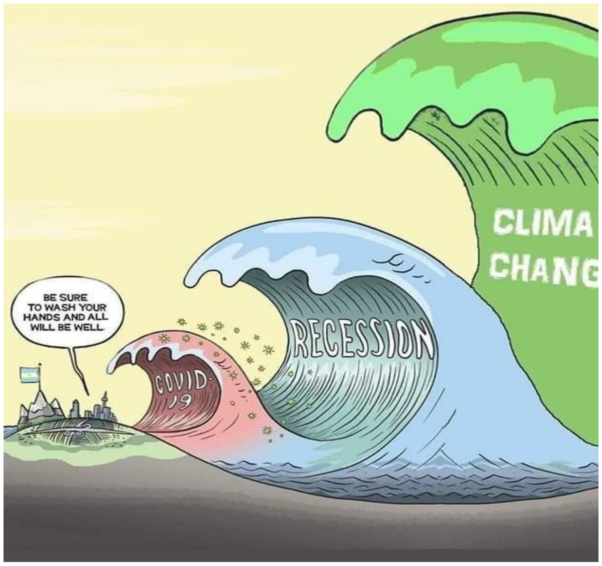
# GREEN RECOVERY BASED ON CARBON PRICING AND SUSTAINABLE FINANCE




## The COVID 19 Pandemic Crisis

Back in January, 2020 promised to be the “Super Year” of sustainable development. A growing number of companies, representing assets close to US$40 trillion, committed to transit towards low-emission and sustainable production and financing patterns. For the first time, the World Economic Forum´s Global Risk Report ranked environmental and climate risk at the top of its tables, above economic and geopolitical risk. In the framework of the United Nations, fundamental decisions for the climate change, biodiversity and oceans agendas have been postponed due to the pandemic.

COVID 19 has exposed our fragility as a species in the face of biological and natural phenomena as well as the vulnerability of our economic and political systems to global emergencies. The irrational management of biodiversity and ecosystems has triggered the evolution of viruses as climate change boosts its geographical reach and hastens its spread, with massive consequences to human lives.

On the other hand, social distancing and isolation measures recommended to contain the pandemic are fostering significant changes in the scale and the structure of the global economy. 2020 will bring one of the largest recessions in modern history, with contractions of 13% in trade and 2.5% in global GDP, and impacts on 1.6 billion jobs throughout the world. According to UN-ECLAC, the GDP contraction in the Latin America and Caribbean region will be in the range of 3 to 4% by the end of 2020.

However, the current crisis also provides an unprecedented opportunity to restructure our economic system towards more sustainable consumption and production patterns in the framework of environmental, financial and social agendas.

At the macro level, governments are now able to choose whether the incentives built into their economic recovery policies will be directed to traditional, less competitive and more polluting industries, or towards sectors that will create economic gains and social welfare in the long term. For instance, investment in renewable energy could bring gains of $100 trillion dollars, create 42 million new jobs and reduce greenhouse gas emissions in the energy sector by 70% by 2050.

At the micro level, manufacturers will have to adapt to the new trends in the value chains of a less interconnected world and find input providers closer to their production centers. In the service sector, digitization and virtualization has expanded like never before, fostering innovation and the development of new products and processes. Only these companies and sectors able to adapt with creativity and speed will survive in the post-Covid world.

**Post Covid-Green Recovery for the Americas**

In the coming months, trillions of dollars will be mobilized to address both the sanitary and economic crisis triggered by Covid-19. However, only a small fraction of national governments, regional groups and subnational jurisdictions have signaled their intent to consider sustainability principles and policy tools in their economic recovery plans. The European Union has ratified its net-zero emissions commitment for 2050 by placing its “Green Deal” at the center of its economic recovery strategy, whilethe new government of South Korea will base its economic recovery plan on incentives for green recovery to reach carbon neutrality by 2050.

In the Americas, the issue has been part of the debate in the recent US legislative and the upcoming national elections, with lawmakers proposing a “Green Deal” as one of the pillars for the economic recovery strategy. In addition, a number of subnational governments such as New York and California have incorporated climate/green objectives in their economic recovery plans.

Canada´s federal government has stated that the crisis will not obstruct its climate change commitment and it is supporting investment projects to help industries meet their methane emissions goals.

Notably, however, climate change and sustainability agendas have been absent in the language of politicians, CEOs and other decision makers in the Latin America and Caribbean (LAC) region.

