ISSUE PAPER

Green Growth and the Post-2015 Development Agenda

An Issue Paper for the United Nations High-Level Panel of Eminent Persons

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Introduction

The High-Level Panel of Eminent Persons on the Post-2015 Development Agenda has been asked to produce recommendations regarding “the vision and shape of a post-2015 development agenda that will help respond to the global challenges of the 21st century, building on the MDGs and with a view to ending poverty.” At the same time, the Panelhas been asked to advise the Secretary-General on “how the Sustainable Development Goals relate to the broader Post-2015 development agenda” in order to help “ensure these two agenda-setting processes are mutually reinforcing.”

Thus, the Panel has been explicitly tasked to provide guidance about how the poverty reduction agenda should be linked to one of the biggest global challenges of our time: environmental sustainability and resource security. This note is intended as a resource for that particular aspect of the Panel’s deliberations. It seeks briefly to:

- Explain the relationship between the sustainable development, green economy and green growth concepts;
- Summarize the state of knowledge regarding the feasibility and ultimate potential of green growth; and
- Recommend how the post-2015 international development cooperation agenda could be structured to maximize the contribution of green growth to sustainable development over the next two, crucial decades.

Sustainable Development, Green Economy and Green Growth

In framing sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs," the UN's 1987 Brundtland Report broadened the international development agenda. It widened the angle of the lens through which policymakers viewed the development challenge by placing emphasis on the social and environmental as well as economic dimensions of progress. It also increased the depth of field of that lens by stressing intergenerational responsibility, particularly in an environmental and natural resource context.

For the past twenty-five years, sustainable development and Agenda 21 have provided a helpful, encompassing normative framework --- a common general policy direction. However, the international community has struggled to operationalize the framework and, in particular, to find a practical formula for integrating its economic, social and particularly environmental dimensions. To be certain, great progress has been made on certain aspects of sustainable development. For example, the world has experienced a remarkable decline in absolute poverty, maternal mortality, ozone-depleting chlorofluorocarbons, etc. However, socioeconomic progress has been uneven within and among countries, and environmental degradation has worsened dramatically on the whole. These and other trends have helped to turn sustainable development into much more hotly contested political terrain with unresolved issues and tensions among the three pillars and their closest constituencies that neither Rio+10 nor Rio+20 resolved.

For all of their considerable merits, the Millennium Development Goals and Monterrey Consensus contributed only modestly to the combined operationalization of the three pillars given their primary focus on the economic pillar of sustainable development and extreme poverty in particular. But, as reflected in the High-Level Panel's terms of reference, the post-2015 development agenda must succeed as a bridging agenda if it is to be effective and politically relevant. At a time when rising incomes and populations are placing great stress on climate, water and food security, and rapid technological change, population aging and a worldwide financial crisis are placing great strain on social equity and cohesion, sustainability and social inclusion have become top political priorities for leaders of low-income, middle-income and developed countries alike. Indeed, two-thirds of the world's poor now reside in middle-income countries.

The green economy framework is a helpful attempt to bridge the economic and environmental pillars of sustainable development. It suggests what successful integration would look like in this respect by identifying the externalities of traditional resource-intensive or brown economic development that suppress improvements in living standards and illustrating where synergies often exist between sustainable resource and natural capital management, on the one hand, and increased employment and improved living standards, on the other. UNEP defines a green economy as one in which:

> growth in income and employment should be driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services. These investments need to be catalysed and supported by targeted public expenditure, policy reforms and regulation changes. The development path should maintain, enhance and, where necessary, rebuild natural capital as a critical economic asset and as a source of public benefits, especially for poor people whose livelihoods and security depend on nature.[1)]

In practice, the green economy framework has emphasized economic transformation, i.e., the transition to an economy that "results in improved human well-being and social equity while significantly reducing environmental risks and ecological scarcities" especially through the proper valuation and preservation of natural capital and strengthening of ecosystem services. This emphasis on economic transformation (relative to expansion) seems to have unintentionally and undeservedly reanimated old debates about whether advocates of stronger global environmental progress are giving short shrift to the need for faster global poverty reduction, and whether rapid development can be achieved without pursuing it in the way developed countries did ---by growing first and cleaning up later.

