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Thinking ahead: For a sustainable recovery from COVID-19

STÉPHANE HALLEGATTE (/TEAM/STEPHANE-HALLEGATTE) & STEPHEN HAMMER (/TEAM/STEPHEN-HAMMER) | MARCH 30, 2020

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Across the World Bank Group, efforts are underway to help governments respond to the crisis triggered by COVID-19. The priority today is to support overwhelmed health systems and the millions of workers and business owners who are being hit hard. Thinking ahead, however, the response also offers a significant opportunity to build a more resilient and sustainable future.

A First Phase: Lessons from the Front Lines of Disaster Response

The initial focus must be on the front lines: supporting doctors and nurses, as well as ensuring that homes and hospitals have power and water, waste is properly disposed, and food is available and affordable. Attention must also focus on the households hit by drastically reduced incomes, especially those with exposed occupations (e.g., tourism or restaurants) or unstable incomes (e.g., independent workers), as well as the poorest households with little savings.

Right now, the goal cannot be to stimulate demand and increase economic activity before the virus is under control. Instead, we need redistributive actions to smooth the shock.  (https://twitter.com/intent/tweet?text=Right+now%2C+the+goal+cannot+be+to+stimulate+demand+and+increase+ec+a-sustainable-recovery-from-covid-19/?cid=EXT_WBBlogTweetableShare_D_EXT&via=WBG_Climate)

To do so, governments can and do rely on existing social protection systems (<http://www.ugogentilini.net/wp-content/uploads/2020/03/global-review-of-social-protection-responses-to-COVID-19-2.pdf>). “Adaptive safety nets” that use existing social protection schemes and can quickly expand by increasing the number of beneficiaries and the sums transferred to them, are an efficient (<https://openknowledge.worldbank.org/handle/10986/25335>) way to help people after a major shock. This approach was effective in Fiji after Hurricane Winston (<http://documents.worldbank.org/curated/en/163081509454340771/Climate-vulnerability-assessment-making-Fiji-climate-resilient>) and in Kenya (<https://rsa.tandfonline.com/doi/full/10.1080/21665095.2019.1582347#.Xn6x1lhKhP>) and Ethiopia (<https://www.journals.uchicago.edu/doi/abs/10.1086/677753>) during droughts and can be applied now.

Many other *ad hoc* measures may also be required to maintain access to food, shelter, or other basic needs, ranging from delaying rent or mortgage payments to delivery of school lunches. To avoid widespread bankruptcies, it will also be critical to ensure liquidity for viable firms. Subsidized loans or public guarantees (<https://openknowledge.worldbank.org/handle/10986/31805>) are common instruments after natural disasters and can be mobilized.

The types of support will depend on country contexts and the development of their financial sectors and social protection systems. In many low- and middle-income countries support from multilateral development banks and the IMF will be critical.

In many low-income countries, it is urgent to finance a surge in health system capacity and social protection instruments. This offers a first opportunity to generate long-term benefits, beyond the current crisis: if sustainably designed, these improvements in health care and social protection can build resilience to future shocks, including natural disasters and the impacts of climate change.

A Second Phase: Helping Countries Recover Sustainably

As the immediate health crisis subsides, many households will have depleted savings or large debt and will need to save more and consume less. Similarly, firms and financial institutions will need to rebuild their balance sheet and be less able to invest. It is reasonable to expect aggregate demand to remain depressed for an extended period after the pandemic is over.

This will be the time for a stimulus aimed at achieving financial and economic recovery. Government actions will be critical to ensure a quick return to a healthy economic situation. Depending on the context, these may include tax cuts and reforms, cash transfers and subsidies, and higher spending in specific sectors or projects. While the approaches may spark intense debate, there is a strong case (<https://onlinelibrary.wiley.com/doi/full/10.1111/joes.12241>) for a large public spending component in a stimulus package (<https://www.aeaweb.org/articles?id=10.1257/mac.4.1.22>).


These actions will have long-lasting effects on the economic system. Even if investments have the same benefits over the short term, some options will do better at promoting long-term sustainable growth and poverty reduction. Thinking ahead, therefore, the urgent focus on short-term needs should not overlook opportunities to achieve other longer-term goals (and avoid making longer-term goals even more challenging).

Prime among these: the decarbonization of the world economy and the long-term benefits it brings (<https://openknowledge.worldbank.org/handle/10986/22787>). Our choices on stimulus packages will affect our ability to achieve this objective, creating risks but also opportunities.

For instance, the tax reform component of stimulus packages could create new tax rates for fuel, energy, or carbon, and different incentives to reduce carbon emissions. The recent drop in global oil prices offers an opportunity to revisit the subsidies currently in place in many countries and redirect these resources (<https://newclimateeconomy.report/2018/wp->

content/uploads/sites/6/2018/09/NCE_2018_FULL-REPORT.pdf) to more efficient ways to reduce poverty or boost growth, while advancing a transition away from fossil fuels.

A wide range of investments can boost shorter-term job creation and incomes and generate long-term sustainability and growth benefits. Examples include energy efficiency for existing buildings; production of renewable energy; preservation or restoration of natural areas that provide ecosystem services and resilience to floods, drought, and hurricanes; the remediation of polluted lands; investments in water treatment and sanitation; or sustainable transport infrastructure, ranging from bike lanes to metro systems.

