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**REPORT** June 2021

# MAPPING THE POLITICAL ECONOMY OF THE GLOBAL FINANCIAL ECOSYSTEM INTERIM REPORT

**SAM MEALY, MELANIE BRUSSELER & SIMA KAMMOURIEH**





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## About E3G

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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## Our partners



### CIFF

The Children's Investment Fund Foundation (CIFF) is an independent philanthropic organisation, with offices in Addis Ababa, Beijing, London, Nairobi and New Delhi. Established in 2002, CIFF works with a wide range of partners seeking to transform the lives of children and adolescents in developing countries. Areas of work include adolescent sexual health, maternal and child health, opportunities for girls and young women, tackling child slavery and exploitation, and supporting smart ways to slow down and stop climate change.

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## Executive summary

**Fundamental transformation of the global economic and financial system is essential to ensure climate safety.** Global warming – resulting in further widespread humanitarian and planetary suffering – could reach up to 3 degrees this century if financial flows and current policies remain as they are. Whilst **climate finance has reached record levels**, it still fails to meet the USD 100 billion/year pledge set in the 2009 Copenhagen COP and falls significantly short of the **trillions required over the next decades for climate mitigation, adaptation and biodiversity regeneration**. The next few years represent a critical window in which to shift public and private financial flows from fossil fuel-based modes of production and consumption toward decarbonisation.

**E3G's political economy mapping of the global financial ecosystem takes stock of opportunities and challenges for systemic economic and financial reform for climate safety across 14 key countries and institutions ("venues").**<sup>1</sup> To transform a system, it is necessary to understand its politics: how decision are made and by whom. Through desktop research and interviews with over 100 stakeholders (policymakers, academics, civil society) the ecosystem mapping aims to better understand countries and institutions' positions on key aspects of fiscal and monetary policy, and financial regulation, analyse the interactions between these venues, show the main champions and blockers of a green finance agenda, and assess opportunities for green reforms over the next 12-24 months. This interim report summarises the findings from Phase I of the mapping initiative – the US, France, Japan, the European Commission, the IMF, Central Banks, and Finance Ministries – and will be supplemented with a second report summarising the other country findings later this year (Phase II).

**This interim report and the research underpinning it has identified a three-pillar agenda for systemic financial reform:** greening the recovery in developed economies; enabling an inclusive, green, global recovery; and implementing structural financial reforms for climate safety. The report and the rest of this executive summary provides an overview of the major political economy levers within each of these pillars and a list of policy recommendations based on this analysis.

### *Greening the recovery in developed economies*

**Decisions made by governments in developed economies in the coming months are mission critical to climate safety: ongoing fiscal and monetary responses to the pandemic-induced economic crisis will either work to lock-in or avert global warming greater than 1.5 C.** Governments in developed economies are firmly embedding climate concerns in their political agendas and are deploying

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<sup>1</sup> Countries: the US, Japan, France, Germany, China, India, Indonesia, Philippines, Brazil, Ghana. Institutions: Finance Ministries, the IMF, the European Commission, Central Banks.

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**E** unprecedented fiscal and monetary resources to tackle the pandemic and its socioeconomic consequences, but assessing the systemic climate-related impacts of these efforts is challenging. Whilst recognizing that meeting collective Paris Agreement commitments begins with the adequate use of public finance “at home”, the venues covered in this study are confronting various challenges:

- Domestic political dynamics often hinder the deployment of expansionary fiscal policy to the full extent required for rapid decarbonisation of the economy (e.g., the US and France);
- Even when public funds can be made available, identifying sufficient large-scale green projects to absorb available funding is challenging (e.g., France, and other EU countries). This is due to, amongst other factors:
  - a lack of consensus on what constitutes “green” economic activities or projects,
  - a lack of integrated economic and environmental expertise in the institutions controlling the design and disbursement of funds (e.g. finance ministries, Directorate General for Economic and Financial Affairs - DG ECFIN - within the European Commission).

**Governments’ actions are not matching their climate ambitions:** for example, most EU countries are currently falling below the 37% green spending floor mandated by the European Commission as part of the National Recovery and Resilience Plans (NRRPs) process. In addition to these difficulties identified at jurisdiction-level, there has been no ambitious collective commitment or coordination between developed economies – e.g., in the context of the G7 – on shared standards for what domestic recovery efforts should look like. The strong language offered by G7 Finance Ministers on the need to ensure a global green recovery was not backed up by joint action on the domestic front (e.g., agreeing to common clean spending floors, with the rest of recovery budgets doing no significant harm, or developing best practices and transparency mechanisms around “green budgeting” and tracking the climate impact of public expenditure).

### ***Enabling an inclusive, green, global recovery***

**Global climate safety cannot be realized without fiscal solidarity with developing countries, who are facing an interrelated health, economic and climate crisis and are struggling to invest in any economic recovery, let alone a climate-safe one.** While this issue has clearly been identified as crucial – both by developed economies, key institutions, and vulnerable countries themselves – finding solutions is challenging due to a variety of reasons:

#### ***In developing countries:***

- Fiscal spending has been much lower largely because of already limited fiscal space and limited access to international capital markets;
- Many developing countries are dependent on carbon-intensive industrial strategies, are at risk of locking in assets that may become stranded and lack the capacity and tools to develop a low-carbon development strategy;





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- Given limited fiscal space most recovery spending in developing countries is by necessity on current expenditure (e.g. social programmes) rather than capital expenditure, making long-term investments in the green transition difficult.

*In developed countries and international institutions:*

- The general allocation of the IMF's Special Drawing Rights (SDRs), which would give developing countries additional fiscal breathing room, still hasn't materialized (although the recent G7 Finance Ministers set a target date of end of August 2021 for it to take place). The reallocation process is complex and domestic politics in the US is slowing it down: reallocation will need US congressional approval to move forward. Geopolitical tensions exist in relation to the amount, nature and mechanisms to reallocate SDRs: can they finance vaccine purchases? Should they be reallocated via one of the IMF's concessional trust-funds, an easy solution but one that would result in fiscal spend for borrowing countries? Will developing countries use available SDRs to pay back high-interest debt to China, which is highly contentious at least for Japan? Would earmarking SDRs for climate-related projects be considered acceptable by stakeholders involved, or labelled as unacceptable conditionality?
- The Debt Service Suspension Initiative (DSSI) does not go far enough, yet has led to credit rating agencies penalizing some developing countries for participating; private creditors are not participating in the initiative, perpetuating the longstanding issue of engaging private creditors in sustainable debt restructuring efforts;
- Aligning shareholders around recapitalizing and reforming Multilateral Development Banks (MDBs) to meet the scale and speed of the climate challenge, including ending all fossil fuel financing, has proved challenging. In particular, recapitalization of MDBs is not currently under consideration by shareholders, who prefer to consider opportunities to optimize MDB balance sheets, and is not being championed by any major donor country; efforts by the MDBs to align with the Paris Agreement risk becoming a box-ticking exercise rather than a transformative reform of their business models.
- Uncertainty persists around how the IMF will integrate climate risks in its macroeconomic surveillance tools (e.g. Article IV and Finance Sector Assessment Programme), although the recent G7 Finance Ministers meeting provided some degree of detail and progress on this issue, by calling on the IMF to include the consideration of transition risks in its surveillance tools.

***Implementing structural financial reforms for climate safety***

**Progress on the systemic reforms necessary for climate safety is being made but remains volatile.**

- Central banks are beginning to integrate climate change into macro- and micro-prudential supervision but, with the exception of the People's Bank of China, none are yet moving toward changing capital requirement frameworks or credit-steering;
- Several jurisdictions are developing taxonomies or classification systems of sustainable activities, but the risk of regulatory fragmentation and arbitrage is growing in the absence of



- E** any substantial coordination effort for reaching a common international definition of, and mutually intelligent frameworks for, green investment;
- Various countries are implementing the **Task Force on Climate-Related Financial Disclosures** (TCFD) recommendations on climate disclosure, largely on a voluntary basis but mandatory rules are emerging, e.g. in New Zealand, the UK and the EU. The recent G7 Finance Ministers meeting provided progress on this front by calling for mandatory disclosures based on the TCFD framework;
  - Various global standard-setters and individual jurisdictions are also working on creating sustainability reporting norms. The proliferation of approaches in this field creates a risk of fragmentation or misalignment, and considerable work will need to be done to ensure integration or harmonization to the fullest possible extent;
  - There have been **recent improvements in the coordination of international tax issues**. In addition, the debate on carbon border mechanisms has given renewed focus to crucial, climate-related trade issues, such as state aid, product standards or supply-chain sustainability. At the same time, the European Commission's Carbon Border Adjustment Mechanism (CBAM) proposal, due to be formally published in July this year, is geopolitically sensitive and has already caused backlash.

### Recommendations for policy intervention

To help tackle some of these challenges, E3G recommends G7 and G20 finance ministries to pursue the following set of policies:

Pillar	Policy interventions
<b>Greening the recovery in developed economies</b>	<ul style="list-style-type: none"><li>• Setting more ambitious green spending targets/establishing minimum green spending floors and committing to the rest of the budget adhering it to the EU-defined concept of "Do No Significant Harm"</li><li>• Developing green public finance management tools (e.g. green budgets and procurement policies, and auditing mechanisms or bodies to evaluate these)</li><li>• Ending all public fossil fuel financing</li><li>• Establishing long-term financing strategies for decarbonisation and linking them to NDCs</li></ul>
<b>Enabling an inclusive, green global recovery</b>	<ul style="list-style-type: none"><li>• Increase official development assistance support to 0.7% of GDP, with a strong focus on health and climate</li></ul>



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**Structural  
reforms for  
safety**

**financial  
for climate**

- Improve access and flexibility of climate finance
- Replenish the multilateral climate funds (GCF & CIFs)
- Recapitalise the MDBs and demand a higher share in concessional finance for adaptation and energy transition
- Provide debt restructuring as necessary and (temporary) suspension of debt payments to improve fiscal space for recovery, linked this to climate vulnerability & climate-debt swaps (as suggested by WB and IMF).
- Agree on common position on SDR reallocation
- Eliminate financing of fossil fuels in public banks
- Collaborate to agree a joined-up approach to defining norms and standards, including definitions of green investments, in order to send strong signals to markets and avoid further green-washing and regulatory fragmentation
- Improving the coordination role of central banks and regulators: update mandates to reflect the climate imperative; employ new tools and methods, including evaluating the risk of unsustainable economic activities for supervised entities
- Promote mandatory disclosure regimes and transition plans for supervised entities at G20 level
- Encourage harmonization and consistency of the forthcoming work to be done by the IFRS Foundation on green reporting standards with work done by many other standard-setters in this area. In particular, promote the double-materiality approach to sustainability reporting, recognizing that relevant sustainability reporting needs to account for a firm's impact on the planet, people and environment
- Enhance monetary-fiscal coordination