The green growth concept attempts to advance the sustainable development and green economy frameworks by confronting this latter question directly. It begins from the premise that few if any political leaders, least of all those of poor countries, will be prepared to sacrifice growth in employment and incomes in order to achieve environmental objectives. Thus, no amount of marginal compensatory reforms or bolted-on complementary policy measures is likely to resolve the 25-year-old operational tension between the economic and environmental pillars of sustainable development. Only a determined attempt to help developing countries determine for themselves whether their growth model can be reengineered to simultaneously produce strong economic and environmental performance is likely to resolve it.

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1) United Nations Environment Programme, *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication,* 2011, p. 16.

Accordingly, green growth is concerned first with integrating environmental security and resource efficiency considerations into the heart of a country's economic development planning and implementation, accepting a country's growth targets as a given rather than trying to adapt or subordinate them to a particular environmental agenda. A green growth approach rigorously analyzes all of the potential policy options that could yield significant co-benefits for growth and environmental protection and resource security within the economy or significant sectors thereof. It then works to strengthen and mobilize domestic and international enabling environments (policies, institutional capacity, incentives, stakeholder engagement, expertise, etc.) behind the challenge of maximizing the number and size of win-win options available to the country by minimizing their incremental costs.

Green growth is thus a practical attempt through economic policy to operationalize the normative frameworks represented by the sustainable development and green economy concepts. It seeks to fuse sustainable development's economic and environmental pillars into a single intellectual and policy planning process, thereby recasting the very essence of the development model so that it is capable of producing strong and sustainable growth simultaneously.

Green growth is not intended to be a holistic substitute for sustainable development's three interlocking pillars. Rather, it is a roadmap for realizing the integration of two of them by changing the very nature of the one that lies at the foundation of poverty reduction: economic growth. It is focused sharply on the question of how to strengthen the rate and resilience of economic growth while also transitioning to a green economy. It promotes economic transformation as a byproduct of economic expansion, rather than the other way around.

An analogous practical effort is required to fuse the economic and social pillars of sustainable development --- to drive social inclusion policy options and initiatives into the heart of economic development planning and implementation. While this matter is beyond the scope of this paper, it is equally important and crucially linked to the success of green growth strategies, which can produce either positive or negative direct and indirect effects on social inclusion. There is nothing inherently inclusive or marginalizing about green growth as a concept. It all depends upon the composition of the strategy and the direct and indirect measures available to address those distributional effects. Some of these can be built into a country's green growth strategy, but others will inevitably need to be part of a larger strategy to ensure the broadest possible distribution of the benefits of economic growth within a society, however that growth is derived.

The Feasibility and Ultimate Potential of Green Growth

There is a large and growing economic literature on the feasibility and potential of green growth. The World Bank, UNEP and OECD each released landmark reports on this topic during the past two years. And they, the African Development Bank and several other United Nations institutions collaborated on "A Toolkit of Policy Options to Support Inclusive Green Growth" for the G20 last year.

At the same time, a growing number of developing countries are conducting selfinitiated experiments in green growth of various kinds. These include Ethiopia, which is pursuing a Climate Resilient Green Economy strategy as part of its aptly named Growth and Transformation Plan, as well as countries as diverse as Cambodia, Brazil, China, Indonesia, Peru, Rwanda, Mexico and Vietnam. Indeed, the UNFCCC Durban Platform for Enhanced Action, in which developing countries have agreed to join developed countries in making climate change commitments as part of an international arrangement with legal force by 2020, all but ensures that the number countries seeking to engineer a new development model for themselves will increase considerably over the next several years, as few if any leaders of developing countries will be prepared to sacrifice the pace of their growth in the process of shaping and delivering the commitments they register on the platform.