Although the stimulus may be only needed months in the future, now is the time to identify the best possible stimulus package, developing “shovel-ready” projects and the policies that enable them.  (https://twitter.com/intent/tweet?text=Although+the+stimulus+may+be+only+needed+months+in+the+future%2C+no+ready%E2%80%9D+projects+and+the+policies+that+enable+them.&url=https://blog+a-sustainable-recovery-from-covid-19/?cid=EXT_WBBlogTweetableShare_D_EXT&via=WBG_Climate)

A Green Stimulus Framework

To respond to the crisis, we do not need to start from scratch: we can use projects already identified in countries’ national or sectoral masterplans, as well as climate change adaptation plans and the Nationally Determined Contributions (NDCs) of the Paris Agreement. Projects should then be assessed in terms of their potential to fit the needs of a stimulus, by considering various temporal and sectoral dimensions including:

- The benefits of short-term stimulus and job creation, including the number of jobs created and the fit with local skills, whether these projects require domestic or imported supplies, and the projects’ timeliness: how long will it take to create these jobs?
- Medium-term growth benefits, including the impact of maintenance costs, the number of permanent jobs created after construction ends, or the level of private investment mobilized.
- Long-term sustainability and contributions to decarbonization, including assessing the country’s current and future emission trajectory, protection of local ecosystems and biodiversity, and the impact on long-term growth potential (for instance, by improving the population’s education or health, or reducing local air pollution levels or flood damage vulnerabilities).

Many projects can score high on all three dimensions (<http://documents.worldbank.org/curated/en/141301468330955009/pdf/WPS5163.p>) Energy efficiency, nature conservation, clean energy options, and the sustainability of transport are clear win-win areas for stimulus investments (http://eprints.lse.ac.uk/24345/1/An_outline_of_the_case_for_a_green_stimulus.pdf). As an example, the Republic of Korea's 2008 stimulus package included big investments in these sectors, with a focus on river restoration, building energy efficiency, and green transport. The country was efficient in spending, with almost 20 percent of funds disbursed by the first half of 2009.

Restoring degraded forestlands and landscapes could create many jobs over the short term while also generating net benefits worth hundreds of billions of dollars (http://newclimateeconomy.report/2014/wp-content/uploads/sites/2/2014/08/NCE-Global-Report_web.pdf) from watershed protection, better crop yields, and forest products. In Ethiopia, for instance, the Humbo Assisted Natural Regeneration Project (<https://www.biocarbonfund.org/sites/biocft1t2/files/documents/Ethiopia-Humbo.pdf>) increased local incomes and helped restore 2,700 hectares of biodiverse native forest, boosting carbon sequestration benefits. More tree cover also reduced local drought vulnerability (<https://openknowledge.worldbank.org/handle/10986/23576>).

Another clear option to create many jobs and support economic recovery is to invest massively in retrofitting buildings (http://eprints.lse.ac.uk/24345/1/An_outline_of_the_case_for_a_green_stimulus.pdf) to make them more energy efficient, more comfortable and healthier, as well as better adapted to higher temperatures in the future.

In a stimulus package, public works programs (<http://documents.worldbank.org/curated/en/289871468339050938/pdf/Public-works-as-a-safety-net-design-evidence-and-implementation.pdf>) can help poor people manage the direct effect of the COVID-19 crisis on their livelihoods. These can be massive: there are 80 million participants in the Mahatma Gandhi National Rural Employment Guarantee in India and 10 million in the Program Nasional Pemberdayaan Mandiri in Indonesia. Many such programs focus on irrigation, afforestation, soil conservation, and watershed development; and if carefully selected, they can facilitate long-term economic transformation. In Ethiopia (<http://documents.worldbank.org/curated/en/289871468339050938/pdf/Public-works-as-a-safety-net-design-evidence-and-implementation.pdf>), the Productive Safety Net Program is helping increase resilience and adaptation by investing in the creation of community assets to reverse the severe degradation of watersheds and provide a more reliable water supply.

Ambitious infrastructure projects in energy, transport, water, or urban development are usually difficult to include in a stimulus because they take a long time to prepare. But the unique nature of this crisis may give time to build a green infrastructure pipeline for when the stimulus is needed. These could include a big expansion of electric vehicle charging infrastructure, bus and bike lanes, electricity transmission and distribution systems, water and sanitation service coverage, or making neighborhoods more livable and less energy intensive.

Long-Term Benefits

For those of us who focus on the threat that climate change presents to hard-won development gains around the world, this crisis has a sense of foreboding to it. But if we are strategic in how we design policy responses, we can achieve both short *and* long-term outcomes that benefit both national and global interests. Planning for that, however, must start immediately. If we get it right, the response to COVID-19 may not only minimize pain and suffering now, but can also build the foundation for a greener, safer, and more prosperous future. 🐦

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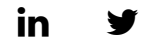
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Authors





(/team/stephane-hallegatte) (/team/stephane-hallegatte)
Stéphane Hallegatte (/team/stephane-hallegatte)

Lead Economist, World Bank

[MORE BLOGS BY STÉPHANE \(/TEAM/STEPHANE-HALLEGATTE\)](#)



(/team/stephen-hammer) (/team/stephen-hammer)
Stephen Hammer (/team/stephen-hammer)

Advisor, Global Partnerships and Strategy

[MORE BLOGS BY STEPHEN \(/TEAM/STEPHEN-HAMMER\)](#)

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