EBRD coronavirus policy response

European Bank for Reconstruction and Development

Green transition and the Covid-19 crisis in the EBRD regions: An overview

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Overview

This note highlights recent trends and measures associated with the green economic transition and environment across the European Bank for Reconstruction and Development (EBRD) regions since the start of the Covid-19 pandemic. The picture is mixed. We find that most countries made progress on existing commitments to advance the green transition. However, positive Covid-19-related measures, such as the inclusion of climate- and environment-related measures as part of the pandemic response, were often offset by support for fossil-fuel industries and other carbon-intensive sectors.

Table 1: Vivid Economics Greenness of Stimulus Index policy measures

Positive measures	Negative measures
Corporate bailouts with green strings attached	Environmentally related bailout without green strings
Loans and grants for green investments	Environmentally harmful infrastructure investments
Nature-based solutions	Subsidies or waived fees for environmentally harmful activities
Conservation and wildlife protection programmes	Subsidies or tax reductions for environmentally harmful products
Subsidies or tax reductions for green products (including the removal of subsidies for polluters)	Deregulation of environmental standards
Green R&D subsidies	
Reinforcing environmental regulation and avoiding deregulation	

Governments have responded to the Covid-19 pandemic with a range of measures, some of which have implications for the green transition and the environment. We can split national Covid-19 responses into “positive” and “negative” measures, depending on their impact in terms of climate action and the environment. This categorisation largely follows the policy measures of Vivid Economics’ Greenness of Stimulus Index (see Table 1).[1] Where possible, we distinguish between responses linked to Covid-19 and measures that were planned or would probably have taken place irrespective of the pandemic, such as renewable energy auctions or the adoption of long-term climate strategies.

Green considerations have not featured prominently in the rescue and recovery plans of the economies in which the EBRD invests. This is largely because governments have focussed on addressing the immediate impacts of the crisis by prioritising additional funding for healthcare systems, employment support and liquidity. We did not observe substantial differences between positive and negative developments across the EBRD regions. European Union (EU)

[1] See Vivid Economics (2021).

member states typically allocated more funding to green rescue and recovery than other regions, largely due to their greater fiscal room for manoeuvre, coupled with EU-wide actions and support from the European Commission. Some EU governments have yet to seize the opportunity to stimulate the green transition, however, instead supporting environmentally harmful sectors (such as coal mining) to protect employment.

The most frequent positive measures included financing green investment and reinforcing or advancing environmental regulation. The two most common positive measures in the economies where the EBRD invests included: (a) loans, bonds and grants for green investments and renewable energy auctions and (b) regulatory environmental and climate developments and the avoidance of deregulation. Small-scale nature-based solutions introduced over the past year included cash-for-work afforestation programmes in Romania,[2] the Caucasus and Tajikistan.[3] Compared with some of the more advanced economies included in the Vivid Economics index, in EBRD regions, we have been unable to identify substantial examples of green research and development (R&D) subsidies, corporate bailouts with green strings attached or significant conservation or wildlife protection programmes. One notable development observed in the EBRD regions, but not specified in the Index, is the cancellation and postponement of new coal projects. For example, in Egypt, the government decided to indefinitely postpone plans to build one of the world's largest coal-fired power plants,[4] while in Romania, the government said that no more coal power plants would be built in the country,[5] suggesting that shareholders abandon plans for the last such project in Rovinari.

Investments in green economic sectors continued, mainly in the form of renewable energy projects, green bond issuance and credit lines for small and medium-sized enterprises (SMEs). Most of the economies in which the EBRD invests made progress on the renewable energy front during the pandemic. Examples include the first utility-scale (55 MW) solar power plant in Armenia,[6] the first solar projects in Uzbekistan[7] and a new 100 MW wind farm in Kazakhstan,[8] all supported by EBRD investment. Credit lines with green components were used as part of the Covid-19 response, for example, for SME credit lines in Armenia and Kazakhstan and energy efficiency projects in Georgia. There were also new green bond issues in Egypt[9], Hungary[10], Greece,[11] Kazakhstan[12] and elsewhere.

