

# Greening Fiscal Stimulus and Finance Packages to Achieve the SDGs

“A recovery from the coronavirus crisis must not take us just back to where we were last summer. It is an opportunity to build more sustainable and inclusive economies and societies — a more resilient and prosperous world.”

**UN Secretary General, António Guterres, April 30, 2020**

- “The performance and resilience of our socio-economic systems depend on the health of the natural environment and ecosystems. Once the COVID-19 crisis is over, we cannot return to business-as-usual practices that increase emissions and put pressure on wildlife and biodiversity.
- While the immediate priority is on emergency measures to address the health crisis and its economic fall-out; green framing for relief and recovery stimulus measures is critical to build resilience and support public health efforts. It will also help reduce the probability of future pandemics and broader environmental and climate change risks.
- Preliminary analysis of recently announced stimulus measures by major economies shows a significant lack of consideration for medium and long-term environmental sustainability.<sup>1</sup>
- Not all stimulus packages are created equal or have equal job effects. For example, research estimates that “\$1 million invested in the oil and gas in the United States creates just five jobs, compared to 17 jobs per million dollars invested in energy-saving building retrofits, 22 jobs for mass transit, 13 for wind, and 14 for solar”.<sup>2</sup>

## COVID 19 and Green Stimulus and Finance Packages.

- The evidence is clear: the “great lockdown” has pushed hundreds of millions from their jobs, decreased economic activity precipitously, and created turmoil on equity and commodity markets. Its impact can be also felt on supply chains and food security around the world.



<sup>1</sup> Green Stimulus Index An assessment of the orientation of COVID-19 stimulus in relation to climate change, biodiversity and other environmental impacts, VIVID Economics, April 2020. (<https://www.vivideconomics.com/wp-content/uploads/2020/04/2004249-Stimulus-Green-Index-summary-report.pdf>)

<sup>2</sup> The Guardian, <https://www.theguardian.com/commentisfree/2020/apr/20/climate-crisis-will-deepen-the-pandemic-a-green-stimulus-plan-can-tackle-both>. Accessed on April 21, 2020.

- Nor do all countries have 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.<sup>3 4 5</sup>
- Green fiscal policy can be an important element in a government's response to COVID-19 relief and sustainable recovery stimulus measures. Such approaches support countries in removing inefficiencies in expenditures such as environmentally harmful subsidies, to create fiscal space and reallocate scarce 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 will be needed to ensure that infrastructure is more resilient to environmental and climate change and sustainable at the landscape and ecosystem scale.

## UNEP's Response

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:

- 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, and priorities which drive countries towards achieving the 2030 Agenda, using **needs-based, integrated approaches across the entire infrastructure life cycle**, from strategic planning, to financing, delivery, operations, and decommissioning.

However, the current stock and use of the world's infrastructure is also associated with over 60% of global greenhouse gas emissions<sup>6</sup>. Investing in infrastructure that promotes economic stability and jobs in ways that are consistent with the Paris Agreement and the SDGs will reduce this figure and help avoid future interconnected crises.

- **UNEP will work 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.
- 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.
  - UNEP will work 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 that build resilience to climate and covid threats, and respond to the new reality of social distancing, creating spaces for livelihoods and wellbeing under high densities and peri-urban areas.
  - Working with the financial sector to develop norms and targets for investing in sustainable infrastructure and other economic recovery measures.** As 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.

<sup>3</sup> "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))

<sup>4</sup> Capital Flows Report: Sudden Stop in Emerging Markets, IIF, April 09, 2020. (<https://www.iif.com/Publications/ID/3841/Capital-Flows-Report-Sudden-Stop-in-Emerging-Markets>)

<sup>5</sup> April 2020 Global Debt Monitor: COVID-19 Lights a Fuse, IIF, April 07, 2020 (<https://www.iif.com/Publications/ID/3839/April-2020-Global-Debt-Monitor-COVID-19-Lights-a-Fuse>)

<sup>6</sup> The New Climate Economy. (2016). The sustainable infrastructure imperative. <https://newclimateeconomy.report/2016/>

- 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](#).
- d. **Supporting countries in reallocating scarce public finance resources and reforming fiscal policy to find additional revenues for resourcing necessary COVID-19 relief and recovery 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 socio-economic resilience.
- e. **Providing advice on green fiscal policy instruments like carbon taxation and fossil fuel subsidy reform that 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.<sup>7</sup> 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.
- f. **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.
- **UNEP will continue providing support to countries on green fiscal policy reform** through 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.<sup>8</sup>

## Way Forward

UNEP is committed to using its expertise and global platforms and networks to provide immediate support to countries in greening their fiscal stimulus and financing response packages to the COVID-19 crises; and will continuously evaluate opportunities with UN agencies, multilateral development banks and other partners to support countries towards greening the recovery and developing green and decent jobs as the situations evolves.

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<sup>7</sup> IMF Special Series on COVID 19 – Greening the recovery, April 2020. (<https://www.imf.org/~media/Files/Publications/covid19-special-notes/en-special-series-on-covid-19-greening-the-recovery.ashx?la=en>)

<sup>8</sup> <http://www.greenfiscalfiscalpolicy.org/>