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## 1. INTRODUCTION

**A fundamental transformation of the global economic and financial system is essential to ensuring climate safety.** We know that existing socioeconomic structures – what, how and how much we choose to consume and produce – are incompatible with a climate-safe development path. As a result, financial flows (whether issued by states, central banks, multilateral institutions or the private sector) that continue to support the economic status quo are also incompatible with a climate-safe future. For instance, while recognizing the risks involved in the transition towards climate-safe economies, Bank of England Governor Andrew Bailey recently acknowledged that, for the UK, meeting the goal of net-zero carbon emissions by 2050 “will require an unprecedented structural shift in the economy, particularly on the supply side. Everything from the way we produce and consume goods and services will need to change for this economy-wide transition to take place.”<sup>1</sup> Moreover, whilst **climate finance has reached record levels**, it stills fall short of the trillions required over the next decades for climate mitigation and adaptation and has not yet reached the **USD 100bn/year target set in the 2009 Copenhagen COP for 2020**. We stand at a critical juncture in shifting public and private financial flows from fossil fuel-based modes of production and consumption toward coordinated long-term investment for decarbonization. A joint report by the International Energy Association, the World Bank, and the World Economic Forum found that green investment in developing countries must reach USD 1 trillion annually by 2030 to comply with a 1.5-degree pathway.<sup>2</sup>

**The public sector has a key leadership role to play in steering this fundamental shift.** In particular, finance ministers are a crucial constituency to examine:

- **First and foremost, finance ministers shape the design of domestic fiscal policy, which will determine whether warming above 1.5 degrees is locked in or averted.** Transforming the energy system and capital stock, and expanding green productive capacity requires trillions of dollars investment over the coming decades. The economic crisis triggered by the coronavirus pandemic means that fiscal policy will be – or should be – strongly expansionary in 2021 as in 2020, for those countries that can afford it.<sup>3</sup> The question is, what sectors, products, services, will public spending support, and are they compatible with climate safety? This question may be relevant well beyond 2021, as fiscal policy may continue to be expansionary in coming years. Indeed, significant uncertainties

remain regarding the rhythm of the global recovery. The persistence of low inflation and related pre-pandemic long-term stagnation, have, amongst other factors, led to a shift in the narrative in economic circles, from arguing the benefits of austerity to championing productive public investment. Meanwhile, continued uncertainties about the progress of the pandemic suggest that economic recovery will be a bumpy road for some time to come with significant divergences both within and across countries.

- **Second, coordinated action and solidarity between finance ministries is required to ensure an inclusive global recovery.** Developing countries that have been hit particularly hard by the pandemic, already bear a disproportionate burden of the negative effects of the climate crisis, and, due to limited pre-existing fiscal space and access to international capital markets, typically have less capacity to tackle the health crisis and invest in a long-term green recovery. Building domestic capacity in developing countries and leveraging institutions such as the G7, G20, Paris Club, and the IMF Board in particular, is required to ease some of these burdens.
- **Finally, finance ministries can also help drive, individually or through multilateral forums and institutions, the rapid mobilisation of private finance at scale towards sustainable investment.** **The IPCC estimates** that USD 1.6 to 3.8 trillion will be needed annually between 2016 and 2050 for supply-side energy system investments alone. Most of this will have to come from the private sector. Finance ministries can help mobilise this capital through regulatory and taxation incentives for investment and by mandating ambitious disclosure regimes and transition plans for private firms. The G20 Finance track is also a place where finance ministers can come together to discuss the creation of norms defining sustainable or unsustainable investments.

**These three dimensions – domestic fiscal policy in key developed countries, financial solidarity, and structural financial reform – are the three pillars of the systemic reform roadmap needed in 2021 and 2022 (Figure 1). The aim of this ecosystem mapping exercise is to assess where we stand with this roadmap and help advance it.**



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*Figure 1: The reform agenda for climate safety*



Greening the recovery in developed economies



Enabling an inclusive, equitable, and green recovery



Implementing systemic financial reforms for climate safety

## Methodology

Based on a mixture of desk research and stakeholder consultations<sup>4</sup>, this ecosystem mapping is a structured exercise of quantitative and qualitative intelligence gathering, taking stock of opportunities and challenges for systemic economic and financial reform across 14 key countries and institutions (“venues”) (Figure 2 below)<sup>5</sup>. It aims to better understand countries and institutions’ positions on key aspects of finance policy, analyse the interactions between these venues, show the main champions and blockers of a progressive climate finance agenda, and assess opportunities for green reforms over the next 12-24 months. This interim report summarises the key findings from Phase I (finance ministries, central banks, the European Commission, the IMF, the US and France), intelligence gathered from other E3G initiatives (e.g the E3G-Wuppertal Institute Green Recovery Tracker) and some early results from Phase II (China, Brazil, India, Indonesia, Ghana and the Philippines). Individual reports on these latter venues are currently being finalised, the findings from which will be synthesised in a secondary supplemental report.





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*Figure 2: Coverage of the ecosystem mapping initiative*

Phase I	Phase II
Finance Ministries	China
Central Banks (US FED, ECB, BoE)	Brazil
IMF	Indonesia
European Commission	Philippines
The US	India
France	Ghana
Japan	Germany

## Report structure

**The rest of this report is structured as followed:**

- Chapter 2 provides an overview of the global economic and financial reform agenda for climate safety around the three pillars of activity briefly described above;
- Chapters 3-5 explores each of these pillars in more depth (greening the recovery in developed economies; enabling an inclusive, green, global recovery; and implementing structural reforms necessary for climate safety);
- Chapter 6 concludes, formulating recommendations for action and outlining next steps of the initiative.



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## 2. THE ECONOMIC AND FINANCIAL REFORM AGENDA FOR CLIMATE SAFETY

On the basis of our research, we propose a three-pillar economic and financial reform agenda that could be enacted by finance ministers in 2021 (Figure 3):

*Figure 3. The global economic and financial reform agenda for climate safety*

Pillars	Key policy areas
<b>1. Greening the recovery in developed economies</b>	<ul style="list-style-type: none"><li>• Greening recovery spending (e.g. agreeing to minimum spending floors towards green projects and sectors/making it a spending priority, ensuring rest of spending does no significant harm to climate)</li><li>• Greening public finance management in the long-term (e.g. budgets, procurement policies) by introducing tracking and transparency/audit mechanisms to assess climate impact of planned budgetary spending or other policies</li><li>• Encourage long-term public investment towards decarbonization beyond the crisis, often against deflationary impulse.</li></ul>
<b>2. Enabling a green and inclusive global recovery</b>	<ul style="list-style-type: none"><li>• Expanding fiscal space through debt suspension and sustainable debt restructuring</li><li>• Mobilising additional climate finance for developing countries through Official Development Assistance (ODA) and multilateral funds (e.g. Green Climate Fund)</li><li>• Reforming and recapitalising International Financial Institutions (IFI) and Multilateral Development Banks (MDB) for transformational impact and a renewed focus on delivering Paris-aligned development support</li><li>• Developing integrating climate financing strategies, including fossil-fuel phase-out components</li><li>• Enhancing public cash transfer programmes for climate resilience and adaptation</li></ul>



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- Link technical and strategy support for climate neutral, resilient development to in-country investments, such as **policy-based lending to support developing countries in identifying policy reform opportunities** that will decrease the risk of locking in carbon intensive infrastructure and avoid fiscal burden due to inefficient support for fossil energy sources.

### 3. Implementing structural financial reforms for climate safety

- Aligning and harmonising definitions of green investment
- Coordinating international tax and accounting reform
- Extending and legislating for mandatory climate risk disclosure and risk management practices (e.g. transition plans) by the private sector, and applying these tools to public finances
- Integrating climate risks into macroprudential supervision and capital frameworks

Chapters 3-5 provide a detailed assessment of the state-of-play on these three pillars, including key challenges and opportunities.



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### 3. GREENING THE RECOVERY IN DEVELOPED ECONOMIES

**Climate concerns have been embedded in developed economies' political narratives and agendas.** Climate change is a top priority for systemically important institutions and countries, including the European Commission, the US, and France, as shown by the recent enactment of the European Climate Law and the European Green Deal, the US Executive Order on Tackling the Climate Crisis at Home and Abroad) and President Macron's January 2021 speech in Davos<sup>2</sup>.

**Developed economies are deploying unprecedented fiscal and monetary resources to tackle the pandemic and its associated socioeconomic consequences. However, assessing the environmental impact of such efforts is difficult.** Current levels of state-driven planning and investment have not been seen since the aftermath of the Second World War but are not yet sufficient to match the scale and speed of the decarbonisation transformation required. Recovery packages remain highly politically contentious and their systemic economic and climate impacts uncertain. With the exception of the EU and its European Green Deal, most countries and institutions lack detailed, long-term decarbonisation plans against which to compare present action.

**Assessing the impact of countries' recovery efforts on climate safety is complicated by methodological difficulties. Nevertheless, the early prognosis is pessimistic.** Amongst several other monitoring efforts, the **Green Recovery Tracker** by the Wuppertal Institute and E3G has analysed planned recovery measures in 14 EU states and found that draft recovery plans and recovery packages only achieve a green spending share of 24% in total, even though the previous EU-wide agreement set a benchmark of 37% climate spending in recovery plans.<sup>6</sup> Assessing these efforts is difficult for several methodological reasons, including:

- Lack of consensus on what constitutes a recovery measure (as opposed to a short-term stabilisation or otherwise planned measure)

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<sup>2</sup> Emmanuel Macron, 26 January 2021, speech given in the framework of the Davos Agenda: <https://www.elysee.fr/emmanuel-macron/2021/01/26/intervention-du-president-emmanuel-macron-dans-le-cadre-de-lagenda-de-davos-organise-par-le-world-economic-forum>

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- Few countries have long-term decarbonisation plans, making it difficult to assess how aligned recovery plans are with net zero emissions objectives. This leads to a lack of consensus on what constitutes a green recovery measure and its impact on climate.
  - Absence of clarity on programmes and activities that will be supported, including indicators to monitor progress (e.g. many European recovery packages state they are supporting “efficiency measures” but it’s unclear what this means in practice).

