

The Nexus of Climate Change and Sustainable Development

**The Pandemic, Climate Action and Governance:
Intersections, Questions,
Challenges**

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**PILIPINAS: ASPIRE, RISE, SUSTAIN WEBINAR SERIES
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The National Government is currently gearing up for ‘recovery’

(4 Sept 2020 DBCC briefing FY 2021 GAA)

“Starting next year, we will be focusing on the resiliency of the economy towards a healthy and more resilient Philippines, where the 2021-2022 GAA will play a significant role.”

Strategies to 'revive' the economy and get us back on track include

- *Bayanihan 2* , with P140 billion + standby funds of 25.2B (expiring December 19, 2020), or 1% of 2019 GDP.
- Increased infrastructure outlays (BBB) in the proposed 2021 budget
- Legislation such as the FIST, GFI Unified Initiative to Distressed Enterprises for Economic Recovery, and CREATE

Vs: Indonesia (7 percent of GDP); Thailand (9.5 percent), Japan (21.1 percent)

But a fundamental question is:
**Do we want to simply restore pre-pandemic
development and growth trajectories?**

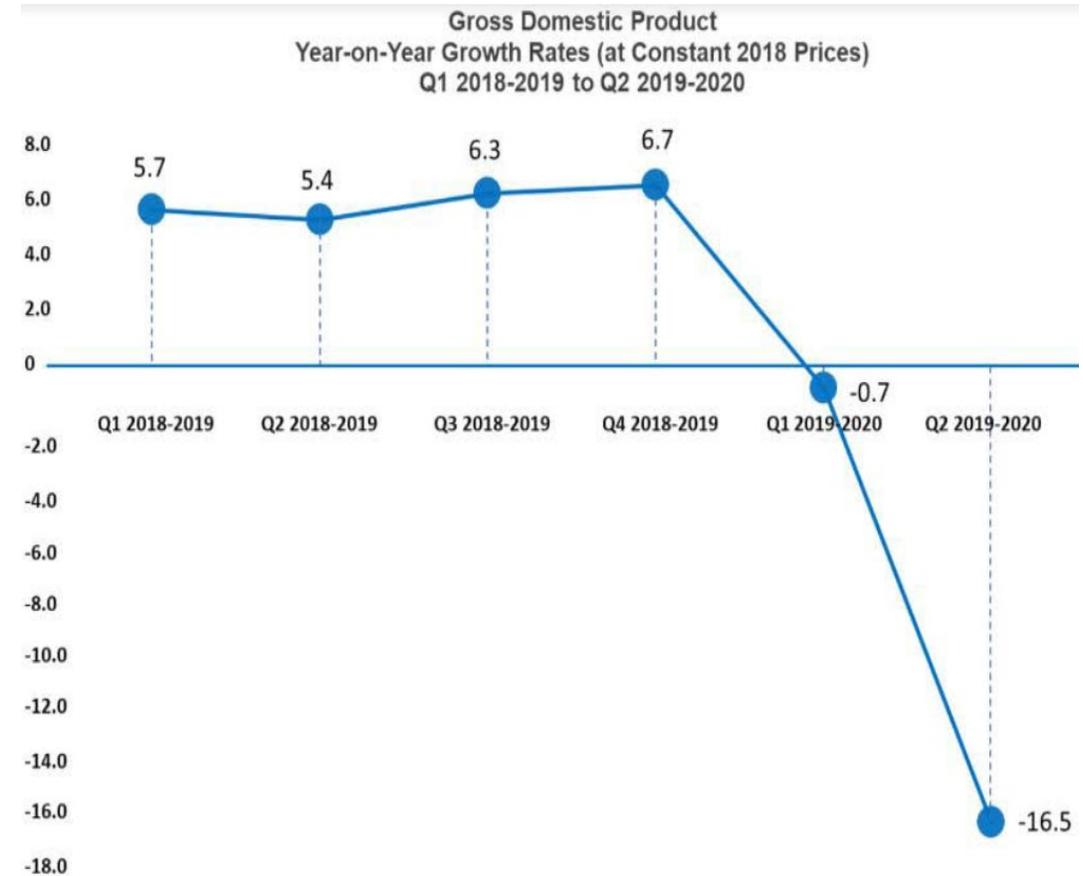
**For our economy is not as resilient
as we thought**

IN MARCH

BY JUNE

“The truth is economic fundamentals are on our side. Even under the worst possible scenario, the Philippines can still grow this year and in the medium term by about 6 percent.”

