CIF CLIMATE INVESTMENT FUNDS

EVALUATION & LEARNING INITIATIVE

# SEVEN WAYS CLIMATE FINANCE CAN SUPPORT COVID-19 RECOVERIES

*The purpose of this **learning brief** is to share seven lessons and insights on how climate-related investments can support countries' COVID-19 recovery efforts, drawing on recent evidence and experience in the Climate Investment Funds (CIF). The brief aims to inform climate finance and other development policymakers and practitioners by providing insights on how programs and investments can boost green economic recovery, strengthen policies and institutions, and support vulnerable populations and social inclusion.*

## CONTEXT

The COVID-19 pandemic and related economic crisis have drastically changed the context in which efforts to combat climate change are taking place. Climate and other development-related finance must adapt to stay relevant and effective in supporting the recovery efforts of countries within this context. This requires new ways of thinking and innovation in how investments are designed and implemented. Maximizing the economic, social, environmental, and institutional impacts of these investments is critical.

CIF's implementation experience over the past decade demonstrates that climate investments can contribute immensely to countries' COVID-19 recovery efforts by supporting governments and others to simultaneously advance socioeconomic development and climate goals. The extent to which future investments can optimize these contributions will not only help determine our collective ability to address climate change. It will also drive the ability to implement green COVID-19 recoveries that pave the way for a more sustainable and prosperous future for all. Key lessons across three main areas – boosting green economic recovery, strengthening policies and institutions, and supporting vulnerable populations and social inclusion – are summarized in Figure 1 and explained in greater detail below.

## BOOSTING GREEN ECONOMIC RECOVERY

CIF's experience and broader analyses show that climate-related investments can boost economic recovery by focusing on key sectors with strong economic multipliers and climate impacts.

**HOW CAN CLIMATE FINANCE SUPPORT COVID-19 RECOVERIES?**
October 2020

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### KEY LESSON #1:

***Investments in clean energy can create millions of jobs, while strengthening key sectors of the economy, to bolster COVID-19 recoveries.***

Economic modeling tools indicate that CIF's Clean Technology Fund (CTF) is estimated to be contributing to at least five million person-years of employment and over USD40 billion in additional economic value (beyond project financing), generating quality jobs and stimulating economic activity in ways that can assist with recoveries. These findings are consistent with the broader international literature showing significant job and economic value creation from investments in renewable energy.

Renewable energy investments can also increase energy security and strengthen local supply chains, as shown through CIF's experience in Morocco (see Box 1). Investments in distributed clean energy, such as rooftop solar, can support struggling micro-, small-, and medium-sized enterprises (MSMEs) by enhancing energy access and reliability. Climate finance investments in key renewable energy sectors have helped sustain sector growth during previous downturns, as with Mexico's wind energy sector after the 2008 financial crisis, and could play a similar role in the current context. Stimulating energy efficiency markets, as CIF helped do in Turkey, can also boost employment and productivity, while reducing costs for businesses and households negatively impacted by COVID-19.

### KEY LESSON #2:

***Climate resilience investments can stimulate economic activity and generate employment to support COVID-19-related recoveries, while preparing countries for future shocks.***

Investments in climate adaptation can deliver significant economic outcomes and reduce harm from climate change and extreme weather events. CIF's experiences in countries such as Zambia and Mozambique show that investments in climate-resilient infrastructure provide employment and market access opportunities for remote populations negatively impacted by COVID-19. Climate-smart agriculture investments, including those that engage the private sector, can also stimulate rural economies while supporting adversely affected smallholder farmers. As seen in Mozambique and Niger, this can result in increased productivity, greater food security, and enhanced resilience to future shocks.

### KEY LESSON #3:

***Investments in sustainable forestry can generate significant economic returns and employment for COVID-19-affected communities, alongside environmental and climate benefits.***

Unlocking natural capital investments can benefit people, economies, and ecosystems to help rural communities negatively impacted by COVID-19. However, there is a significant gap between the potential of sustainable forestry as a sector and its relatively small size in many places. Concessional finance and capacity-building activities can help mitigate risks to attract increased investment. As seen in CIF's experiences in Mexico and Laos, such efforts, along with others, can bolster the growth of small-, medium-, and large-scale sustainable forest enterprises. This positively impacts vulnerable forest-based households with income and livelihood options, while stimulating broader rural economies. Benefits include new jobs and financial gains for women, as seen in Mexico, where the numbers of female employees in select community forest enterprises more than tripled and annual profit-sharing returns for employees increased by over 50%.