The following sections provide detailed assessments of individual countries’ stimulus plans, including key challenges and opportunities for the green agenda.

## The US: does Biden’s climate ambition match what is needed?

**Biden’s proposed climate-spending is sizable but not ambitious enough to achieve the rapid decarbonisation necessary for climate safety.** In the US, Trump and Biden together have delivered over USD 5 trillion in relief and stimulus spending that primarily delivered short-term but substantial cash injections to firms, financial markets, and households. Based on IMF data, the U.S. is the only economy expected to not only recover but exceed its pre-pandemic expected GDP growth in the coming period due to this fiscal spending.<sup>7</sup> This constitutes a dramatic shift compared to anaemic fiscal spending post-2008 financial crisis and subsequent non-recovery. The Biden Administration’s climate investment strategy rests on its bipartisan **infrastructure bill** (“the American Jobs Plan”) – as it is uncertain whether Democrats will maintain its fragile congressional majority through the 2022 midterm elections – that is being tentatively agreed at the time of writing.

**In the general election and again in government, Biden called for the U.S. to decarbonize its energy sector by 2035 and to achieve domestic net-zero emissions by 2050.** In April 2021, the U.S. announced a new nationally determined contribution pledge (subject to congressional approval) of **50-52% emissions reduction from 2005 levels by 2030**.<sup>8</sup> **This constitutes an advance in ambition considered against the past as a baseline** but falls short when measured against what is necessary to comply with a 1.5-degree pathway. For this, the U.S. would need to reduce its emissions by 57-63% from 2005 levels by 2030, according to **Climate Action Tracker**. Climate spending across Biden’s first term is set to be



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largely limited to the infrastructure bill mentioned above. **Details are still to come** but the bill will see USD 974 billion in spending over five years, USD 579 billion of which is for new projects and initiatives, amounting to less than 0.5% of annual GDP each year. This compares to the USD 10-16.3 trillion pushed by Congressional progressives and the climate movement as well as to more moderate mainstream estimates that the U.S must spend at least 5-7% of GDP per year across the coming decades to comply with a 1.5-degree pathway.<sup>9</sup> There is ongoing discussion, on a second track of the infrastructure bill, concerning the budget reconciliation process, however.

**The US has the fiscal capacity necessary to undertake robust economy-wide decarbonization, but the limit is politics.** The infrastructure bill as proposed is set to be fully financed through tax expenditure rather than deficit spending which could potentially weaken its growth effects and limit the size of the investment itself. The Biden Administration has also to date pursued a bipartisan strategy to passing the bill and has expressed willingness to drop climate earmarks to gain Republican support.<sup>10</sup> The makeup of the Democratic party's fragile majority shaped this starting composition and approach: assuming the assent of the progressive bloc, centrist Democratic Senator Joe Manchin is the swing vote for Democrats to meet a simple majority threshold in the Senate. He is fiscally hawkish, adamant that he wants a bipartisan bill, and represents a historically coal-dependent state.<sup>11</sup> Likewise, the proposed new USD 2 trillion tax increase on the wealthy to fund it represents a reasonable assessment of what the Democrats can deliver at present. Treasury Secretary Janet Yellen has been cited as driving the idea within the Administration that the infrastructure investment cannot be debt-financed.<sup>12</sup> However, Yellen has been key to championing the Biden Administration's overall fiscal envelope to date.<sup>13</sup> Moreover, reticence by Manchin and other congressional moderates to abolish the Senate filibuster present another blockage to more robust climate investment packages.<sup>14,15</sup>

**Across early June of 2021, the Biden's Administration's efforts to broker a bipartisan infrastructure bill with Senate Republican leadership broke down and Biden has shifted to seeking a bipartisan compromise with another set of centrist Senate Republicans.**<sup>16</sup> Meanwhile, congressional progressives, with support from major environmental and labour groups, are saying they will vote down any infrastructure bill that does not have adequate climate spending or which imposes economically regressive measures such as infrastructure privatization and gas taxes, as proposed by this second bipartisan counter-offer.<sup>17</sup> The Democrats' fragile majority in both chambers means the Biden Administration cannot pass a bill without progressive votes. This bloc is split on an alternative path. Senate





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Majority Leader Chuck Schumer is pushing a two-track approach: one smaller and entirely paid-for bipartisan package and a broader democrat only package passed through the budget reconciliation process. Others such as Elizabeth Warren and Ed Markey are split between supporting the two-track approach or pushing just for a Democrat-only reconciliation bill.<sup>18</sup> Progressives are operating in the legacy of the Obama-era Waxman-Markey bill which similarly began from a compromised lower emissions-reduction starting position and a bipartisan approach that ultimately failed.<sup>19</sup> They are also operating with the understanding that the transformation and capacity expansion of infrastructure and capital stock at scale, start-up speed, and long-term duration needed for deep decarbonization has historically only occurred through massive state intervention to directly finance production and further steer and support private investment through sectoral planning, credit policies, and robust aggregate demand management.<sup>20</sup>

**Biden’s domestic and international climate financing plans assume that a very small amount of public investment will induce significant amounts of private capital investment for decarbonisation: it is unclear how this will work in practice, however:<sup>21</sup>**

- For example, the infrastructure bill proposes USD 35 billion of R&D spending over eight years towards innovating clean technology breakthroughs, which stands as a significant increase over recent federal energy research spending, but this science policy proposal is not yet complemented with a clear industrial policy. It also matches the emphasis the administration is placing on relying on future technological breakthroughs in lieu of investing in the immediate decarbonization of the national energy system.<sup>22</sup>
- Likewise, the bill’s proposed “USD 27bn Clean Energy and Sustainability Accelerator,” which our research interviews indicate many climate and economic policy thinkers hope to develop into a public green bank, emphasizes subsidizing private investment for green projects without a broader national investment coordination function.<sup>23</sup> It stands in comparison to the Federal Reserve lending facility created through the Cares Act in 2020 that gave USD 454 billion to the Treasury to backstop the Federal Reserve’s direct allocation of credit to capital and municipalities.<sup>24</sup>
- Moreover, the US does not yet have concrete plans for decarbonising carbon-intensive sectors and activities, such as agriculture and steel. However, the Biden Administration has expressed interest in pursuing a



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strong sectoral decarbonization approach through industrial policies and industry-specific emissions caps.<sup>25</sup>

## The EU: will Europe's recovery plans deliver deep decarbonisation?<sup>26</sup>

**Do EU fiscal and monetary policy responses to the economic crisis go far enough and are the policies and projects now identified for spending likely to trigger the green transformation needed?** The EU set out a ground-breaking EUR 750bn recovery package (Next Generation EU) through which the EU now has some joint fiscal capacity to match its single monetary capacity. The central element of this package is the EUR 672.5bn Recovery and Resilience Facility (RRF) that is helping finance individual member countries' National Recovery and Resilience Plans (NRRPs). The European Investment Bank (EIB) – the world's largest multilateral lender – has been transformed into a climate bank and has **committed to lend EUR 1 trillion on climate-related activities by 2030**. It is unclear whether these strides will result in the structural transformation necessary for climate-safe societies, however.

**This lack of clarity starts at the European Commission level.** Concerns regarding the Commission's management of the National Recovery and Resilience Plans (NRRP) process reflect challenges in transforming the political intent of the EU, and even its most climate-progressive Member States, into climate-friendly policies:

- **Governance and competence-building:** within the EU Commission, the Directorate-General for Economic and Financial Affairs (DG ECFIN) holds the final say over approval or rejection of NRRPs, but it is siloed and has difficulty integrating and drawing on the environmental expertise of staff working in other Commission Directorates General;
- **Methodological difficulties:** as noted above, assessing the “greenness” of recovery efforts is methodologically challenging. The NRRPs must dedicate 37% of resources to green activities while the rest should “Do No Significant Harm” (DNSH principle) to the environment. This latter indicator can be particularly difficult to assess. On a related note, while it is more straight-forward to assess whether green measures amount to 37% when added up individually, it appears that it is a much more



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challenging exercise for DG ECFIN to assess whether as a whole, the package of green measures offered by a member state is likely to trigger the systemic green transition required.

- **Pressure on forecasting results:** DG ECFIN may lack the capacity to disburse recovery funds in 2021 so it will be at least 2022 until a better understanding is reached regarding the climate-impact of the EU recovery package. However, there may be political pressure as early as 2021 on DG ECFIN to release forecasting results showing a positive impact of EU funds on growth and employment.

**Country-level recovery plans show mixed efforts as the following sub-sections demonstrate.**

### France

**France has rapidly positioned itself as a leader in the green recovery space: in September 2020, it published its first ever green budget, inaugurating a new best practice in public financial management, although challenges remain.** France had the ambition of being the first major EU country decarbonised by 2050, although this ambition was recently trumped by Germany which will be bringing forward its target decarbonisation date to 2045, following a recent decision by the German Constitutional Court. Also in September 2020, the French government introduced a €100 billion recovery package (equivalent to 4,3% of GDP), the “Plan France Relance” or “France Relaunch”<sup>27</sup>:

- It includes €30 billion, or 1,3% of GDP, directed towards the green transition (building renovations, green infrastructure and mobility, support to reduce manufacturing processes carbon-intensity, development of green technologies).
- French officials have privately confirmed the importance of climate in structuring the official economic agenda, while pointing to the difficulty in identifying projects capable of absorbing available public funds earmarked as green.
- At the same time, discussions with officials also show that the trajectory of French public debt remains a key concern. France entered the crisis with a high public debt level, that was already on an upwards trajectory<sup>28</sup>. As a result of the pandemic and economic support measures it entailed, France



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is expected to exit the crisis with public debt levels 15 points higher to pre-crisis levels (98% of GDP in 2019 versus 115% of GDP projected in 2022)<sup>29</sup>.

- The rising French public debt level, and indeed France's capacity or willingness to reduce its deficit to comply with European fiscal rules, has always been a political sticking point. It is unclear how this topic may be politicized in the run-up to the presidential elections in May 2022. Many have admitted that France's multiannual public spending planning will be a political decision, and it is unclear at this stage whether President Macron will put more recovery money on the table or whether he will take a more conservative stance on public finances.
- On April 27, 2021, France and Germany [jointly](#) unveiled their respective NRRPs. In the case of France, the NRRP amounts to €41 billion and is the EU-funded component of the France Relaunch plan. 50% of the French NRRP is dedicated to climate, i.e. €20,2 billion. This is simply the EU-funded portion of the €30 billion of total climate expenditures already contained in the broader France Relaunch plan.