(<https://www.dof.gov.ph/govt-economic-team-rolls-out-p27-1-b-package-vs-covid-19-pandemic/>)

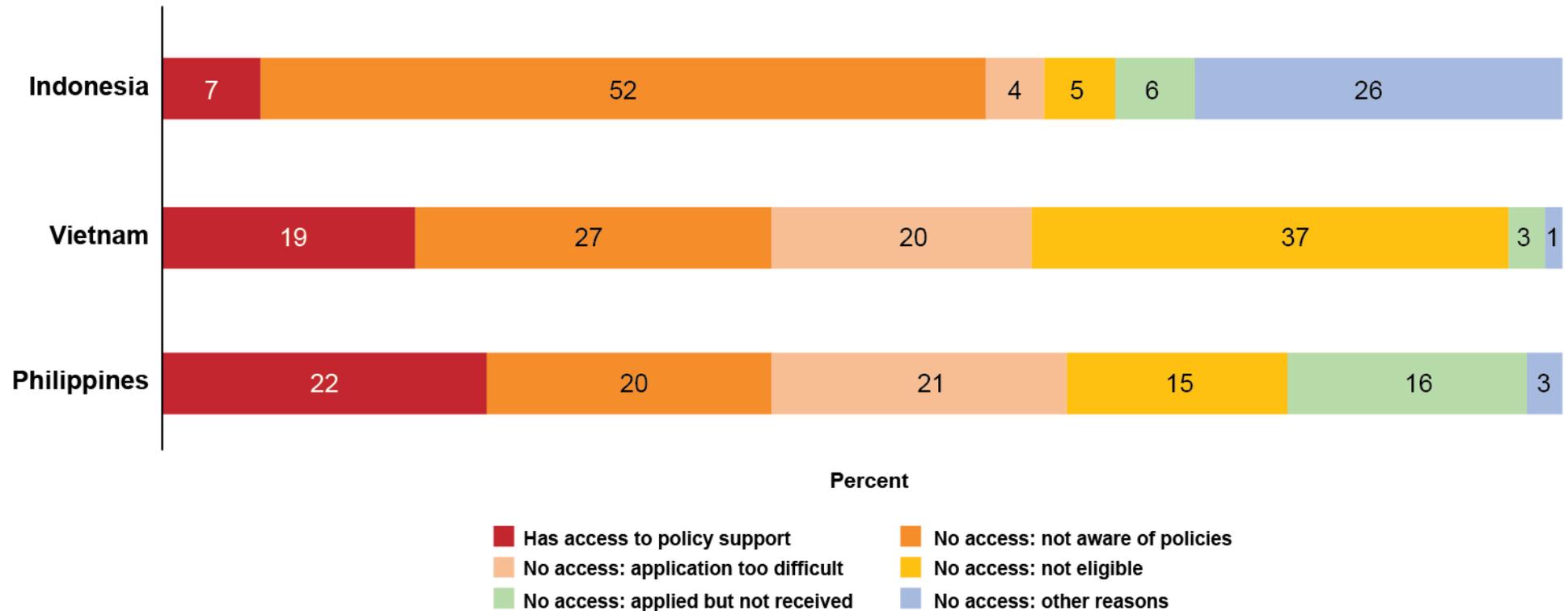


The pandemic has revealed significant weaknesses in our economic and social systems, e.g.

