

Escaping the poverty trap

Fiscal policy reforms may be required to unlock the potential of public and private finance for green growth and climate resilience

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Lifting the world's 1.2 billion poorest to a life of dignity is an ambition, a challenge and an established target for the global development community. Achieving it will require financing, innovation, technology and capacity building, along with effective governance and mutually beneficial partnerships.

But generating sustainable growth and prosperity can only be achieved within the safe operating systems of a resource-constrained planet.

The share of the poorest 40 per cent of the population in global wealth is marginal: less than five per cent of gross domestic product (GDP). It is reduced further by the impacts of climate change and the erosion of natural capital. It is this segment of humanity that relies on nature as a safety net, for nature is the wealth of the poor. Recognizing the value of natural

resources demands rethinking the traditional links between resource use and economic prosperity. And while visions, methodologies and tools may vary, an appreciation of the value of natural capital is at the heart of efficient development planning.

By 2050, humanity could devour an estimated 140 billion tonnes of minerals, ores, fossil fuels and biomass per year – three times its current appetite – unless economic growth is 'decoupled' from natural resource consumption.

At the same time, the effects of climate change are already occurring on all continents, and the world remains ill prepared to face these impacts, according to the latest report produced by the Intergovernmental Panel on Climate Change. Should the global community not embark on wide-ranging actions to narrow the greenhouse gas emissions gap by 2020, the chance of remaining on a least-cost path to keeping

the global temperature rise below 2°C this century might swiftly diminish.

To address such challenges, economic and financial strategies need to be shifted towards investment paradigms that simultaneously provide sustainable pathways to economic development, conserve natural resources, create jobs and achieve prosperity for wide sections of society.

Allocating just two per cent of global GDP for greening economic sectors will produce a higher global GDP within 10 years, compared with a business-as-usual scenario, studies show. Building the momentum of the global transition towards a green economy requires

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substantial redirection of investment to increase the current level of public and private sector flows to key priority areas. The bulk of this will need to be mobilised through financial markets.

While much of the world's private capital is locked up in carbon-intensive investment throughout the developed world, developing country investment in a low-carbon future is on the rise. Clean energy investments reached \$244 billion in 2012, while outlays in developing countries reached \$112 billion, according to estimates by the Renewable Energy Policy Network for the 21st Century.

But such progress remains inadequate. Progress in green investment continues to be outpaced by investment in fossil fuel-intensive, inefficient infrastructure. As a result, greenhouse gas levels continue to rise.

The World Economic Forum estimates that an annual investment in infrastructure of approximately \$6 trillion is needed over

the next 16 years to deliver a low-carbon economy. Of this, nearly \$1 trillion is over and above the business-as-usual trajectory.

Fiscal policies are particularly important in a low-carbon, green-economy transition. Governments have a variety of fiscal instruments at their disposal that should be used to facilitate the transition, from taxing fossil fuel use or emissions and reforming energy subsidies that promote wasteful and environmentally harmful economic activity, to supporting clean technology and sustainable production with the help of fiscal incentives.

Source of new revenue

Constructive fiscal measures can reflect environmental externalities through full-cost pricing of energy and transportation services. They can also provide a significant source of new revenue. In the United States it is estimated that a levy of \$25 per ton of carbon dioxide could bring in about one per cent of the country's GDP, or more than \$1 trillion over a decade.

Confronted by a fiscally constrained world, fiscal policy reforms might appear to be a daunting challenge to a green economy transition. Yet external crises – be they fiscal, economic or environmental – can be a catalyst for policy reform.

Energy subsidies account for a significant portion of GDP annually. Petroleum subsidies alone amounted to \$200 billion in 2011. Removing

\$500 billion of fossil fuel subsidies could boost the global economy by around 0.3 per cent and reduce global greenhouse gas emissions by six per cent by 2050.

Of the \$409 billion spent on subsidies on fossil fuel consumption in 2010, only eight per cent reached the poorest income quintile. Energy subsidies appear to perform poorly as a means of supporting the incomes of poor social groups.

Globally, the energy sector accounts for around two thirds of total greenhouse gas emissions. Estimates for global energy-related carbon dioxide emissions reveal a 1.4 per cent increase in 2012, according to the International Energy Agency (IEA). Unless the world finds ways to double the rate of energy efficiency, energy-related carbon dioxide emissions are expected to rise by 20 per cent by 2035.

The newly launched report, *Global Trends in Renewable Energy Investment 2014*,

Solar panels at a water pump station near Douz in southern Tunisia: clean energy investments in developing countries reached \$112 billion in 2012



WOLFGANG WINTER/ALAMY

reveals that total investment in renewables – excluding large hydroelectric projects – fell for the second year running in 2013, reaching \$214 billion worldwide – 14 per cent lower than in 2012 and 23 per cent below the 2011 record.

Falling prices for solar panels

Yet the drop in investment had some silver linings. Sharply falling prices for solar panels and wind turbines meant renewable energy in 2013 accounted for more than 43 per cent of the newly installed power capacity globally. In an increasing number of locations, these technologies are now being installed

on an unsubsidised basis even without environmental externalities priced in.

Annual emissions of greenhouse gases would have been 1.2 gigatonnes higher if the same power had been generated by the non-renewable technology options that today still dominate the energy mix – further widening the gap between where emissions are heading and where they need to be in 2020, if the world is to have a realistic prospect of staying under a 2°C temperature rise.

The IEA predicts that an unprecedented long-term shift in investment from fossil fuels towards a cleaner energy portfolio is needed over the next few decades to avoid

dangerous climate change. This is only achievable by re-evaluating investment priorities, shifting incentives, building capacity and improving governance.

There are choices to be made to enhance preparedness and adapt to the challenges ahead. And as governments get ready to convene in Nairobi for the first-ever United Nations Environment Assembly – the most influential environmental forum feeding directly into the General Assembly – it is imperative that we seize the moment to promote robust policy action for greener and more equitable living. The choice is ours, and so is the historic responsibility. ■