## Germany

**Progress on sustainable finance regulation in Germany is slower given it is not a key priority for the German government yet.** Regarding the green recovery 37% of the German National Recovery and Resilience Plan is allocated to climate and environment, though early reactions suggest it is a missed opportunity to deliver transformational climate outcomes. Germany's [Sustainable Finance Beirat](#) – a council set up to advise the government on sustainable and green finance issues – recently submitted its [report](#) containing 31 recommendations. Subsequently, the German government has published its [Sustainable Finance Strategy](#). The successful implementation of the strategy will largely depend on the configuration of the incoming government and whether it will be prepared to make sustainable finance a central item of the new government's finance policy. The strategy will also likely need a revision and more details on implemented. In addition, a central question for landing sustainable finance as a key element of the German climate transition, will be the ability of finance, environment and economy ministry to work closer together and align their thinking on what role sustainable finance can play for Germany. As of now, inter-ministerial coordination has been insufficient and therefore hampered Germany's ability to develop its own vision for sustainable finance.

## Italy

Of Italy's €222.1 billion package, 40%, or roughly 5% of Italian GDP – a significant amount, when compared to climate spending efforts put on the table by countries discussed above – is to be allocated to green projects, though concerns remain about the capacity of a weak Italian administration to successfully deliver a package of that size (given that Italy's absorption of EU funds is already low), an inadequate focus on energy efficiency, electrification of transport and at-scale renewables deployment.

## Countries of Central and Eastern Europe (CEE)

There are concerns as to whether plans put forward by some Central and Eastern European countries including Romania and Hungary will be sufficiently targeted on greening the recovery. Furthermore, some CEE countries pushed back significantly on applying sustainable finance tools (such as the EU Taxonomy) to recovery spending, resulting in the weakening of green benchmarks.

## Reforming the EU's fiscal rules

An additional key consideration relates to the future of the EU's fiscal framework, especially the Stability and Growth Pact (SGP). The fiscal rules enshrined in the SGP, regarding the need for EU Member States to pursue "sound fiscal policies"<sup>30</sup>, have been suspended in the context of the crisis, but there is uncertainty as to when they might enter into force again. In a communication dated 3 March 2021, the European Commission noted that "current preliminary indications would suggest to continue applying" the fiscal rule suspension in 2022 and to "de-activate it as of 2023."<sup>31</sup> This, added to the uncertainty regarding the SGP reform agenda and whether Commissioner Paolo Gentiloni will seek to revise European fiscal rules, does not encourage Member States to put additional recovery financing on the table.

## Can Japan become a leader in green finance?

Meanwhile, whilst Japan's recent net-zero announcement – net-zero greenhouse gas emissions (GHG) by 2050 – is ambitious and to be lauded, serious concerns remain around its feasibility, not least on transitioning away from coal and transforming the electricity grid to facilitate the huge additions of renewable energy required. Moreover, the idea of a "green recovery" from the



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Covid-19 crisis and the interrelated nature of the pandemic, climate and biodiversity challenges are perceived as foreign concepts by many Japanese actors. Other key issues include:

- **Economic and fiscal response to Covid-19:** the Japanese Green Growth Strategy (GGS) launched in December includes a two trillion-yen Green Innovation Fund and measures to support transition finance, renewables investment and overseas export of green infrastructure.
- **Views of key ministries on net zero target:** the Ministry of Economy, Trade and Industry (METI) is somewhat resistant and concerned about the cost to the economy; the Ministry of Environment (MOE) are champions, internally advocating for faster progress.
- **Role of private sector financial actors:** in recent years, major Japanese investors and insurers have been moving away from financing coal; there are more TCFD supporters in Japan than in any other country.<sup>32</sup>





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## 4. ENABLING AN INCLUSIVE, GREEN GLOBAL RECOVERY

**We are some way from achieving an inclusive global and green recovery that includes all countries.** Several important components of this, such as vaccine fairness, have garnered significant political capital internationally and are firmly on the G7 and G20 agendas<sup>33</sup> but the recovery prognosis in many developing countries is bleak and progress and clarity are lacking on several key policy issues and initiatives. After several initially promising calls and initiatives aimed at global solidarity in terms of vaccine distribution and recovery financing, action has stalled – current initiatives aimed at alleviating the debt crisis, such as the debt service suspension initiative (DSSI), do not go nearly far enough, whilst the IMF’s Special Drawing Rights (SDRs) are not the silver bullet many hoped for. MDBs and multilateral funds have disbursed insufficient recovery and climate financing: the IMF has lent only 10% of its stated capacity and the World Bank only 60% of what it had made available for recovery support—the legacy of conditionality has curbed demand from countries while rapid financing instruments and credit lines with fewer conditions attached are only available in small amounts<sup>34</sup>.

**Already disproportionately affected by the climate crisis and rising incidence of extreme weather events, developing countries have been hit particularly hard by the twin supply and demand shocks caused by the pandemic and are bearing the brunt of the increase in global poverty and hunger.** All their sources of financing – domestic and external, public and private – are under pressure. **Tax revenues, ODA and remittances have all dropped.** Private finance fled developing countries in record amounts – **about USD 700 billion in 2020, a drop 60% larger than after the global financial crisis in 2008-09** – compounding fiscal space already limited by rising public debt and debt servicing costs. Such debt burdens tend to exacerbate reliance on fossil fuel production and other ecologically damaging extractive sectors. The dynamic of continuing flows to Global South bond markets is driven by private creditors betting that they will not be forced to restructure. Engaging private creditors to credibly commit to sustainable debt restructuring efforts is a critical challenge.

**Addressing these immediate needs in tandem with deeper structural issues is crucial for a sustainable global recovery.** The remainder of this section spotlights

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the state of play on some of these key issues and political dynamics underpinning them.

## Connecting recovery efforts with long-term decarbonisation commitments and strategies

- In many middle and low-income countries, fiscal spending has been much lower largely because of limited pre-existing fiscal space and access to international capital markets. In Latin American and the Caribbean (LAC), for example, countries mobilised significant fiscal resources in response to the pandemic, reversing the fiscal conservatism of recent years. Fiscal recovery packages totalled USD 485 billion across 26 countries with the average package in the region represented approximately 8.5% of GDP.<sup>35</sup> This average is less than half of what most developed economies spent however and is heavily weighted by a few large packages, such as Brazil, Argentina, Peru and Colombia with most countries spending far less. Moreover, green recovery commitments are scarcer than in developed economies: Chile committed to spending 30% of its fiscal response on green programmes and projects; no other country in the region has made a similar commitment.
- **Many developing countries are dependent on carbon-intensive industrial strategies** and, in the face of the multiple hardships they currently face (see above), currently have little incentive to steer away from these strategies. Identifying potentially unlikely coalitions to champion the green agenda and give concrete examples of engagement in just transition pathways is crucial for a sustainable recovery. For example, our research on Brazil showed that the central bank is advocating for an ambitious mandatory climate disclosure regime, whilst many Brazilian private financial actors believe that integrating ESG risks into their portfolios will lower their cost of capital in international capital markets.
- Many developing countries – often for reasons just described above - lack long-term decarbonisation and financing strategies to match their nationally-determined contributions (NDC) and Paris Agreement targets.
- **Most recovery spending in developing and emerging countries is current expenditure (e.g. on social programmes) rather than capital expenditure**

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(e.g. in LAC): assessing how this can benefit climate resilience and adaptation is crucial for a green recovery.

## Addressing fiscal space: sustainable debt restructuring and SDR reallocation

**Financing the green transition is to a large extent about mobilising additional resources that developing countries struggle to raise because of limited fiscal space and access to international capital markets.** Developed economies can continue to issue debt at record low interest rates, however they still face volatile, expensive and pro-cyclical capital markets. Access to international capital markets is limited for many developing countries and has been closed off entirely for some African governments. **All five of the Sub-Saharan African countries scheduled to issue Eurobonds between March and June 2020 pulled their offerings.** They do so because they faced significantly higher interest rates than expected. The combination of the pandemic and rising debt levels and servicing costs decreases the chances of fiscal resources being dedicated to green activities.

**This situation has triggered numerous calls for increased North-South financial solidarity from civil society.** The economic pressure that low- and middle-income countries currently face have been acknowledged by key geographies (US, France), multilateral fora (G7 and G20 Finance and institutions (IMF). However, current efforts to alleviate this crisis do not go nearly far enough:

- The G20, with support from the IMF and the World Bank, launched the Debt Service Suspension Initiative (DSSI). It took effect in May 2020 and was designed to temporarily suspend debt service payments from eligible countries (that are in economic distress) to official bilateral creditors<sup>36</sup>. This initiative is due to expire in December 2021 without prospect for further extension, despite calls by civil society to extend it until the end of 2022. It has thus far only delivered USD 5bn in savings, significantly below the USD 12 billion target; moreover, problems abound: credit rating agencies are penalising countries that participate, the G20 has failed to consider middle income countries (MICs) in the new extension. More importantly, the private sector, a significant creditor to many of these eligible countries, is yet to participate. The IMF and the G20 have called on private creditors to participate in this initiative on equal terms with official creditors when requested by eligible countries<sup>37</sup>, but official institutions



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and fora have yet to find a fully effective way to enforce private sector participation in debt restructuring initiatives of any kind (an old-standing policy issue).

- There are at least 34 countries (with USD 44 billion in debt service in 2021) that remain at substantial risk of default, of which only 25 (USD 12 billion in debt service) are eligible to participate in the DSSI and G-20 Common Framework; in other words, the 9 countries ineligible for the DSSI/G20 Common Framework account for USD 32 billion of the USD 44 billion at risk of default.

**Going beyond temporary debt relief toward sustainable debt restructuring is critical to help solve some of the underlying fiscal space issues faced by developing countries.** The G20, IMF and World Bank are committed to this agenda through implementing the G20 Common Framework in a coordinated manner, including through sharing necessary information among participating official bilateral creditors, and basing debt restructurings on an IMF/World Bank Group (WBG) Debt Sustainability Analysis and the participating official creditors' collective assessment. Engaging private creditors in these efforts is a critical challenge. The G20, the IMF, and the World Bank have stated they will consider debt restructuring on an ad hoc basis and within existing policy frameworks. However, support for debt restructuring is not unanimous amongst Global South states, largely due to conditions in global political economy. Small island states expressed support for restructuring. But others fear that a restructuring will cut them off from private markets.