Thus, there is broad agreement among international economic and environmental institutions that green growth is feasible and desirable under the right circumstances, and an economically and geographically diverse group of developing countries is beginning to amass an initial body of experience and evidence in this regard.

Assessing the state of knowledge and experience, the World Bank[2)] concluded last year that "greening growth is necessary, efficient and affordable." It found that "many green growth policies pay for themselves directly, and the others make economic sense once externalities are priced and ecosystem services are valued." It estimated that "more than half the measures needed to decarbonize the energy systems of developing countries would eventually pay for themselves." And because the current pace of environmental degradation is costly – an estimated 8% of GDP

2) World Bank, *Inclusive Green Growth: The Pathway to Sustainable Development,* 2012.

across a sample of countries representing 40% of the developing world's population, it concluded that the "benefits [of green growth] may well outweigh the costs (implying a net negative economic cost)" and that "greening growth is constrained by social and political inertia and by a lack of financing instruments---not affordability, as is commonly believed."

UNEP took a sectoral approach in its report,[3] analyzing the principal challenges and opportunities for bringing more sustainable and equitable management in ten key economic sectors. Based on an extensive set of developing country case studies and illustrations, it framed investment opportunities and policy reforms that could improve environmental sustainability and resource security in each sector. And it applied a macroeconomic model to understand the effect of these investments and reforms on economic performance more broadly, concluding that "over time investing in a green economy enhances long-term economic performance . . . while enhancing stocks of renewable resources, reducing environmental risks, and rebuilding capacity to generate future prosperity."

The OECD's Towards Green Growth report[4] framed the key elements of a green growth economic policy strategy, drawing from two broad sets of policies. The first set "includes framework conditions that mutually reinforce economic growth and the conservation of natural capital. Included in this are core fiscal and regulatory settings, such as tax and competition policy, which, if well designed and executed, maximize the efficient allocation of resources. This is the familiar agenda of economic policy with the added realization that it can be as good for the environment as for the economy." The second set "encompasses policies targeted at incentivizing efficient use of natural resources and making pollution more expensive. They include a mix of price-based and other policy instruments. They also aim to minimize the distributional consequences of change for the least advantaged groups of society and manage any negative economic impacts on firms while retaining incentives for improved economic performance."

For its part, the Global Green Growth Institute, which recently joined the family of intergovernmental institutions, provides advanced analytical and long-term capacity building assistance to countries whose governments have decided for their own reasons to try to integrate environmental and resource security considerations into the heart of their economic development strategies. It also plans to provide investment and technology planning assistance in an effort to help those governments unlock the public and private flows of finance and know-how necessary

3) United Nations Environment Programme, op. cit.

4) Organization for Economic Cooperation and Development, *Towards Green Growth,* 2011.

to minimize the incremental costs of their strategies and thereby maximize the win-win, poverty-reduction-with-greaterresource-and environmental-security (i.e., green economy) payoff.

The Institute does not have a prescribed formula for green growth that it recommends to partner countries. Rather, it takes their development strategies as the starting point and works with their governments to identify and capitalize on policy options they determine are most appropriate to their national (or provincial or municipal) circumstances. And, as a research institute, GGGI works with these emerging and developing countries to accumulate a body of evidence from their experiences as well as facilitate policy dialogue among them in order to advance the theory and practice of green growth and interpret its broader implications for the pursuit of development in the 21st century.

The expanding demand from developing countries for the Institute's services and those of other providers of "low-carbon development" assistance suggests that there is considerable optimism on the ground about green growth's potential, even if there remains a degree of skepticism, controversy and even confusion about the green economy and green growth concepts in diplomatic circles. In fact, the ultimate potential of green growth is to reverse the top-down dynamic of sustainable development over the past generation in which international norms and policy frameworks have sought to influence national and subnational policymaking. There is no proven, existing green growth model that can be taken off the shelf from a developed economy or international organization and applied to a developing economy. Rather, several emerging and developing countries are in the process of innovating it for themselves, and the international community and not least its post-2015 development agenda will have a great deal to learn from the outcome of their pioneering efforts.

