



# Green Stimulus



## What is Green Fiscal Stimulus?

Green stimulus combines crisis spending to restart the economy with environmental objectives in mind. The transition to low-carbon economies represents new jobs, new emerging sectors and new opportunities for business development. Green stimulus identifies swift economic stimuli that also serve an environmental or “green” purpose. An example action could be a repurposing of a fossil fuel subsidy to instead help small business owners recover. A 2019 **IISD study** found that subsidies propping up coal, oil and gas production and consumption total \$372 billion dollars of public money annually, and represent an opportunity for many countries to create ‘fiscal space’ for economic stimulus.

Green fiscal policy can be an important element in a government’s response to COVID-19 relief and sustainable economic recovery stimulus measures.

A ‘green’ fiscal stimulus can be a more effective fiscal stimulus, aiding a fast recovery in the short term and building the foundations for sustainable, strong growth in the future, aligned to the inevitable trajectory of a necessarily low-carbon future.

## How does Green Fiscal Stimulus work, and who pays for it?

Some approaches support countries in removing inefficiencies in expenditures such as environmentally harmful subsidies.

Many subsidies reflect an era when fossil fuel extraction was encouraged, and subsidies provided additional incentives. As the way the world will power itself transitions to clear energy, subsidies can be transitioned to reflect the opportunities and needs of the new era. This will create fiscal space and reallocate public finance resources to

immediate COVID-19 relief measures and medium- to long-term sustainable recovery planning.

Innovative financing solutions and blended public-private approaches that share the costs and benefits of investing in sustainable and resilient infrastructure are also opportunities to invest in the infrastructure that will be more resilient to climate change and its impacts.

The current stock and use of the world’s infrastructure is associated with over 60% of global greenhouse gas emissions. Investing in job-creating infrastructure projects today will help countries and societies recover from this crisis, but if those projects are also consistent with the Paris Agreement and the Sustainable Development Goals, this will also help mitigate the future crises of unchecked climate change.

## What UNEP doing to support green fiscal policy?

UNEP is committed to supporting countries in recovering from Covid-19 by placing green stimulus packages, fiscal policy and a just transition at the core of it offering. This includes:

1. Supporting sustainable infrastructure, in coordination with multilateral development banks and financial institutions, to ensure the next wave of infrastructure lending and investment is pandemic and climate proof. This will involve strengthening ecological and social health as well as economic infrastructure, using needs-based, integrated approaches across the entire infrastructure life cycle, from strategic planning, to financing, delivery, operations, and decommissioning.
2. Ensuring cities and infrastructure are planned with strategic density and are designed and built sustainably. This will allow for mixed use of

spaces, for short distances that can be covered by walking and cycling and for effective public transport.

3. Working with the financial sector to develop norms and targets for investing in sustainable infrastructure and other green economic recovery measures. Compared to the last global financial crisis, the financial system is more resilient today and able to play a key role both in keeping companies solvent in the short term, and building back better based on new, impact-focused economic, technological and behavioural approaches that align to win wins for fiscal and environmental recovery and future resilience.

### Who is UNEP working with on Green Stimulus?

UNEP works with other UN Agencies, to reimagine sustainable cities, taking a systems approach, with greater integration between grey (healthy, efficient and liveable buildings, modern energy services, and public transportation), green (nature and natural systems) and blue (water) infrastructure systems to build resilience to climate and other environmental threats such as future disease outbreaks.

UNEP works with partners in the **Sustainable Infrastructure Partnership** to: 1) develop and disseminate normative and technical guidance and tools for integrating sustainability into infrastructure development; and 2) support countries directly in strategic sustainable infrastructure planning at the national and sub-national levels.

UNEP works with countries to support fiscal policy reform to find additional revenues for advantageous resourcing of both COVID-19 relief and stronger, greener recovery stimulus.

UNEP also works with countries without the financial capacity to create fiscal stimulus packages. Due to a combination of high existing fiscal deficits and inflationary pressures, both the fiscal monetary policy space is constrained in most developing and low-incomes economies.

UNEP will work with the financial sector to set ambitious targets for financing sustainability action as integral components of economic recovery and renewal, through the Principles for Responsible Banking and Positive Impact Finance.

UNEP will continue providing support to countries on green fiscal policy reform through the Partnership for Action on Green Economy (**PAGE**), working with partner agencies for a green recovery from COVID-19, and through the Green Fiscal Policy Network, a collaboration between UNEP, the IMF and GIZ for knowledge exchange and country dialogue on green fiscal policy experiences and best practices.

### Where will the money come from for Green Stimulus?

With an anticipated drop in tax revenues from economic slowdown precipitated by COVID-19 containment measures, improving the efficiency of public expenditure will be crucial in mobilizing required resources for the those who need it the most and invest in essential stimulus measures and infrastructure to enhance future socioeconomic resilience.

Providing advice on green fiscal policy instruments like carbon taxation and fossil fuel subsidy reform can be especially effective in the current low oil price environment. For example, the IMF estimates that a carbon tax of \$75 per ton would raise pump prices by less than the recent decline in oil prices. This should be combined with other measures like feebates to incentivise greener transport solutions and energy efficiency improvements and accompanied by smart communication and necessary assistance for low-income and vulnerable households and communities.

Supporting green budgeting can also be a valuable tool to increase the efficiency and effectiveness of budgetary processes and align them with environmental sustainability objectives. Not only would green budgeting allow governments to identify misalignments of spending and objectives and help identify possible resources which could be re-directed to COVID-19 relief measures, but also allow long-term integration of environmental and climate sustainability into budgetary processes and infrastructure planning.

### Where can I find out more about Green Stimulus?

“The Covid-19 Shock to Developing Countries: Towards a “whatever it takes” programme for the two-thirds of the world’s population being left behind”, UNCTAD, March 2020 ([https://unctad.org/en/PublicationsLibrary/gds\\_tdr2019\\_covid2\\_en.pdf](https://unctad.org/en/PublicationsLibrary/gds_tdr2019_covid2_en.pdf))

Capital Flows Report: Sudden Stop in Emerging Markets, IIF, April 09, 2020. (<https://www.iif.com/Publications/ID/3841/Capital-FlowsReport-Sudden-Stop-in-Emerging-Markets>)

April 2020 Global Debt Monitor: COVID-19 Lights a Fuse, IIF, April 07, 2020 (<https://www.iif.com/Publications/ID/3839/April-2020-GlobalDebt-Monitor-COVID-19-Lights-a-Fuse>)

The New Climate Economy. (2016). The sustainable infrastructure imperative. <https://newclimateeconomy.report/2016/>

IMF Special Series on COVID 19 – Greening the recovery, April 2020. (<https://www.imf.org/~media/Files/Publications/covid19-specialnotes/en-special-series-on-covid-19-greening-the-recovery.ashx?la=en>)

<http://www.greenfiscalspolicy.org/>