Box 1

### BOLSTERING ENERGY SECURITY, JOBS, AND LOCAL DEVELOPMENT THROUGH RENEWABLE ENERGY IN MOROCCO

In Morocco, large-scale CTF support and additional investments from a range of partners helped the government to increase energy security and realize a strategy of industrial development centered on key renewable energy sectors. The result has been a cleaner energy supply and the ability to meet ambitious renewable energy targets; augmented energy security and independence; and increased local manufacturing and job creation.

For example, the Government of Morocco reduced its estimated annual USD7 billion purchase of imported fuel by roughly 50 percent between 2011 and 2017. Concentrated Solar Power (CSP) and wind energy projects helped develop local supply chains and capture value locally through civil engineering and manufacturing. Over 35 percent of materials for the first CSP projects and up to 75 percent of materials for recent wind projects have been sourced locally. These kinds of local outcomes on jobs, manufacturing, and reduced costs can be vital for COVID-19-related economic recoveries.

## STRENGTHENING POLICIES AND INSTITUTIONS

Governments across the globe are expanding their role in response to COVID-19. Pandemic recovery efforts present an unprecedented opportunity for stimulus investments to be accompanied by climate-friendly policy reforms and more effective government institutions. Stronger policies and institutions can greatly enhance the abilities of countries to accelerate green, resilient recoveries.

### KEY LESSON #4:

***Climate-friendly policy reforms can be advanced by coupling large-scale financial investments with technical assistance in the context of COVID-19 recovery lending.***

CIF's experience demonstrates that the provision of policy and regulatory support alongside large-scale investments can help create the necessary incentives and technical capacity to enable climate-related reforms. In Kazakhstan, for example, technical assistance led to an upgraded renewable energy law with a feed-in tariff mechanism. Combined with concessional finance to address market liquidity issues, these efforts helped to attract new investments of over USD1 billion. In Burkina Faso, FIP financing alongside governance support helped to drive the country's sustainable forestry policy agenda through the creation of a REDD+ strategy. A similar twinning of investment and policy support in relation to COVID-19 recovery lending can advance climate goals while enabling more sustainable, resilient recoveries.

A programmatic approach to investment planning can help deepen the linkages between policies and investments. In several CIF countries, strategies for enacting new policy and regulatory reforms were developed synergistically alongside a series of supportive investments. In the current context, climate-related investments can provide a demonstration effect to help prove the viability of new climate policies, enhancing buy-in for adoption during COVID-19 recoveries. As shown in CIF's experience in Mozambique, where investments in climate-resilient roads combined with technical assistance spurred new country-wide standards, or globally in sectors such as geothermal energy, these investments help to test, strengthen, and promote broader uptake of new policies and regulations. Similarly, given the large role of multilateral development banks (MDBs) in both climate and COVID-19 recovery financing, the provision of policy and regulatory support through MDBs in the context of green recovery lending can help promulgate broader climate-friendly policies and investments in client countries.

### KEY LESSON #5:

***Efforts to strenghten institutions can help governments and financial institutions to support effective COVID-19 recoveries, while mainstreaming climate action.***

Similar to climate change, the pandemic impacts all sectors, highlighting the need for well-coordinated, whole-of-government approaches. CIF's experiences in Zambia, Brazil, Morocco, and elsewhere suggest that strengthening ministries with the convening power to address multi-sectoral crises like climate change and the pandemic can help in orchestrating effective, integrated response strategies. Technical assistance and capacity building, which have helped country institutions accelerate progress on climate and development goals in key sectors while also adapting to new challenges, can similarly assist current recoveries. Strengthening the capacity of local governments at the provincial, district, and community levels can also help to strengthen front-line responses to climate and COVID-19-related challenges.