- Public health system: despite a decade of warnings, disease control and prevention infrastructure, including surveillance systems, lab networks, referral facilities, front liners, etc., were inadequate.
- Social safety nets: not designed for groups badly hit by lockdown.
- Formal financial system: limited reach among MSMEs

Reach of policy support among firms: 22%

A fraction of firms received policy support



To ignore these weaknesses and assume the economy can simply start where it left off would be **“as foolish as rebuilding a fallen structure in the same hazardous location, using the same plans and materials, and thinking the structure will not collapse the next time around.”**

(Monsod et. al. 2020. <https://econ.upd.edu.ph/dp/index.php/dp/article/view/1527/1010>)

The miscalculation? Pandemic is a physical shock, that does not originate from within the financial sector.

A physical shock can only be remedied by understanding and addressing underlying physical causes. Core capacities in relevant institutions matter for resilience. Standard macroeconomic fundamentals may not count.

Implication: Unless government institutions can decisively contain Covid-19, a robust economic “recovery” will probably be elusive, notwithstanding more stimulus (build-build-build) spending.

Monsod and Gochoco-Bautista, forthcoming

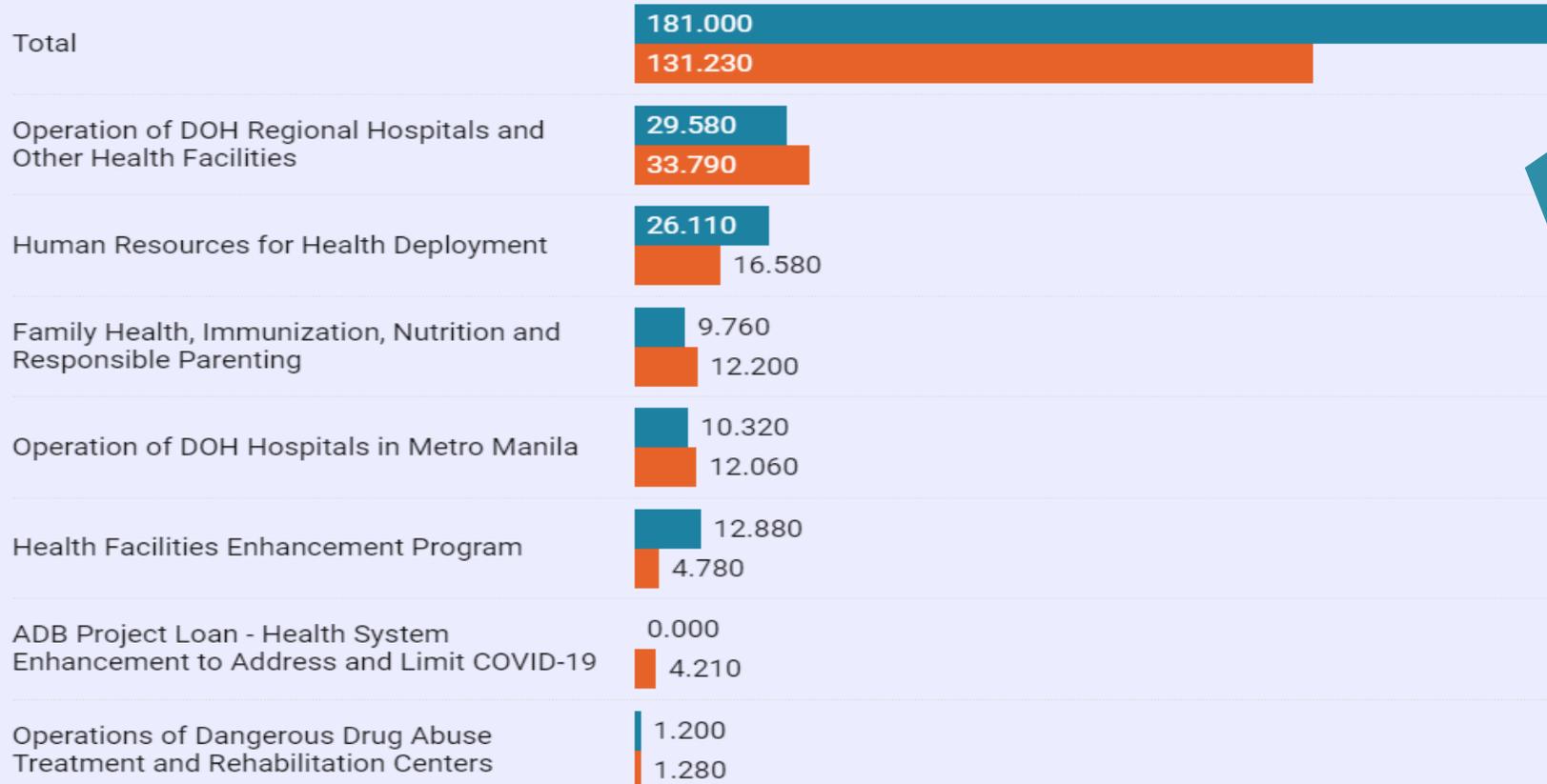
Is this the plan moving forward?