**Re-allocating the IMF's Special Drawing Rights (SDR) in a way that benefits developing countries is a necessary but insufficient condition for a global green recovery:**

- At the IMF Spring Meetings this April, the IMF's international monetary and financial committee approved a new USD 650 billion allocation of SDRs (i.e. SDR 500 billion, equivalent to USD 650 billion) —after receiving the backing of the G7 and the G20 who have relative control of the IMF's board—with an IMF official vote expected to come in August 2021. SDRs are unique international reserve assets created through the IMF backed by and exchangeable for international currency that supplement the foreign exchange reserves and thus furnish unconditional liquidity to their holders under a general allocation. States are charged interest for holding SDRs and accrue charges if they “use” them—i.e. forgo holding them as foreign



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exchange reserves to either access new fiscal financing or repay loans to other SDR members, including the IMF. However, the SDR's interest rate is quite small and it is not against a principal that must be repaid—i.e. does not constitute compounding debt. Therefore, they are a vital potential mechanism for development finance and global economic maintenance.

- Analysis of Global South needs have led to calls from some parts of civil society for the G20 to issue USD 3 trillion in new SDRs this year, to allow developing countries to deal with and recover from the Covid-19 crisis, and engage in a just ecological transition; however, the USD 650 billion figure stands as what Yellen can move on without seeking approval from Congress.
- Because SDRs are apportioned through the IMF's quota system, with countries receiving a share based on their relative shares of global GDP, meaning that wealthier countries receive more, there is simultaneous momentum around voluntary reallocation from rich to middle- and low-income countries. Based on the quota system, low-income countries (LICs) would receive 3.2 percent of an SDR allocation; in contrast the US, EU member countries and the UK taken together would receive 48 percent.<sup>38</sup>
- A declaration adopted by all members of the G7, China, and several other members of the G20 following an international summit on financing Covid-19 recovery and green development for the African continent called for rich countries to voluntarily on-lend USD 100 billion of their surplus SDRs through the IMF's Poverty Reduction and Growth Trust (PGRT)—which, although still debt, constitutes low-rate concessional financing; the interest rate is currently set at zero, but this could change—and to explore “a range of options with the IMF, World Bank, and other MDBs to enable possible on-lending of SDRs to support IMF members' green, resilient and inclusive recovery.”<sup>39</sup> Janet Yellen buttressed this call with a statement supporting the USD 100 billion reallocation through the PGRT.<sup>40</sup> Kristalina Georgieva still advocates a higher reallocation figure.<sup>3</sup>
- Although the likely new allocation of IMF SDRs will help poor countries to deal with external financing pressures, it will not fundamentally address debt burdens and the persistent global macroeconomic imbalances and

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<sup>3</sup> <https://www.reuters.com/business/exclusive-imf-exploring-creation-new-trust-provide-sdrs-broader-group-countries-2021-06-13/>

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stagnation that have led to them. As such, SDR allocation is a necessary, though insufficient condition for driving a global recovery that lays the foundation for global green economic restructuring.

## Multilateral development bank (MDB) recapitalisation and reform

**Multilateral development banks are instrumental to a better recovery in the near term, and sustainable development for the long term, but MDBs face critical capitalisation and governance issues.** The COVID economic crisis has reduced fiscal space in many developing countries, limiting access to private capital markets and flows of foreign direct investment (FDI), whilst also reducing MDBs' capital. Recapitalising MDBs for the short- and long-term and reforming their governance structures to account for the various needs of shareholder countries that receive MDB investment are critical challenges. Inclusion of these perspectives in MDB governance is critical for a green and just recovery. The political economy of these issues is challenging, specifically:

- **Aligning shareholders around General Capital Increases (GCIs)** and ensuring their ambition matches climate and development needs in low- and middle-income countries. During the COVID pandemic, MDBs have provided significant countercyclical lending for client countries, stretching their balance sheets. If MDBs are to provide the transformational investment for developing countries to enter a climate neutral, resilient pathway, they will need additional financial firepower through capital increases.
- **Matching capital increases with local capacity building/capital increases alone are insufficient.** A major problem for green recovery investment from MDBs is the lack of demand. Increased financial firepower is of no use without client countries coming forward with investment opportunities. To that end, MDBs need to provide capacity building support that enables countries to develop low-carbon development paths, ambitious NDCs and long-term strategies that are aligned with a net-zero goal by 2050. MDBs will then need to provide the investment for the implementation. Capital increases take years to bear fruit and require complementary technical assistance and local regulatory reforms so that the money can actually be





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deployed (unless grants, or highly concessional loans, are predominantly used, which further drains the capital)

- **Mediating North versus South tension and ensuring policy coherence:** As countries from the global north up the pressure on MDBs to exclude fossil fuels from their lending, tension with developing countries in MDB boards may rise due to the lack of a counteroffer for clean energy. There is the risk that key emerging countries will shun the MDBs in favour of their own development finance institutions. This could result in a race to the bottom on climate ambition, unless shareholders will step in to turn the tide and call for a race to the top on green investment.
- **Raising the ambition of MDB climate finance targets and scaling up adaptation finance to match the magnitude of the financing challenge.** While low-income countries are particularly in need of adaptation finance in rural development and agriculture, middle-income countries face significant barriers to decarbonize their energy systems. This requires tailored concessional finance instruments, in collaboration with the multilateral climate funds. While concessional finance in low-income countries has to prevent an overburden of national debt, concessional finance for middle-income countries has to crowd-in additional investment from the private sector. Increasing governments' commitments to multilateral climate funds to facilitate additional concessional finance for countries facing debt challenges is key.
- **Ending fossil fuel financing and aligning all operations with the Paris Agreement, including through financial intermediaries.** Paris Alignment has to imply a reform of MDB business models that incorporates climate risks and ensures alignment of all their investments with a 1.5-degree scenario, such as the International Energy Agency's net-zero report.
- **Some developing countries and civil society organisations (CSOs) have concerns about MDBs' role given possible conditionality attached to their programmes,** giving rise to questions of legitimacy. CSOs and MDBs are well advised to improve communication and develop a joint vision for what transformative, country-driven MDBs would look like. This has the potential to create a split within civil society over support of MDB firepower. There can be no doubt that the MDBs (and development finance institutions at large) are an integral part in mobilizing the necessary

investment for a green, inclusive recovery, as well as the long-term transition to a climate neutral, resilient global economy.

## IMF reform

**Kristalina Georgieva is pushing the IMF towards a progressive green agenda but institutional issues remain, including how the Fund will integrate climate risks in its macroeconomic surveillance tools (e.g. Article IV and Finance Sector Assessment Programme).** Views on this diverge; some key stakeholders, including Board members, consider this evolution and its institutional implications to be problematic given the IMF's mission;; others view it as a critical part of the IMF's role in global economic governance. At the onset of the global Covid-19 pandemic and related economic crisis in March 2020 IMF Managing Director Kristalina Georgieva declared that the Fund stood at the ready to use its USD 1 trillion lending capacity to aid struggling countries. Throughout the crisis, Georgieva and other senior staff such as Chief Economist Gita Gopinath have consistently expressed worry of a worsening North-South divergence, called for a global green recovery and global vaccine redistribution, and stressed the need for states to spend on public health and economic recovery.<sup>41</sup>

- However, **the IMF has only deployed 10% of its lending capacity during the pandemic** due to a relative lack of demand from member countries.

Georgieva is throwing considerable political weight towards climate within the power of her remit. Our research interviews indicate she has made it an internal political priority for 2021 to ensure the IMF is an institution fit for the climate challenge and is reorganizing teams and requesting budget increases to this end.

- In May of 2021 the IMF published its latest **Comprehensive Surveillance Review** (effective from 2021-2030)—the first to consider climate change. This will guide how the Fund uses its regular macroeconomic surveillance tools (Article IV and Finance Sector Assessment Program) and, in turn, issue policy recommendations and update its own lending policies. **The new CSR stipulates that the Fund will consider adaptation and transition risks.** However, the CSR does not provide clear thresholds for when it will consider either or both risks in its Article IV surveillance with countries, stating that this will be decided on a case-by-case basis, which raises the prospect that the Fund's policy advice will be ad hoc and fragmented.



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- Moreover, the CSR isolates transition and impact risks as domestic economic factors distinct from countries' contribution, and fragility, to global mitigation efforts. This move to limit considerations of transition risk to the domestic sphere leaves open a gap in global economic governance, for the IMF is the only institution with a formal remit that could potentially be applied towards examining "spillover transition risk" whereby climate action in one country has a macro-critical impact on another. As it currently stands, the CSR reflects an IMF institutional stance that mitigation falls outside of its bilateral surveillance mandate, but the Fund will seek policy dialogue on the CSR with the 20 largest global emitters to discuss the adequacy of their mitigation policies.
  - Over the coming months, the Fund will develop further guidance on the CSR for its staff. Critical issues include their advice on new fossil fuel extraction projects, especially in the wake of the recent IEA report, and more broadly on the conditions it imposes through its program lending.<sup>42</sup>



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## 5. IMPLEMENTING STRUCTURAL FINANCIAL REFORMS FOR CLIMATE SAFETY

**Progress on the systemic reforms necessary for climate safety is being made but remains volatile.** Central banks are beginning to integrate climate change into macro- and micro-prudential supervision, but few are moving toward changing capital requirement frameworks or credit-steering. Several jurisdictions are developing taxonomies of sustainable activities, but the risk of regulatory fragmentation and arbitrage is growing in the absence of any meaningful coordination effort. Various countries are implementing the **Task Force on Climate-Related Financial Disclosures** (TCFD) recommendations on climate disclosure, largely on a voluntary basis but mandatory rules are emerging, e.g. in New Zealand, the UK and the EU. Several efforts to integrate climate concerns in accounting methodologies and reporting exist – these need to be aligned to be globally useful. And **recent improvements in the coordination of international tax issues** could potentially be eroded by a backlash against the European Commission’s Carbon Border Adjustment Mechanism (CBAM) proposal due to be formally published in July this year.

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### Aligning definitions of green investments

**The European Commission recently published a package of sustainable finance measures to combat greenwashing, improve transparency and redirect financial flows towards sustainable activities but concerns around process and governance persist.** Measures include the long-awaited Taxonomy Delegated Act on climate change mitigation and adaptation under the Taxonomy Regulation. The European Parliament and the Council will now need to adopt or reject the Commission’s draft. Simultaneously, the Commission published a legislative proposal for Corporate Sustainability Reporting Directive (CSRD) on sustainable disclosures which reforms the EU Non-Financial Reporting Directive (NFRD), establishing mandatory sustainability reporting standards.



