year on year (2 December 2020). Consumption is one of the key drivers of GDP, particularly in developed economies, with overconsumption a growing concern around impact on the biosphere. We need to shift production processes to more sustainable and lower emission pathways, which would in turn probably result in more expensive but also more durable and circular products, which would naturally curb overconsumption.

[2] from the current global CO2 equivalent emissions

As an indirect COVID-19 impact, consumption patterns have a potential knock-on impact on CO2 emissions. With online shopping the amount of packing and individual couriers increased to facilitate doorstep delivery. Moreover, guilt free or compulsive shopping may have increased, with little consideration for child labour or environmental impact.

We can also consider what becomes possible with more shopping done online, for examples

- pre-set preferences for sustainable fabrics and processes, or
- production within a certain radius, or
- at least shipped and delivered with 0 emissions?
- re-used packaging of home cosmetics with drop-of and pick-up in a single trip, or as a neighbourhood?
- or a bit more eery - a total CO2 online shopping budget tied to your IP address?

Trends to promote energy transition supporting the goal of Affordable and Clean Energy (7) also accelerated with both China and the US recently strengthening their CO2 emissions target. The challenge lies in how such a transition is achieved. Importing oil from a country with weaker environmental laws may result in carbon leakage and potentially more damage. In addition such projects can cause local conflict and further setbacks related to hunger, poverty and the environment. Investors increasingly avoid projects based on SDG and human rights considerations, but parties with lower standards regarding the environment and high return requirements do engage however.

Disparity between developed and emerging markets, and feedback loops

In considering the setback, opportunities and indirect climate related targets, the concern arises that there is a pronounced disparity in global distribution between developed countries and emerging markets, in particular Least Developed Countries (LDCs). For poorer economies economic recovery will likely be prioritized and climate targets may be shifted to the long run following the pandemic, with some SDGs achieved at the expense of others.

Examples include of projects that have a negative impact on the biosphere, the base layer of the wedding cake include:

- The Mozambique Gas field development – where mangrove forests with immense CO2 absorption capacity are damaged, local fishing communities are deprived of food while much of the LNG is being exported.
- Botswana considering oil and gas extraction in the Okavango Delta – a biodiversity haven central for tourism.
- Burning of the Amazon to clear land for agriculture. In the 12 months since August 2019 11.000 square kilometres of rainforest has been lost[3] – a 9,5% increase from the previous year and the highest level since 2008.

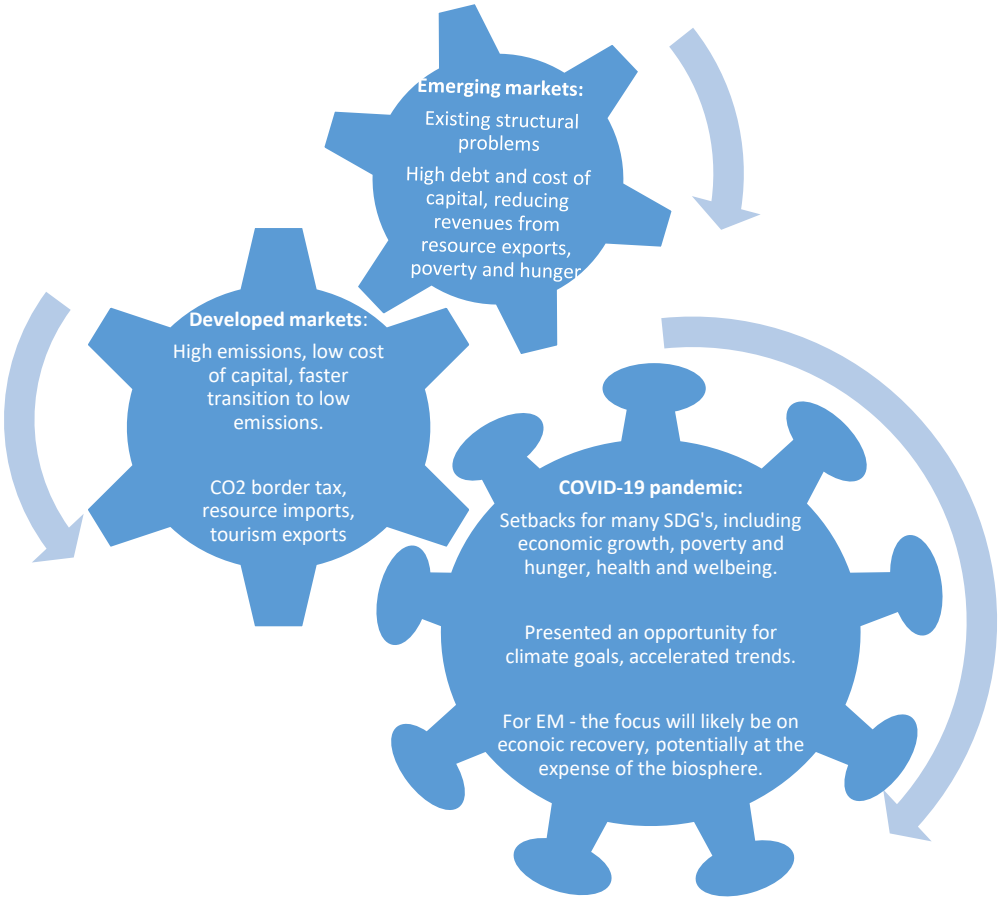
The disproportionate impact on poorer economies is detailed in the setbacks section. These economies were ill prepared with legacy issues such as high government debt and falling prices for natural resources which in turn caused a wave in credit downgrades and increased cost of lending. They are also more vulnerable to the effects of Climate Change, for example droughts in Africa. The additional distress from the pandemic has unlocked access to additional funding from various multilateral institutions for example the IMF and the Worldbank, while prompting discussions around debt forgiveness initiatives for Heavily Indebted Poor Countries (HIPC's) however.

Still, with overall disaster funding depleted by the pandemic, many countries halted prior disaster pay-outs and are forced to accept loans at a relatively higher cost of capital and weaker deal structure, and had to accept conditions of existing

[3] Brazilian space agency INPE

deals with less favourable structures. High cost of capital also translates to a more expensive energy transition and longer reliance on cheap and polluting energy sources like coal.

Developed economies are in the meantime able to switch to a lower emissions pathway, supported with lower costs of capital. One of their considerations (EU and US) is that the emissions should not shift outside their borders, and that local industry needs to have a level playing field. One mechanism to achieve this is a border emissions tax – which in turn could create further economic constraints on the export of emerging markets.



Conclusion

While the COVID-19 pandemic resulted in setbacks for many social and economic SDGs, for climate change globally it holds an opportunity – directly reducing emissions and higher determination to solve shared problems. While indirectly potentially accelerating trends in responsible consumption and production, energy transition and decarbonization of industry.

For most emerging economies and especially the poorest countries, the pandemic had a disproportionately negative impact. On top of existing structural problems leaving reduced response capacity, the direct setbacks from the virus and lockdown itself was more severe. More vulnerability to climate change impacts (floods, droughts) and higher cost of capital translates to a more expensive energy transition while rapid decarbonization of developed economies creates additional economic pressure for export products.

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