WORLD BANK GROUP

ECA RESEARCH NOTES

Office of the Chief Economist

EUROPE AND CENTRAL ASIA

GREEN RECOVERY

JULY 2021

Hi Everyone,

This month, we had the second in our series of green ECA Talks but we looked more specifically at the opportunity presented by the COVID-19 pandemic to implement a green recovery.

There are lessons to be learned from the recovery from the 2008-9 Global Financial Crisis. Efforts were made to implement green stimulus projects but they were limited to a few years following the crisis with little impact in the long-run. So far, majority of the COVID-19 stimulus packages have also been non-green. Research reveals one potential reason for this: green stimulus tends to be more effective in creating jobs in the long run, but not necessarily in the short run. Hence, green stimulus tends to be more effective at redirecting an economy to a greener long-run trajectory, but less effective in jump starting recovery. For this reason, it is important to identify “win-win” strategies – green investments with the greatest immediate impact on recovery. You can read the details below and watch the ECA Talk we hosted discussing all these issues. We have also included a round-up of related Bank research and blogs on this topic.

Finally, don’t forget – submissions for the 2021 ECA Academy competition are due at the end of September. We will send an announcement in August and look forward to reading exciting new research relevant to our region. This time climate change and green recovery will be a focus topic.

I hope all of you are able to enjoy some relaxing time this summer. Our newsletter will take a break in August but we will be back in September.

Happy Reading,
Asli

FEATURE STORY

From upper left corner clockwise: Asli Demirgüç-Kunt, Edward B. Barbier, Carolyn Fischer, and Steven S. Schonberger

Building a Greener Recovery: Implications for Emerging and Developing Economies

Rebuilding a greener world economy after the COVID-19 pandemic requires learning from what worked and what did not from past efforts to adopt green stimulus. In a recent ECA Talk, Edward Barbier, a University Distinguished Professor at the Colorado State University, discussed the potential cost-effective and innovative policy mechanisms that could be considered by emerging and developing countries to yield progress towards the Sustainable Development Goals.

Video and event details

Disclaimer: The views expressed by panelists are their own and do not represent the position of the World Bank.

RELATED RESEARCH

The Effectiveness of Environmental Provisions in Regional Trade Agreements

Ryan Abman, Clark Lundberg, and Michele Ruta, World Bank Policy Research Working Paper 9601 – March 2021

This paper provides new causal evidence that environmental provisions are effective in limiting deforestation following the entry into force of Regional Trade Agreements (RTAs). It exploits high-resolution, satellite-derived estimates of deforestation and identify the content of RTAs using a new dataset with detailed information on individual provisions. The paper finds that the inclusion of specific provisions aimed at protecting forests and/or biodiversity entirely offsets the net increases in forest loss observed in similar RTAs without such provisions.

Incentivizing Carbon Taxation in Low-Income Countries: Tax Rebating versus Carbon Crediting

Jon Strand, World Bank Policy Research Working Paper 9698 – June 2021

Border carbon adjustments imply that high-income countries set taxes on energy-intensive imports that are proportional to the carbon content of these imports, to match their own carbon taxes. This paper considers the impacts of such a policy on exporter countries, many of which have no or very low carbon taxes today. The analysis finds that the exporter is then incentivized to set its own comprehensive carbon tax at the same rate as the border tax, up to a maximal rate. Border taxation can give rise to export diversion away from border tax-setting countries, which reduces the scope for incentivizing the exporter's carbon tax.

Supporting Carbon Tax Implementation in Developing Countries through Results-Based Payments for Emissions Reductions

Jon Strand, World Bank Policy Research Working Paper 9443 – October 2020

The author discusses compensation mechanisms to strengthen incentives for lower-income countries to adopt carbon taxes through donor-funded support programs. The paper considers two cases: the provision of climate finance when the host country uses the additional mitigation to meet its own greenhouse gas mitigation target; and a transaction in an international carbon market with the mitigation credit created by host country mitigation transferred outside the country. This analysis can help to explain why few low-income countries have so far adopted carbon taxes, and why the necessary compensation for tax adoption may exceed theoretical assessments.

Diversification and Cooperation Strategies in a Decarbonizing World

Grzegorz Peszko, Dominique van der Mensbrugghe, and Alexander Golub, World Bank Policy Research Working Paper 9315 – July 2020

This paper runs macroeconomic model simulations of alternative strategies that the global community and fossil fuel-dependent countries can pursue to encourage and enable their participation in a global low-carbon transition. The findings suggest that border taxes on the carbon content of imports from fossil fuel-dependent countries do not induce comprehensive cooperation, but broader trade sanctions do. Cooperative wellhead carbon taxes can achieve cooperation without trade wars. However, incentives to cooperate are misaligned between different fossil fuel-dependent countries and between owners of different fuels.

BLOGS

Envisioning Central Asia's green recovery

Anna Bjerde, June 26, 2021

The countries of Central Asia have already taken important steps toward a more resilient and inclusive growth model. By continuing to balance short- and medium-term priorities and taking advantage of new technologies, innovation, and green financing, Central Asia can both recover more quickly from the pandemic and come off the list of the world's most carbon-intensive economies.

The political economy of tackling climate change

Verena Fritz, March 23, 2021

Over the past decade, climate change has moved from an abstract notion to having real impact. Over the same period, significant progress has been made too in terms of policy commitments, but implementation still lags well behind what is needed. As moving from declarations to action becomes critical, several aspects mentioned in this blog must be a part of the strategy to succeed in both developed and developing countries.

Corporate debt restructuring in times of COVID-19: The case for Debt-

for-Climate swaps

Pietro Calice, Andrés F. Martínez, & Fiona Stewart, November 12, 2020

With governments phasing out unprecedented support to business we will soon witness a significant spike in corporate insolvencies across the board. This can severely undermine the green and resilient economic recovery the world needs. Extending Debt-for-Climate (D4C) swaps to the corporate sector may offer an avenue to address corporate debt challenges while increasing resilience to climate change and risks from biodiversity and nature loss.

CALENDAR OF EVENTS & OTHER ACTIVITIES

September 23, 2021 || 10:00AM EDT

ECA Talk "*Rising Corporate Market Power and Competition Policy*" featuring **Dr. Ufuk Akçiğit**, Arnold C. Harberger Professor of Economics (University of Chicago)

Deadline: September 30, 2021

2021 ECA Academy

The Office of the ECA Chief Economist invites you to submit papers to the 2021 ECA Academy on any topic of policy relevance for the region. Analytical work on green recovery and climate change will be of particular interest. Read more about ECA Academy.

Check ECA Lectures and ECA Talks to learn more about our past and future events.

The ECA Research Notes newsletter is produced by the Europe and Central Asia (ECA) Chief Economist's Office. Please send comments, suggestions, and feedback to ECACEoffice@worldbank.org.

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