Amid a pandemic, budget cuts for health

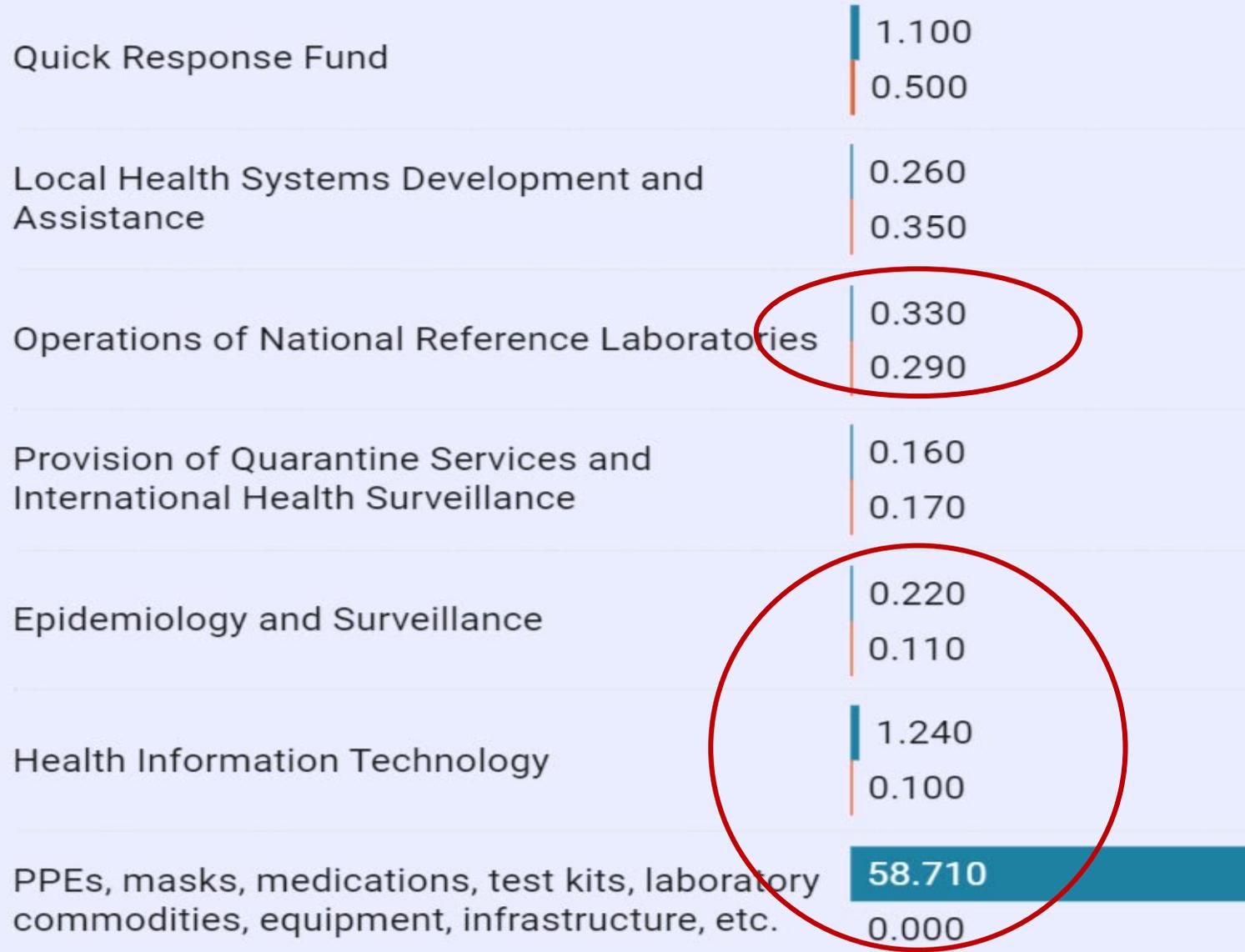
All figures in billion PHP. Line items don't total 100%.