Indeed, there is a distinct possibility that, if enough of these vanguard, Southern-led efforts are successful in simultaneously producing stronger economic and environmental performance, in part because their policy improvements are shown to have stimulated markedly higher flows of domestic and inward investment (and disbursement of official climate-change financing), then other developing countries will take notice and seek to apply this experience to their own circumstances in their own way.

The economic and environmental pillars of sustainable development will be bridged only when developing countries become convinced that their integration will produce net poverty reduction benefits. And they are more likely to be convinced of this by the tangible track record of their peers in this regard than by comparatively abstract multilateral accords and frameworks.

Thus, the ultimate potential of the practical, bottom-up, growth-as-the-starting-point approach of green growth is that it could help generate this kind of track record through Southern leadership. In so doing, it could turn the prevailing top-down, polarized North-South politics of sustainable development on its head by creating a South-South dynamic that innovates a new development model capable of integrating the economic and environmental pillars in a way that is demonstrably beneficial and thereby politically acceptable to developing countries. For this reason, creating new and more effective ways of supporting developing countries that undertake green growth deserves to be one of the top strategic priorities of the post-2015 development cooperation agenda.

The Post-2015 Development Cooperation Agenda and Green Growth

In recent years, international environmental and economic governance in general and the UN climate change negotiations and Millennium Development Goals in particular have focused on building top-down political architecture, i.e., international goals and national commitments. These remain vitally important undertakings. However, an equally vital priority going forward must be to construct a complementary economic architecture --- a bottom-up set of results-oriented mechanisms and institutions that create the underlying market infrastructure and incentives which can drive faster progress toward green growth and a green economy by removing some of the risks, uncertainties and market imperfections that impede the engagement of additional public and private resources into the drive for resource-efficiency gains.

Resource efficiency and security directly contribute to economic growth and resilience, so such a public-private enabling agenda for green growth has an inherent poverty reduction rationale. Of course, it has a compelling environmental rationale as well, but this is a co-benefit rather than the main, let alone unique, justification.

There could also be important political co-benefits. By demonstrating in specific countries that the United Nations' objective of "a green economy in the context of sustainable development" is possible, such an action-oriented agenda might improve the chemistry of international environmental negotiations in general and the prospects for a successful post-Kyoto UNFCCC framework in particular.

And by improving the capacity of developing countries to implement whatever new MDGs and SDGs are created and new climate, biodiversity, fisheries, water and other treaties are concluded, it might help to enhance the credibility of international goals and norms more generally, which has eroded in recent years as many goals and principles have gone unfulfilled.

Humanity simply does not have the luxury of time to innovate a greener growth model. Investments in power, industrial and construction systems over the next ten years will lock in environmental consequences for the next forty. If only because of the limitations of their resources relative to the scale of the economic transformation required and the period over which scientists advise this transformation must be achieved, governments must recognize the necessity of working with the private sector and other stakeholders to build this bottom-up, enabling economic architecture as an integral part of the post-2015 development agenda. They should view it as a natural complement to the traditional focus of international cooperation on top-down legal frameworks and institutions. However, this will require them to treat non-state actors, which often possess resources and expertise far beyond those of governments, as genuine partners rather than mere stakeholders to be consulted in conference side events.

In sum, the post-2015 development agenda must have a new geometry; it must activate the genuine partnership envisioned by the 2002 Monterrey Consensus if it is to succeed in building effectively on the MDGs and UN climate, biodiversity and other environmental negotiations. As the Friends of Rio+20[5)] have argued, this is a necessary condition for an acceleration of action. Progress needs to be pursued in whatever geographical (global, regional, national, provincial, municipal), stakeholder (government, corporate, academic, civil society) and sectoral dimensions are likely to yield the most significant results for sustainable development. The post-2015 development agenda must be conceived from the very start as an exercise in multidimensional and not just multilateral cooperation.