Subsidies and tax reductions for green products featured prominently in the EU, but were limited outside the bloc. In the EU, green subsidies were sometimes linked to electric vehicle programmes (for example, in Poland, Romania[13] and Greece),[14] but these were likely to happen irrespective of the pandemic response. Another example were the energy efficiency programmes of EU member states, with the potential to create jobs in strategic sectors as part of the Covid-19 response.

Regulatory progress continued, including revisions of national long-term development and climate strategies. Almost all economies in which the EBRD invests have introduced some regulatory changes related to the green transition over the past year. One example is the continued adoption of long-term sectoral strategies and targets, such as the national energy and climate plans developed by the EU member states. Covid-19-specific measures incorporated climate and environmental considerations into pandemic response plans, for example, on reducing air pollution in Kazakhstan and the Kyrgyz Republic, sustainable agriculture in Turkmenistan[15], solid waste management in Azerbaijan[16], energy efficiency in Uzbekistan[17] and Latvia[18] and water management in Ukraine.[19]

Still, some countries have adopted environmentally harmful measures as part of their Covid-19 response. The two most common negative measures included: (a) subsidies or waived fees for environmentally harmful activities and (b) the relaxation of environmental standards. The former include long-term subsidies and tax reductions to support fossil-fuel projects (such as Turkey's support for underground mines to ease financial losses[20] and Kazakhstan's temporary tax exemptions for gasoline and diesel producers)[21] and Covid-specific measures targeting industry and consumer support (such as tax exemptions for oil and gasoline producers in Kazakhstan and Turkey, discounted diesel fuel prices for agricultural producers in Kazakhstan and Georgia and the postponement of tariff on gas and heat supply to help vulnerable consumer groups in Belarus). The latter mostly involved the postponement of environmental inspections and guidelines on the use of plastic in bio-waste disposal, for example, in several countries in eastern Europe and the Caucasus.

Environmentally harmful measures also included support for high-carbon sectors, including new fossil-fuel investments. Due to the pandemic, the authorities in some countries supported strategic greenhouse gas emission-intensive sectors, such as airlines and the automotive industry (for example, in the EU member states and Russia). However, these environment-affecting bailouts rarely had green conditions attached. Across the EBRD regions, support has also been extended to the coal-mining sector, but often directed to salary payments for the workers. New fossil-fuel investments have included gas infrastructure projects in the EU (though often linked to the phase-out of coal) and the continued construction of new coal power plants (as in some Western Balkans countries).

All in all, there has been a mix of positive and negative measures in the EBRD regions since the start of the pandemic. Our preliminary analysis suggests that most of the economies in which the Bank invests progressed on existing commitments to advance the green transition. The situation is less clear-cut when it comes to the Covid-19 response: the inclusion of climate- and environment-related measures as part of the pandemic response was often offset by support for fossil-fuel and other carbon-intensive sectors with a view to protecting domestic industry.

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[2] See Romania Insider (2020).
[3] See OECD (2020).
[4] See Nicholas (2020).
[5] See Todorović (2020).
[6] See Martikian (2020).
[7] See Usov (2020a) and EBRD (2020).
[8] See Usov (2020b).
[9] See Barbuscia and Ramnarayan (2020).
[10] See Budapest Business Journal (2020).
[11] See National Bank of Greece (2020).
[12] See Times of Central Asia (2020).
[13] See Banila (2020).
[14] See Randall (2020).
[15] See OECD (2020).
[16] Ibid.
[17] See LSE Grantham Research Institute on Climate Change and the Environment (n.d.).
[18] Ibid.
[19] See OECD (2020).
[20] See Energy Policy Tracker (2021).
[21] See OECD (2020).

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More Information on the EBRD's Covid-19 policy engagements, please visit:
https://www.ebrd.com/what-we-do/coronavirus/coronavirus-policy-response