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- **The Taxonomy – intended to define green economic activities to inform and guide investors but now seen as Europe’s definition of ‘what is green’ – has recently been a battleground for political and business interests.** The Commission has decided to retain strict guidelines on the use of fossil fuels for power generation. This is an important decision for European policy which keeps the taxonomy in line with the investment policy of the European Investment Bank. It also supports the implementation of the Climate Law and will support international collaboration on financial reform with the United States and other major economies. However, although the Act retains its scientific integrity in relation to fossil fuels, a potential loophole in the text allows further discussion of contentious issues including gas and nuclear energy. Furthermore, the criteria for forestry and bioenergy remain problematic and have not been removed from the draft.
  - **The process of finalising the Delegated Act has thrown into sharp relief the difficulty of reaching political consensus that also respects hard science.** Despite efforts to create a strong and independent governance process for the taxonomy, final decisions were made through a bargaining process between Member States and behind closed doors. For Europe’s definition of ‘what is green’ to remain credible in the future, urgent reforms to governance and transparency must be undertaken.
  - **How the Commission handles these issues will have a significant bearing on its international climate leadership and relationship with key partners.** Several emerging countries, including Chile, [Indonesia](#), [Kazakhstan](#) and [South Africa](#) are considering or already developing their own taxonomies and could look to the EU taxonomy as a potential model if successfully implemented. China and the US are also developing their own versions. Harmonising, or at least aligning, these efforts, will be crucial to prevent regulatory fragmentation and arbitrage.

**The U.S has stated it will pursue an approach based on incentives, rather than regulatory measures<sup>43</sup>, but no definitive stance has been taken on this matter and the U.S position may well still evolve..** The Biden Administration has expressed enthusiasm for international dialogue to develop mutually intelligent frameworks and has signed up to co-lead the G20 Sustainable Finance Working Group. Climate financial regulation in the U.S is nascent. This is because the previous administration had actively blocked it; only the Commodity Futures Trading Commission had recommended action before the Biden Administration to mitigate climate-related risks on the financial system<sup>44</sup>. The Biden Administration



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has initiated a U.S. climate financial regulation agenda with key coordinates within the Treasury but encompassing other agencies.

- **This year, the Securities and Exchange Commission, chaired by Gary Gensler, will take charge of mandating capital market disclosure and is currently undergoing a review process of its recommendations.** Climate groups and financial market actors expect the SEC to announce a plan for mandatory disclosure by the end of 2021.
- **The Biden Administration issued an executive order that directs his administration to develop a strategy on climate-related risks—both physical and transition risks—for public and private financial assets and the U.S. financial system as a whole.** This includes “advance[ing] consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk,” and, crucially, “act[ing] to mitigate that risk and its drivers...and achiev[ing] our target of a net-zero emissions economy by no later than 2050.” John Morton, the head of the newly created climate hub within the U.S Treasury, will oversee the execution of the order. In practice the order focuses on risk assessment and disclosure and will not have as direct an effect on financial regulation compared to other jurisdictions, as the U.S. financial regulation ecosystem is composed of several independent and quasi-independent bodies.
- **The order directs Yellen to coordinate with members of the Financial Stability Oversight Council—which she chairs, and which includes the heads of both the SEC and the Federal Reserve—on “climate-related financial-risk data and issue a report within six months on efforts to address such risks within the respective purview of each independent regulatory agency.** The FSOC coordinates all 12 financial regulators including the Federal Reserve and Yellen will have great sway as chair. Biden will further be able to drive and influence this agenda through appointments of agency heads and other such political appointments as they come up.

## The geopolitics of carbon taxes

**The EU is on course to launch a Carbon Border Adjustment Mechanism (CBAM) that, if designed poorly and with inadequate diplomatic outreach in advance, may contravene WTO rules, anger key partners and place developing countries**



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– to where developed economies have been effectively exporting high-polluting economic activities for decades – at a serious trade disadvantage.

- **The EU is by far the most vocal geopolitical actor with respect to the concept of CBAMs as a means to accelerate climate action. The Commission will release its legislative proposal on 14 July 2021**, with an expectation that such measures could be piloted by January 2023 at the earliest.
- **The EU urgently needs to engage its trading partners in a diplomatic exchange on the intention and implications of CBAM to manage the political risks.** To date, the Commission has taken a unilateral approach to CBAMs that has focused on the domestic politics of the measures and the technical design aspects, with insufficient attention paid to diplomatic outreach to trade partners.
- **The EU's trading partners are following its CBAM proposals closely.** Although a few are interested in exploring its feasibility, many – including China, Russia and Ukraine – are pushing back strongly on the idea, citing major concerns about its design, fairness and feasibility.
  - **China:** President Xi is intent on advancing both a carbon tariff market and sectoral system of capping carbon emissions. He is hostile to border tax mechanisms and will engage developing countries to combat the EU proposal. Xi has **warned** that climate action should not be an “excuse” for trade barriers.
  - **USA:** The US has **warned** the EU of the risks of CBAMs, with John Kerry arguing that they should be a measure of ‘last resort’ and has urged the EU to postpone release of their proposals until after COP26. The US is hostile to national or international carbon prices as it is unlikely to be able to develop one itself at the federal level and is concerned about potential spillover impacts on climate diplomacy more broadly if there is a backlash from other countries.
  - **OECD countries:** Australia's trade minister has **lobbied** the EU to drop its proposals
  - **Developing countries:** Indonesia echoed language used by China at the US Leaders' Summit on Climate, warning against climate being used as an excuse for trade barriers.



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## Greening monetary policy and macroprudential regulation

**Central bank movement towards incorporating climate considerations is progressing but uneven.** Across the central banks studied, each are responding to increasing politicization by, to differing degrees, moving towards implementing disclosure regimes and looking to macro and microprudential risk monitoring—although with no micro or macroprudential regulation or framework upgrades to date. Updating the market neutrality principle to take into account the climate crisis and exploring outright monetary financing of green activities are potential next steps for greening monetary policy.

### The Bank of England

**The Bank of England's mandate was recently updated to explicitly include consideration of the environment and net-zero compatibility,** with the Exchequer sending letters to both the Monetary Policy Committee charging it with considering climate change in their operations. Within the year, the BoE will move to integrate climate risk into its monetary policy, but this first move will likely entail mandating climate disclosure for counterparties without penalizing carbon assets in the name of maintaining market neutrality and encouraging companies to transition. Ramping up purchases of climate or green bonds is also likely. This mandate change could lay the groundwork for greening collateral frameworks, green credit guidance and green funding schemes but will require further political buy-in. Specifically, this move would require closer monetary-fiscal coordination with Treasury.

**In the realm of financial and prudential policy, the BoE implemented a risk disclosure and stress-testing regime but has yet to implement macro or microprudential regulations or framework upgrades.** Broadly, following the Positive Money Central Bank Scorecard the bank has:

- established a 'Climate Hub' nested in the Prudential Regulation Authority (PRA) to coordinate with other areas and streams of Bank operations mandated TCFD disclosures for banks and insurers; required financial institutions to integrate climate risk into their management practices; begun biennial climate stress testing of significant banks, insurers, and the financial system; Issued a supervisory statement on climate risks to banks



and insurers; implemented a framework for assessing climate risks to the insurance industry; conducted a 2019 insurance industry climate risk stress test; disclosed its own physical and transition climate risks; and convened a citizens' panel on climate change; and launched an internal working group to facilitate productive investment and "green finance."<sup>45</sup>

### The European Central Bank

**European monetary policy continues to support unsustainable firms whilst expanding the green bond market.** Within the European Central Bank's (ECB) EUR 750 billion Pandemic Emergency Purchase Programme (PEPP), and expansion of the range of eligible assets under the Corporate Sector Purchase Programme (CSPP), the ECB had purchased over €7 billion of corporate debt from fossil fuel companies that also reduced their private financing costs; more recent analysis indicates that across ECB quantitative easing, purchases have been skewed in favour of carbon intensive industries, at 62.7% of all purchases. Against this, early analysis shows that ECB green bond purchases improved the financing conditions of those eligible for the program thus aiding the development of that market. Other important developments include:

- The ECB's current Monetary Policy Strategy Review, which could result in the ECB following the Fed and adopting an inflation targeting approach, potentially leading to stronger monetary-fiscal coordination in the Eurozone.
- The ECB is preparing to disclose the "carbon footprint" of its own balance sheet and mandate disclosure from corporate bond counterparties. The outer limit of possibility would be measures that begin to "tilt" portfolios towards green assets without penalizing carbon assets, stopping well short of abandoning market neutrality principle. Although Christine Lagarde has thrown considerable political weight towards delivering climate action through its Strategy Review this year and has publicly stated that she supports forgoing market neutrality to address climate change, a conservative block on the governing council, including the powerful Bundesbank, is a countervailing force against abandoning market neutrality. The implementation of the EU's Sustainable Finance Taxonomy however will be a site of politicization, as the Bank has an obligation under law to align itself with EU law and parliamentary decision-making.



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- In the realm of financial and prudential policy, the ECB implemented a risk disclosure and stress-testing regime but has yet to implement macro or microprudential regulations or framework upgrades. Broadly, following the Positive Money Central Bank Scorecard, the Bank has: mandated disclosure of sustainability risks from banks under its supervision; required banks under its supervision to integrate climate and environmental risks into risk management practices; it made a formal commitment to conduct a 2022 climate-stress test with a focus on climate related risks; and implemented differential prudential treatment of exposures related to environmental objectives.<sup>46</sup> The EBA also launched a consultation to incorporate ESG risks into governance, risk management, and supervision of credit institutions and investment firms.<sup>47</sup>

### The Federal Reserve

**The Federal Reserve’s asset purchases and direct lending programs continue to prop up fossil fuel production. These programs were initiated during crisis-fighting moments.** Analysis of the Federal Reserve’s “Mainstreet Lending Program” found the facility lent to forty-six fossil fuel companies totally USD 828 million with loan size averages nearly double the program’s average; compared with only nine loans for clean energy companies totalling USD 62 million—the program expired in January 2021.<sup>48</sup> This came after the oil and gas industries successfully lobbied in the Spring of 2020 for changes to the lending program that had prevented many fossil fuel companies from participating due to their pre-crisis corporate debt overhangs.