Following are the principal policy levers or pathways of action that should be prioritized for this kind of results-oriented, combined public-private effort. They can be divided into two sets, the first sectoral and the second enabling or cross-cutting. International cooperation is embryonic in both of these areas. Yet there is major potential in each for the construction of cooperative institutions, arrangements or initiatives that would significantly accelerate and scale changes in economic behavior. The problem is that few, if any, such exercises in collective action are likely to materialize soon without a push by the leaders of key governments, because few, if any, are likely

5) *A Message from the Friends of Rio+20,* World Economic Forum, 2012, http://www3.weforum.org/docs/WEF_FriendsRio20_Message_2012.pdf

to be prioritized and collectively engaged by the competent cross-portfolio teams of ministries and international organizations absent clear direction from above. That is where the post-2015 development agenda initiative of the United Nations, which will ultimately be endorsed and owned by leaders, could make an important difference.

Sectoral

- **Energy**

  The Secretary-General's Sustainable Energy for All initiative provides a good framework in this respect. But the key will be organizing processes and mobilizing resources largely outside the UN that can translate the new goals into affordable options to improve the mix of and access to energy in specific countries, provinces and municipalities. Expanded efficiency standards, better financing models, changes in trade and subsidy practices are some of the ways that international cooperation of the multidimensional variety described above could help.

- **Water**

  Water is more a local than global issue, but local and regional coalitions for progress would nevertheless benefit from more and better international technical assistance, capacity building, technology development and diffusion, and public-private infrastructure financial engineering.

- **Agriculture and Forestry**

  There is great scope for improving the productivity and reducing the ecological impact of agriculture through more efficient land use practices. However, here again technical and capacity building and infrastructure financing challenges are paramount and require an expanded, multi-sectoral international response.

- **Oceans**

  Fisheries depletion is a widespread acute challenge for both economic development and the environment. Enhanced political, technological and financial support for the establishment and enforcement of regional marine protected areas and sustainable fisheries management practices deserve to be a high priority for the development agenda in the coming decades.

- **Urban Infrastructure**

  The rapid pace of urbanization in developing countries continues unabated. Choices made with respect to transport, construction, power and water systems in the next ten to fifteen years will have a particularly large impact on countries' (and the international community's) sustainable development track record for the next forty. Better policy support and public-private investment models could make a decisive difference.

Enabling

• Policy support

History demonstrates that sustained economic development is heavily reliant upon sound and predictable policy and institutions. It follows that the transition to green growth must begin with the development and institutionalization of well-considered national and subnational strategies. The post-2015 development agenda could make an important contribution to green growth by instrumentalizing a politi cal commitment to support any developing country government that wished to develop a rigorous green growth economic development strategy with the resources necessary to obtain technical assistance and capacity building for that purpose. Such an initiative would be pushing on an open door. A considerable supply and demand for such assistance has emerged in the past few years such that several official and nongovernmental providers of green growth planning assistance have begun to self-organize in a network facilitated by the World Bank. In parallel, the number of countries seeking such assistance is growing rapidly. Thus, a coordinated donor initiative in this area could have a substantial and immediate impact.

• Finance

The key to mobilizing sufficient finance for developing countries that decide to invest in more resource-efficient infrastructure, industry and agriculture is to structure official development assistance more efficiently so that it induces much larger amounts of domestic and foreign private finance. Unlike most basic health and education development projects, most power, water, transport and housing systems and industrial projects are literally investments in the sense that they generate streams of revenue that can be discounted and financed under the right investment conditions. Although the extent to which the new UN Green Climate Fund will be structured in a manner that will enable it to be an effective vehicle for this purpose is not yet clear, this need not delay progress. The High-level Panel could advance this process by calling:

a) for the establishment of four quick-start sectoral public-private financing initiatives in the areas of sustainable energy, water, transport and land use, building upon the REDD Plus commitment made in 2010 and the analogous Energy Plus initiative under development by the governments of Norway and other countries; and

b) on multilateral and bilateral development finance institutions to support this strategy by making much better use of their balance sheets through expanded use of risk mitigation products and services as part of a larger strategic shift from their historic emphasis on direct lending to a new emphasis particularly in middle income countries on de-risking wholesale private flows for sustainable infrastructure and industry through risk mitigation and investment climate capacity building.