Channeling climate finance through national and local financial intermediaries, as in the case of Tajikistan and elsewhere, can boost COVID-19-affected small businesses and households through access to finance and reduced borrowing costs. It can also strengthen financial institutions, crowd in private sector investment, and broaden the scale and reach of climate-friendly investments and services. Concessional finance investments and technical assistance can especially help financial intermediaries to better understand new climate-related business opportunities, and to develop and pilot new products. Evidence-based learning within and among institutions and broader stakeholder networks provides important feedback loops that can further strengthen policies, institutions, and investments to support green recoveries.

## SUPPORTING VULNERABLE POPULATIONS AND SOCIAL INCLUSION

The COVID-19 pandemic and the climate crisis are exposing and deepening persistent inequalities. Without dedicated efforts, these twin crises will continue to have worsening impacts for the world's most vulnerable populations. CIF's experience shows that targeted green recovery investments can help by generating important social and economic benefits for disadvantaged groups.

### KEY LESSON #6:

***Climate-related investments can improve health, livelihoods, and other socioeconomic outcomes for vulnerable households and communities disproportionately impacted by COVID-19.***

Short-term livelihoods and cash transfer programs offer immediate relief and social protection for vulnerable communities. For example, Payments for Ecosystem Services (PES) have been shown to increase food security and other socioeconomic areas for at-risk populations in Burkina Faso and Mexico, in addition to improving forest conservation. Such PES schemes can deliver similar benefits to vulnerable groups during COVID-19 recoveries. Likewise, community-driven development models to enhance climate resilience among vulnerable populations, as implemented in Zambia, can also complement poverty alleviation and social protection programs to support COVID-19 recoveries.

Investments in low-carbon energy access have helped to improve health, education, and livelihood opportunities for underserved communities struggling in the COVID-19 context. This is seen in CIF investments in Nepal and Honduras, where

productive use of energy is supporting rural enterprises and enabling essential services in remote areas, including access to functioning healthcare facilities amid the pandemic. Clean energy investments, such as in renewable energy, sustainable transport, and clean cookstoves, can also decrease the susceptibility of poor households to COVID-19 and other respiratory illnesses by reducing exposure to outdoor and indoor air pollution.

Within the area of climate resilience, strengthened hydromet and climate services (HMCS) enhance disease surveillance, early warning systems, and socioeconomic decision-making through access to improved information and analysis. This can help to mitigate the impacts of COVID-19 and future pandemics among at-risk populations. Finally, natural capital investments can help to reduce the incidence and spread of zoonotic diseases such as COVID-19, along with other health and livelihood-related impacts for disadvantaged communities.

### KEY LESSON #7:

***Dedicated support to indigenous peoples, women, local stakeholders, and other vulnerable or marginalized groups can reduce adverse COVID-19 impacts, while fostering more equitable and inclusive green recoveries.***

Indigenous peoples and women are particularly vulnerable to climate change and COVID-19-related impacts. Targeted programs to support and empower these groups can provide emergency relief, while building greener, more inclusive recoveries. CIF's Dedicated Grant Mechanism (DGM) for Indigenous Peoples and Local Communities (IPLCs), an innovative USD80 million program designed by and for IPLCs, is a powerful example that is generating compelling outcomes related to inclusion, livelihoods, and forest preservation. Prioritizing gender equality in climate responses and including women's groups in the planning and implementation of investments can similarly enhance gender impact and produce broader development outcomes relevant to pandemic recoveries, as evidenced in CIF investments in Tajikistan.

Ensuring that local stakeholders engage with and benefit from climate-related recovery investments can help vulnerable local groups during the COVID-19 recovery period, while boosting longer-term climate and development goals. Inclusive engagement in investment planning is especially key for amplifying local benefits and creating support networks that can help sustain climate action in the face of COVID-19-induced disruptions. Leveraging civil society, youth, and other groups through capacity building and roles in project implementation, as shown in Cambodia and Mexico, can strengthen local responses to both the COVID-19 pandemic and the climate crisis. Going forward, policies and practices mandating greater attention to transformational change, development impacts, just transition, gender mainstreaming, and local stakeholders can support more equitable, sustainable COVID-19 recoveries.

Figure 1:
KEY LESSONS ON SUPPORTING GREEN RECOVERIES