■ 2020 GAA + Bayanihan 1,2 ■ 2021 NEP

DEPARTMENT OF HEALTH



Punongbayan et. al
Sept 2020
(<https://www.rappler.com/voices/thought-leaders/analysis-why-you-should-be-alarmed-duterte-2021-budget>)



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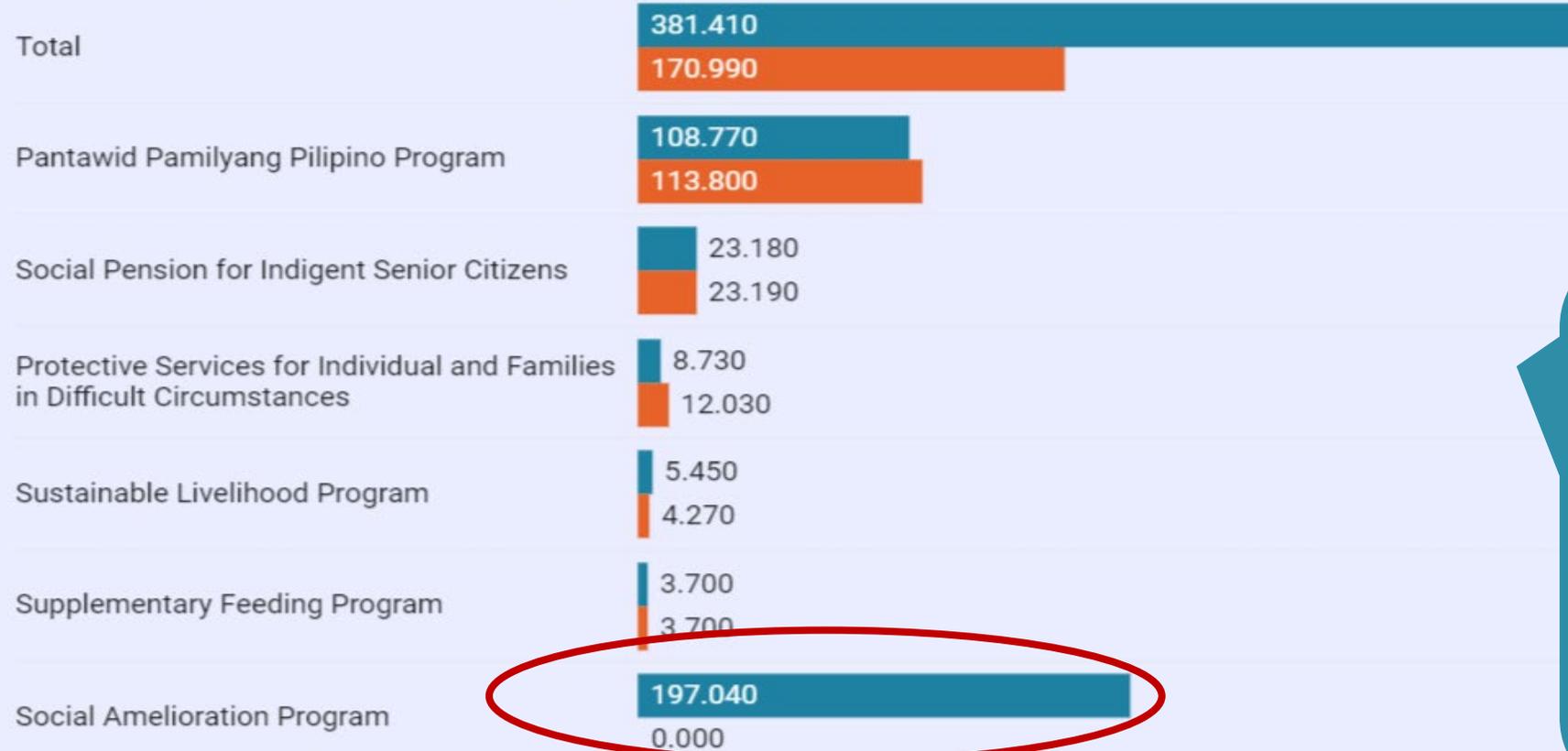