Investor surveys have shown that appetite exists within the private investor community for substantially increased investment in green and other infrastructure in developing countries, but a more direct and immediate effort is needed to address uncertainties related to risks and returns if such investment is to expand quickly and at scale. A smarter deployment of limited public funds to help mitigate key risks in the investment value chain is critical. And in this regard, the role of development finance institutions both traditional and new (e.g., BRICS Development Bank and UN Green Climate Fund) will be crucial.

- **Technology**

Another area in which the post-2015 development cooperation agenda could strengthen the link between poverty reduction and resource efficiency would be the development and diffusion of appropriate technologies, specifically by:

- Catalyzing capacity building to develop innovation ecosystems in least developed countries;
- Significantly scaling up investment via competitive grants to fund R&D in least developed countries, which would build networks and capacity while yielding innovation results;
- Investing in networks of business incubators to spur entrepreneurship and link innovation to market demand and financing opportunities;
- Dedicating funds to de-risk entrepreneurial investments and stimulate the sharing of intellectual property.[6)]

- **Incentives and Information**

One of the most important enabling conditions for green growth is the reduction of perverse incentives, such as fossil fuel subsidies, and internalization of relevant information for investors and consumers. Examples of the latter include integrated corporate reporting that takes fuller account in mainstream corporate reports of the potential impact of carbon-related risks and opportunities on shareholder value[7)] as well as life-cycle accounting of costs in resource-intensive consumer and industrial purchases.

6) *See Green Growth Innovation: New Pathways for International Cooperation,* Nathan Hultman, Katherine Sierra, Jason Eis and Alison Shapiro, The Brookings Institution and Global Green Growth Institute, 2012.

7) See for example the Carbon Disclosure Standards Board (www.cdsb.net) and International Integrated Reporting Committee (www.theiirc.org) initiatives.

Conclusion

The post-2015 development agenda must follow through on the unfinished business of the MDGs and particularly the eradication of extreme poverty. However, as the Panel's terms of reference indicate, it must not stop there. Most people living on less than two dollars a day are now to be found in middle-income countries, where rapid urbanization and industrialization have aggravated social marginalization and environmental externalities that are storing up trouble for all three pillars of sustainable development. In particular, environmental degradation and natural capital depletion are creating substantial risks for not only the planet but also economic growth and political conflict, which history teaches is the biggest impediment to human development of all.

Green growth is not a panacea; it is often not cost-free; but it also need not be costly, particularly if the post-2015 development agenda places a priority on creating the right enabling environment to support the countries that decide to pursue it.

This paper has argued that green growth represents the international community's best hope for arresting the alarming rate of environmental degradation and resource depletion as well as the 25-year political stalemate over the integration of the sustainable development framework's economic and environmental pillars for the reason that it seeks to transform the very nature of the prevailing economic growth model rather than compensate for it. It is a bottom-up, action-oriented, economic policy agenda led for all practical purposes by developing and emerging economies, rather than a top-down, norm-driven, environmental policy agenda led for all practical purposes by international public and civil society institutions. As such, it has the potential to transform both the economics and politics of sustainable development over the next ten to fifteen years.

The international community of today and particularly tomorrow have a huge stake in the success of efforts by a growing number of developing countries to green their core economic development strategies and in effect leapfrog the brown model of industrialization and economic development pioneered in an earlier era by today's advanced economies. This grand endeavor, as well as the related effort to define and attain a set of Sustainable Development Goals, is no mere tangential matter for the post-2015 development agenda. It is a strategic imperative that merits a place at the heart of the Panel's deliberations.

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