- Analysis of the Federal Reserve’s asset purchases through its Secondary Market Corporate Credit Facilities (SMCCF) were found to be heavily overweighted in oil, gas and coal companies when measured against market benchmarks; roughly 8% (USD 748 million) of the Fed’s USD 9.5 billion of bond purchases through July 10 were in the fossil fuel sector, 17% of which were junk-rated bonds.
- However, the Federal Reserve under the aegis of Jerome Powell, but also with strong influence from Lael Brainard, has proven to be the greatest champion of robust fiscal spending within the U.S government, with Powell publicly insisting that the Fed will use its monetary powers to allow the economy to run hot for several years, in order to pursue not only full employment, but to address racialized and gendered income and wealth inequality. Powell has also explicitly stated that the Fed it will not raise



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interest rates or taper its quantitative easing program—which signals the Fed would support even more robust spending.<sup>49</sup>

- The Federal Reserve recently began integrating climate risks into this analysis and operations with focus on the effects a changing climate will have on the financial system and financial institutions. Chair Powell and Vice Chair Quarles are both up for reappointment this year.<sup>50</sup> In recent months, each has publicly expressed prudent opinions on integration of climate change in Fed activities but have also stressed that it is beyond the Fed’s mandate to consider climate change in setting monetary policy.<sup>51</sup>
- Governor Lael Brainard however, engaged with the Fed’s role in mitigating climate risk much earlier and has stated the Fed must ensure that financial institutions are “well-positioned for the opportunities associated with the transition to a more sustainable economy.
- The Fed created both a Supervision Climate Committee (2020) to begin researching the physical climate risks posed to specific firms and the banking industry generally and a Financial Stability Climate Committee (2021) which will focus on the potential threats climate change can pose to the broader global financial system. Both of these committees will coordinate with the Financial Stability Oversight Council (FSOC). The Fed sees the SEC as the primary authority over capital-market related disclosure. Kevin Stiroh, head the Supervision Climate Committee who also co-authored a BIS paper on microprudential implications of climate change, has emphasized that the Federal Reserve is currently not considering anything beyond micro and macro prudential supervision, and that the institution views climate change not as a new type of risk, but a driver of traditional risks—the Fed’s existing risk management and supervisory frameworks are “fit for purpose”;<sup>52</sup>
- In the Spring of 2021, the twelve Republican Senators on the Senate Committee on Banking, Housing, and Urban Affairs published an open letter to Powell urging the Federal Reserve against “using its regulatory authority to further environmental objectives.”<sup>53</sup>

### Bank of Japan

**The Bank of Japan (BoJ) is lagging behind other central banks on greening monetary policy** despite being an early pioneer of unconventional monetary instruments – and **has only very recently begun looking into these issues.**



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## 6. CONCLUSIONS, RECOMMENDATIONS FOR INTERVENTION AND NEXT STEPS

Our research shows that significant progress is still needed on all fronts of the systemic reform agenda. Figure 4 below summarizes the key policy asks that remain relevant and essential, and that will have to be promoted in the G20 and G7 for the remainder of 2021, and possibly 2022. These policy recommendations are structured according to the three-pillar agenda outlined above; Phase II of the ecosystem mapping initiative will outline a series of country-specific political economy levers and policy asks for green financial reform.

Three crucial priorities emerge in the very short-term:

1. **Stronger pressure should be exerted on G7 and G20 countries, especially their Finance Ministers, to agree and coordinate on ambitious and common standards to implement green recovery plans at home and new best practices for public financial management.** It is essential for G7 countries, who have sufficient fiscal space and capacity/competency to do so, to lead by example by connecting their long-term decarbonisation goals and NDCs to immediate recovery action and structural change around public financial management. Beyond the example, it is a matter of solidarity. Coming together on an SDR agreement is important, but solidarity with the Global South in its current financial struggle, who also struggles to find its transition pathway, means that high-emitters in the Global North should take historic responsibility for their role in climate change and engage in deep and rapid transformation of their economies.
2. **Pressure should be maintained on G7 and G20 countries to find sustainable solutions to developing countries' fiscal space issues,** in particular by exploring the potential for MDBs to play a transformational in leading these economies on their just transition pathways.
3. **As green regulatory norms and standards will become an increasingly fraught terrain politically, their harmonization should be a key thematic priority to push in the second half of 2021 into the G20' Sustainable**

**Finance Working Group.** Discussions regarding the establishment of a common framework for norms defining green activities should be based on the work already achieved by the EU and China in the context of the International Platform on Sustainable Finance, to avoid (at best) duplication and (at worst) fragmentation of efforts.

**Figure 4. Policy asks of G7 and G20 Finance Ministers to support financial system transformation for climate safety**

Pillar	Policy interventions
<b>Greening the recovery in developed economies</b>	<ul style="list-style-type: none"> <li>• Setting more ambitious green spending targets; establishing minimum green spending floors</li> <li>• Employment green public finance management tools (e.g budgets and procurement policies)</li> <li>• Ending all public fossil fuel financing</li> <li>• Establishing long-term financing strategies for decarbonisation and linking them to NDCs</li> </ul>
<b>Enabling an inclusive, green global recovery</b>	<ul style="list-style-type: none"> <li>• Increase bilateral development assistance support with a strong focus on health and climate</li> <li>• Improve access and flexibility of climate finance</li> <li>• Replenish the multilateral climate funds (GCF &amp; CIFs)</li> <li>• Recapitalise the MDBs and demand a higher share in concessional finance for adaptation and energy transition</li> <li>• Provide debt restructuring and (temporary) suspension to improve fiscal space for recovery, linked this to climate vulnerability &amp; climate-debt swaps (as suggested by WB and IMF).</li> <li>• Agree on common position on SDR reallocation</li> <li>• Eliminate financing of fossil fuels in public banks</li> </ul>
<b>Structural financial reforms for climate safety</b>	<ul style="list-style-type: none"> <li>• Collaborate to agree a joined-up approach to defining norms and standards, including definitions of green investments, in order to send strong signals to markets and avoid regulatory fragmentation</li> <li>• Improving the coordination role of central banks and regulators: update mandates to reflect climate imperative; employ new</li> </ul>



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- tools and methods: evaluate risk of unsustainable economic activities for supervised entities, etc...
- Mandate disclosure regimes and transition plans for supervised entities
  - Enhance monetary-fiscal coordination

The work presented in this report is an ongoing, iterative project. This interim report, and its recommendations for action, will be supplemented over time with additional material based on research into several other countries (see list in Annex A below). This second phase of the ecosystem mapping initiative will outline political economy levers and recommendations for action by country.

E3G and associated partners will take forward some of these recommendations for intervention in the quarterly civil society organisation (CSO) convenings and a series of country-specific convenings to take place throughout the rest of the year. These convenings will discuss the findings of the country-specific reports, place them in the context of the global ecosystem mapping initiative, and explore ideas for mobilising and advancing on specific policy challenges for these countries.

These activities are intended to help build more effective coalitions of civil society actors for a systemic recovery, develop more targeted policy proposals addressing some of the challenges identified above, and contribute to net-zero financing strategies for specific actors and countries.



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## ANNEX A. METHODOLOGY

This research was carried out by E3G working with several in-country partners (listed below).

This mapping work aims to diagnose key challenges and opportunities for climate-friendly reform of the global financial ecosystem based on in-depth research of 14 countries and institutions (“venues”).<sup>54</sup> It seeks to better understand the political economy of fiscal and monetary policy, and financial regulation, within those venues, and the dynamics between them. The initiative is being carried out over a relatively short timeframe (January-June 2021) due to the urgency of delivering tools and analysis to help shape the global financial reform agenda over the next 12-24 months.

Operating from these parameters, E3G’s Better Recovery Unit team (BRU) selected the venues based on their influence and impact on global financial activities and climate safety, and to ensure a reasonable spread amongst countries from the global North and global South. Based on the team’s expertise, the BRU led the work on the US, France, Germany, Ghana, Central Banks, Finance Ministries and the IMF. For expertise and language reasons, the BRU is working with a series of in-country partners to deliver the remaining mappings. Other countries and regions are also touched upon in the analysis through the E3G Associates and other teams (e.g the UK, various LAC countries).

We have used a mixed-research methodology for each venue – a mixture of desktop research and semi-structured interviews with key stakeholders following a series of defined research questions, detailed below. E3G compiles the findings into a long-form report, overview document, and presentation for each venue, tests the results internally with other E3G colleagues and then presents the results as appropriate to external stakeholders. This interim report is the culmination of results and insights from across the 14 primary venues and additional venues as mentioned above.

Our intention is for this work to be an ongoing, iterative initiative. This interim report will be supplemented with an additional report that includes results from several ongoing country reports. In addition to a broader convening to discuss the overall mapping and interim results, country-specific convenings will be held for several venues to discuss the findings and next steps.



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## Our in-country partners for Phase II

Country	Partner
Brazil	Talanoa Institute
China	International Institute for Green Finance
India	CPI India
Indonesia	Climateworks Australia (Indonesia)
Japan	GR Japan
Philippines	Marlon Apanada

## Project research questions

Countries	Institutions
<p><i>Public finances and reform agenda</i></p> <ul style="list-style-type: none"> <li>Has the crisis influenced country's/political parties' historic positions on public finance management and leaning (hawkish vs dovish)?</li> <li>What is the institution's structural reform agenda (if applicable) and strategic priorities?</li> </ul>	<p>General economic and financial reform agenda</p> <ul style="list-style-type: none"> <li>What official positions are taken on austerity vs investment? Who within the institution championed them internally?</li> <li>Are the positions carried externally by the institution as a whole or by specific individuals?</li> </ul>
<p><i>Climate risk</i></p> <ul style="list-style-type: none"> <li>How exposed and susceptible is the country to climate change and what is the level of adaptive capacity?</li> <li>Which sectors are most affected and what is the extent of damage? How is the country responding to its climate vulnerability and is it sufficient?</li> <li>What are key sector fragilities?</li> </ul>	<p><i>Broader structural reform agenda and strategic priorities</i></p> <ul style="list-style-type: none"> <li>What is the institution's structural reform agenda (if applicable) and strategic priorities?</li> </ul>
<i>Climate diplomacy and foreign policy</i>	<i>Climate change agenda</i>





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- How does the country position itself within international climate negotiations?
- What, if any, commitments as the country made on climate?
- How does the country position itself in the world? How does it engage with others (multilateralism, bilateralism or both)?
- Who are its key allies and in which areas (e.g. defence and security, trade)? How cooperative and influential are they internationally?
- Where is climate change incorporated into positions described above, if at all?
- Does the institution have official commitments/targets for its own operations (e.g. net zero by 20XX)? For its stakeholders?
- Who are champions/blockers of a progressive climate change agenda?