Severe cuts for economic aid

All figures in billion PHP. Line items don't total 100%.

2020 GAA + Bayanihan 1,2 2021 NEP

DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT



DEPARTMENT OF LABOR AND EMPLOYMENT



Punongbayan et. al
Sept 2020
(<https://www.rappler.com/voices/thought-leaders/analysis-why-you-should-be-alarmed-duterte-2021-budget>)



Instead, 'build-build-build'.

? DPWH and DoTr disbursed **less than half** of their total obligations for the past 3 years on average

Infrastructure spending binge

All figures in billion PHP. Line items don't total 100%.

■ 2020 GAA + Bayanihan 1,2 ■ 2021 NEP



Punongbayan et. al
Sept 2020
(<https://www.rappler.com/voices/thought-leaders/analysis-why-you-should-be-alarmed-duterte-2021-budget>)

Chart: iLEAD • Source: [National Expenditure Program FY 2021](#)



Climate risk is also represents a *physical* shock that “translates into an array of socioeconomic impacts”

Like the pandemic, the impacts of climate change are/will be systemic, non-stationary, and non-linear. Both are risk multipliers and regressive.

Neither were unforeseen.

Pinner et al. April 2020
(<https://www.mckinsey.com/business-functions/sustainability/our-insights/addressing-climate-change-in-a-post-pandemic-world>)

“The current pandemic provides us perhaps with a foretaste of what a full-fledged climate crisis could entail in terms of simultaneous exogenous shocks to supply and demand, disruption of supply chains, and global transmission and amplification mechanisms.”

(Pinner et al. April 2020)

“The pandemic is a fire drill for our planet's future... Climate change will mean one emergency after another, year after year, as heat waves, floods, fire and storms blow cascades of failures through our systems.”

(A. Frank, March 2020)



To companies: A challenge to the 'shareholder-centric' model of governance

- The pandemic has made it clear that “society depends on well-functioning companies to meet its most basic needs ... and that companies do not exist solely to maximize returns to shareholders.”
- Each stakeholder group – **customers, workers, suppliers, communities, shareholders** – is important to a company’s ability to function. The “primacy” of one cannot be fixed once-and-for-all.

L. Paine, 2020
(<https://hbr.org/2020/10/covid-19-is-rewriting-the-rules-of-corporate-governance>)



Covid-19 has also shown that companies cannot so easily disconnect themselves from society-at large

- Large-scale societal problems - **income and wealth inequality, environmental degradation, climate change, declining public health and education** – are “not only legitimate areas of concern for business but more importantly, sources of both risk and opportunity.”
- How well do risk management and oversight systems encompass risks arising from these issues? At the very least, do strategic planning and resource allocation processes take these into account so as not to exacerbate them?

L. Paine, 2020
(<https://hbr.org/2020/10/covid-19-is-rewriting-the-rules-of-corporate-governance>)



The common challenge for macroeconomic and corporate governance in this era of pandemic and climate risks

A fundamental shift from “optimizing largely for the shorter-term performance of systems” to ensuring equally their longer-term economic and environmental resiliency

(Pinner et. al. 2020, adapted)

For a Macro-economy

- A pivot from a traditional definition of economic resilience based on the strength of one's 'fiscal position', to one based on the capacities of essential institutions
- Pivot away from stimulus spending *per se* to resilience spending. **Resilience spending is a stimulus.** But stimulus spending may not improve resilience

For Firms

- A pivot from the traditional shareholder-centric model of governance to a “**model that puts the health and resilience of the company at its center**” [Paine 2020]



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