While LAC contributes only 11% to global greenhouse gases (GHG), the region is highly vulnerable to the impacts of climate change. At the same time, many countries in the regions have stood out for their mitigation and adaptation strategies, with emerging carbon pricing schemes in Mexico, Colombia, Chile and Argentina.

Due to its rich forest, ocean, coastal and biodiversity resources, as well as highly proficient technical expertise in carbon accounting, the region is also a priority geography for Nature-Based Climate Solutions (NCS) Along with globalization, economic integration and the building of environmental laws and institutions in the last years, the private sector in many LAC countries has embraced environmental responsibility principles and practices.

Covid-19´s economic crisis presents major challenges for the LAC region. In this context, governments and companies already engaged in the path towards low emissions and sustainable development might be tempted to deviate from longer term sustainability goals to address more immediate short-term needs. Opportunities to boost long term and financially sustainable economic growth and create millions of jobs should be secured in cleaner industries. A recent report by UN - Climate found that 35 million green jobs can be created in LAC if the region invests in a 100% renewable energy matrix and electrifies its transport sector. At the same line, tens of millions of jobs could be created in the forest, rural and coastal sectors through forest conservation and restoration, as well as sustainable agriculture and blue carbon projects, financed with carbon compensation credits, green bonds and other financing innovative tools using SDGs and NDCs as benchmarks.

It is in this context that countries in the **LAC region will need to design their recovery strategies according to their needs and circumstances, preferably based on low emission and sustainable development criteria**. In the design of such strategies, it will be necessary to consider both the scale of resources and incentives needed, as well the different sources of funding, policy tools and industries/sectors to trigger the adjustment.

Currently, countries in the region finance their recovery strategies from international sources such as rescue packages from the International Monetary Fund (IMF), and from national public and private sources. In addition, governments may adjust their regulatory frameworks to ease the compliance cost with different standards for the benefit of vulnerable citizens or industries. They can also strengthen regulations, standards and supervision in those sectors or industries presenting higher risk to the economy or public health.

The ***stimulus measures commonly used*** to incentivize economic recovery in times of crisis include direct government transfers and subsidized interest loans, fiscal loans, debt restructuring or forgiveness, stabilization funds, and investment in infrastructure and public works projects, among others. The ***destiny of resources*** can vary from companies and organizations to communities and citizens, according to priority geographies, sectors, and industries in each country. Some areas of opportunities for ***"Green/Sustainable Recovery Strategies***" in LAC countries include:

1) Trade and investment incentives for clean and sustainable products and services
2) Price incentives for energy intensive industries, including carbon pricing and subsidies phase out in key environmentally harmful sectors.
3) Public/private investment in natural capital, resilience, adaptation, and sustainable agro-forestry, fisheries and food systems, including Nature-Based Climate Solutions.
4) Automation of processes, digitization and virtualization of transactions and services.
5) Investment in industries and sectors with high potential for green/sustainable job creation.
6) Reconfiguration of infrastructure investment in the transport-mobility, housing, education, services, entertainment, and leisure.
7) Investment in R&D to boost innovation and improve products and processes towards sustainable patterns of production and consumption.
8) Regulatory and fiscal incentives for sustainable businesses.

Building on CPLC´s model for enhancing dialogue, creating knowledge and boosting advocacy amongst public and private leaders, **a public-private dialogue process is proposed to identify concrete opportunities and projects in the area of carbon pricing, sustainable finance and economic recovery from the Covid-19 crisis.** The initiative could start in countries active in the carbon pricing arena such as Mexico, Colombia, Chile and Argentina, but also others considering carbon pricing instruments at the subnational level or among private actors like Brazil, and with high potential for investment in NCS sectors such as Guatemala, Costa Rica and Peru.

IETA has already launched a process to develop Natural Climate Solution strategies in the region starting with Colombia, Mexico and Brazil. In the north of the hemisphere, Canada's federal government, some Canadian provinces as well as some states in the US might be interested in participating. The process could consider representatives from the following areas:

- National and subnational governments
- Central Banks
- Business groups and private companies with green/sustainable profile
- Banking and finance associations
- NGOs and think tanks
- Youth organizations and leaders
- Cooperatives
- International Organizations and Development Banks: World Bank, IFC, CPLC, IDB, CAF, UN-ECLAC, UN-Climate, UN-Environment, UNDP, CDB, OECD, GGGI.