#### *Finance and investment*

- How developed is the finance sector and how aligned is it with green?
- Are there existing governance frameworks on climate disclosure?
- What progress has been made on green finance? What are the challenges to future progress?

#### *Relationships with other institutions/countries*

- How does the institution interact with other key venues (e.g. central banks with finance ministers)?

## ENDNOTES

<sup>1</sup> BAILEY Andrew, “Tackling climate for real: the role of central banks - <https://www.bankofengland.co.uk/speech/2021/june/andrew-bailey-reuters-events-global-responsible-business-2021>

<sup>2</sup> <https://www.iea.org/news/it-s-time-to-make-clean-energy-investment-in-emerging-and-developing-economies-a-top-global-priority>

<sup>3</sup> See for example, [https://www.brookings.edu/wp-content/uploads/2021/03/BPEASP21\\_Romer\\_conf-draft\\_updated.pdf](https://www.brookings.edu/wp-content/uploads/2021/03/BPEASP21_Romer_conf-draft_updated.pdf); <https://www.consilium.europa.eu/en/press/press->



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[releases/2021/03/15/eurogroup-statement-on-the-euro-area-fiscal-policy-response-to-the-covid-19-crisis-and-the-path-forward/](#)

<sup>4</sup> The full methodology is outline in Annex A above.

<sup>5</sup> The countries being analysed are: the US, France, China, Japan, Germany, Brazil, India, Ghana, Indonesia, Philippines. The institutions are: Central Banks (FRB, BoE, BoJ, ECB), Finance Ministries, the European Commission, and the IMF.

<sup>6</sup> <https://www.e3g.org/news/a-recovery-with-green-elements-but-not-a-green-recovery/>

<sup>7</sup> <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>

<sup>8</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/>

<sup>9</sup> see the "Risky Business Report" co-chaired by Michael Bloomberg and Hank Paulson [https://riskybusiness.org/site/assets/uploads/sites/5/2016/10/RiskyBusiness\\_FromRiskToReturn.pdf](https://riskybusiness.org/site/assets/uploads/sites/5/2016/10/RiskyBusiness_FromRiskToReturn.pdf) and the Roosevelt Institute's "Decarbonizing the US Economy: Pathways Toward a Green New Deal" which each called for the U.S to spend roughly 5% of annual GDP towards decarbonization across the decade.

<sup>10</sup> <https://www.politico.com/news/2021/06/08/climate-adviser-infrastructure-proposals-492303>

<sup>11</sup> <https://www.axios.com/joe-manchin-infrastructure-bill-c8408e99-17f3-4477-b5df-8e3d537c0bd9.html>

<sup>12</sup> <https://prospect.org/economy/janet-yellen-deficit-preoccupation-could-bring-down-biden-agenda/>



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<sup>13</sup> [https://www.washingtonpost.com/us-policy/2021/06/17/yellen-inflation-treasury-biden/?itid=ap\\_jeffstein](https://www.washingtonpost.com/us-policy/2021/06/17/yellen-inflation-treasury-biden/?itid=ap_jeffstein)

<sup>14</sup> <https://grist.org/politics/the-next-big-climate-pr-campaign-abolish-the-filibuster/>

<sup>16</sup> <https://www.nytimes.com/2021/06/08/us/politics/infrastructure-biden-republicans.html>

<sup>17</sup> <https://www.politico.com/news/2021/06/09/progressives-climate-provisions-infrastructure-492667>

<sup>18</sup> <https://newrepublic.com/article/162744/progressive-democrats-climate-infrastructure-deal>

<sup>19</sup> Aronoff, K. (2021). *Overheated: how capitalism broke the planet--and how we fight back*. Bold Type Books.

<sup>20</sup> <https://rooseveltinstitute.org/publications/the-public-role-in-economic-transformation-lessons-from-world-war-ii/>

<sup>21</sup> <https://www.whitehouse.gov/wp-content/uploads/2021/04/U.S.-International-Climate-Finance-Plan-4.22.21-Updated-Spacing.pdf>

<sup>22</sup> U.S. Climate Envoy John Kerry recently stated half of U.S. emissions cuts will come from technology that has yet to be invented. that [https://www.theguardian.com/environment/2021/may/16/half-of-emissions-cuts-will-come-from-future-tech-says-john-kerry?CMP=tw\\_t\\_a-environment\\_b-gdneco](https://www.theguardian.com/environment/2021/may/16/half-of-emissions-cuts-will-come-from-future-tech-says-john-kerry?CMP=tw_t_a-environment_b-gdneco)

<sup>23</sup> <https://thehill.com/opinion/energy-environment/549763-why-the-us-needs-a-successful-federal-green-bank>

<sup>24</sup> this comparison is elaborated here <https://www.newstatesman.com/world/north-america/2021/04/america-s-race-net-zero>



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<sup>25</sup> [https://rooseveltinstitute.org/wp-content/uploads/2021/06/RI\\_GreenSteelDeal\\_Working-Paper\\_202106-1.pdf](https://rooseveltinstitute.org/wp-content/uploads/2021/06/RI_GreenSteelDeal_Working-Paper_202106-1.pdf)

<sup>26</sup> This section mixes findings from the European Commission mapping, individual country mappings (France and Germany) and additional findings from countries not covered directly in the mapping exercise but through other E3G initiatives (e.g. Italy).

<sup>27</sup> <https://www.tresor.economie.gouv.fr/Articles/2020/11/12/building-the-france-of-2030-today-french-recovery-plan-s-investment-measures>

<sup>28</sup> In its 2019 Article IV consultation on France, the IMF's Executive Board remarked that France had "some fiscal space that could be used in a sharp downturn but stressed the importance of carefully balancing the need to support growth and safeguard sustainability". See IMF, "**IMF Executive Board Concludes 2019 Article IV Consultation with France**", press release, July 2019.

<sup>29</sup> IMF, *World Economic Outlook Database*, April 2021.

<sup>30</sup> See [here](#) for more detail on application rules of the SGP.

<sup>31</sup> European Commission, ***Communication from the Commission to the Council. One year since the outbreak of COVID-19: fiscal policy response***, 3 March 2021.

<sup>32</sup> <https://www.lse.ac.uk/granthaminstitute/news/why-japan-is-leading-the-tcfd-wave/>

<sup>33</sup> The **April 2021 communiqué** of the G20 Finance Ministers notably states the need to "step up our support to vulnerable countries as they address the challenges associated with the COVID-19 pandemic".

<sup>34</sup> <https://www.ft.com/content/9de8e963-850c-47ce-97f1-b0bf29b2b751?segmentid=acee4131-99c2-09d3-a635-873e61754ec6>

<sup>35</sup> <https://publications.iadb.org/publications/english/document/2021-Latin-American-and-Caribbean-Macroeconomic-Report-Opportunities-for-Stronger-and-Sustainable-Postpandemic-Growth.pdf>



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<sup>36</sup> See the IMF's Q&A on sovereign debt issues, updated in April 2021, [here](#).

<sup>37</sup> See the IMF Q&A referenced in endnote xiii: "The IMF, as the G20, would like to see private creditors participating in the debt service suspension on equal terms when requested by eligible countries. By supporting low income countries at this time, private creditors can facilitate their efforts to cope with and recover from the pandemic, which is also in the long-term commercial interest of private creditors."

<sup>38</sup> <https://www.cgdev.org/blog/what-best-way-allocate-new-sdrs>

<sup>39</sup>

<https://www.elysee.fr/admin/upload/default/0001/10/8cafcd2d4c6fbc57cd41f96c99f7aede6bd351f1.pdf>

<sup>40</sup> <https://home.treasury.gov/news/press-releases/jy0183>

<sup>41</sup> <https://blogs.imf.org/2021/02/24/the-great-divergence-a-fork-in-the-road-for-the-global-economy/>

<sup>42</sup> <https://www.iea.org/events/net-zero-by-2050-a-roadmap-for-the-global-energy-system>

<sup>43</sup> <https://www.ft.com/content/050279bf-e97b-44ac-91c3-98ea7b9b5f26>

<sup>44</sup> <https://www.cftc.gov/PressRoom/PressReleases/8234-20>

<sup>45</sup> <http://positivemoney.org/wp-content/uploads/2021/03/Positive-Money-Green-Central-Banking-Scorecard-Report-31-Mar-2021-Single-Pages.pdf>

<sup>46</sup> <http://positivemoney.org/wp-content/uploads/2021/03/Positive-Money-Green-Central-Banking-Scorecard-Report-31-Mar-2021-Single-Pages.pdf>

<sup>47</sup> <http://positivemoney.org/wp-content/uploads/2021/03/Positive-Money-Green-Central-Banking-Scorecard-Report-31-Mar-2021-Single-Pages.pdf>

<sup>48</sup> [https://prismic-io.s3.amazonaws.com/bailout/1b1e1458-bbff-49bc-a636-f6cbd47a88af\\_Big+Oils+Billion+Dollar+Bender.pdf?utm\\_campaign=Hot%20News](https://prismic-io.s3.amazonaws.com/bailout/1b1e1458-bbff-49bc-a636-f6cbd47a88af_Big+Oils+Billion+Dollar+Bender.pdf?utm_campaign=Hot%20News)



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<sup>49</sup> <https://www.cnbc.com/2021/04/11/powell-says-its-highly-unlikely-the-fed-will-raise-rates-this-year-despite-stronger-economy.html#:~:text=Powell%20says%20it's%20'highly%20unlikely,this%20year%2C%20despite%20stronger%20economy&text=Fed%20Chairman%20Jerome%20Powell%20has,Powell%20told%20%2260%20Minutes.%22>

<sup>50</sup> <https://www.wsj.com/articles/jerome-powells-fate-is-critical-to-biden-presidency-11622034613>

<sup>51</sup> <https://www.cnbc.com/2021/06/04/powell-says-climate-change-is-not-a-main-factor-in-the-feds-policy-decisions.html>

<sup>52</sup> <https://www.omfif.org/events/in-conversation-with-kevin-stiroh-the-role-of-the-federal-reserve-in-building-supervision-and-capital-to-mitigate-climate-related-financial-risk/>

<sup>53</sup> <https://www.banking.senate.gov/newsroom/minority/toomey-gop-banking-members-caution-federal-reserve-against-climate-change-regulations>

<sup>54</sup> The countries being analysed are: the US, France, China, Japan, Germany, Brazil, India, Ghana, Indonesia, Philippines. The institutions are: Central Banks (FRB, BoE, BoJ, ECB), Finance Ministries, the European Commission, and the IMF.