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World Bank's "Inclusive Green Growth" (IGG) Report – A Brief Assessment

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Context: Many governments and much of civil society are critical of the concepts of "green growth" and "green economy." Many believe that:

1) *these paths will not lead to the desired goal of "sustainable development" unless there is priority placed on poverty reduction, equality and human rights. The World Bank report could have refuted this argument. But, although its "analytical framework" has three pillars of IGG (economic, social and environmental sustainability), the report gives little attention to the "inclusive" and "social" dimensions of IGG with the exception of a chapter on jobs that promotes labor flexibility (fewer labor rights) and training to remedy shortages in critical skills. As a result, the Bank gives more ammunition to critics of these concepts. The Bank does not question the links between growth, poverty reduction, and inequality. It claims that, in most cases, these goals are complementary – that economic and social goals are mutually reinforcing – as a justification for superficial treatment of them. According to the IGG concept, there is a "virtuous cycle" wherein growth drives poverty reduction and improved social outcomes which are in turn good for growth.*
2) *Property rights (privatizing nature), utilization of market mechanisms to govern asset markets (e.g., water), and placing prices/values on ecosystems and ecosystem services can create a "slippery slope" toward enhanced resource exploitation and violation of human rights. However, the report does not address the risks of these approaches.*
3) *Infrastructure is not a "magic bullet" or the "heart of green growth" (as asserted on p. 134). Indeed, the report avoids the issue of conflicts between local communities and investors, which plagues development efforts worldwide. It fails to identify the preconditions for infrastructure to contribute to sustainable development, including the scale and type of infrastructure, cost recovery schemes, risk sharing between public and private sector, and the need for "free prior and informed consent" (FPIC) from affected communities. The report suggests focusing on urbanization, particularly transportation; urban redevelopment; integrating land policy with urban mobility and transportation; and integrating urban planning with natural risk management. Equity is a leit motif in the discussion of "energy for all."*
4) *Trade and investment rules could diminish any gains from "green growth" and "green economy" approaches by strengthening investor rights at the expense of human and earth rights. rade and investment agreements can "tie the hands" of governments by paralyzing their capacity to implement environmental and social regulations or green technological approaches. They can also provide a "smoke screen" for green protectionism. The report largely side-steps these issues.*

Rather than seriously addressing these four concerns, the report devotes itself to the forceful repudiation of the "myth" that green development paths will diminish the potential for growth. Chapter 5, which focuses on natural capital, suggests that improved management can transcend the ultimate management problem: finite planetary limits.

Despite these fundamental criticisms of the volume, it offers some convincing and well-reasoned perspectives on some of the changes required to protect the planet from the ravages of carbon-intensive growth.

Key Points

- The World Bank's "Inclusive Green Growth" (IGG) Report reinforces the message – expressed in the UNEP and OECD reports respectively – that greening the economy does not have to affect growth rates and that continued greener growth is both possible and affordable. Growth remains the primary goal of all economic activity, especially for developing countries, and is irreplaceable as strategy to reduce poverty -> Mantra: making growth greener and more inclusive without slowing it...
- The report is directed toward policy-makers in both developed and developing countries alike, but primarily addresses decision-makers in developing countries in arguing that the Environmental Kuznet Curve justification ("grow first, clean up later") does not hold. While it argues that growth can be greened now without sacrificing economic strength, it also acknowledges that investors must address the fact that some green investment (e.g., infrastructure) requires large up-front investments, but only see returns in the longer-term. The report clarifies that [g]reen growth strategies are growth strategies with the additional goal of fostering a better environment." Thus they have to include what, according to the World Bank, are "good growth policies": undistorted labor markets (including with lots of labor market mobility and flexibility), liquid financial systems (with a high level of financial sector development that has plenty of equity funds, venture capitalists, development government and corporate bond markets and risk guarantee instruments) and a good business environment (categorized by the World Bank's "Better business" classifications, which focuses on domestic trade and investment liberalization).
- In Chapter 6, the report posits "infrastructure as the heart of green growth." It warns policy-makers that they will suffer from "regret" if they let uncertainty stand in the way of making investments. Uncertainty exists with regard to future climatic conditions, how technologies will evolve, and policies and prices for energy, oil and carbon. (p. 135)

Normative Questions

- While the IGG report acknowledges that high-income countries account for 75% of global consumption and a disproportionate share of environmental degradation, it glosses over the question of the responsibility for these addressing these phenomena. (p. 25)
- The report does address some of the criticism of growth, but stipulates that this is primarily a debate for high income countries with annual average incomes over$36,000.00 per year – not

the 1 billion people who will still live on $1.25 per day (absolute poverty indicator) by 2015.

- Following its argumentation in the *World Development Report 2012 on Gender and Development* on why countries should promote gender equality (with the gendered care economy as an externality likewise not considered in prevailing economic theories), the Bank's IGG argues that NOT considering environmental externalities is "bad economics, and bad for growth."
- Thus, the report is almost devoid of any normative/value setting, does not reflect on or recognize a human rights or "Earth rights" framework – or the importance of gender equality for sustainable development – and instead makes an economic argument for greening economic activities. There are "orphan" passages, such as: a) "What about Welfare?" that considers income distribution and employment effects of green growth policies and compensatory policies for vulnerable position of groups, especially women, where appropriate (p. 39) and b) "How the mining sector is investing in communities" (p. 126) that only imply a role for rights-based development.

Market Dogma and Beyond

- The report acknowledges – maybe more as in previous WB publications on sustainable development – the existence of severe market failures. (See box 2.1, p. 46.) Its main argument is that economic development efforts that do not integrate ecological externalities are *inefficient*. Thus, our unsustainable patterns of growth and consumption are unsustainable mainly because of "inefficient production and consumption and poor management of natural resources", which wastes previous resources, not because collectively we are producing and consuming too much.
- Economic incentives (= getting the prices right) as well as appropriate government regulations and incentives (including transparency and access to information on environmental impacts as well as industrial policies, but used with caution) are according to the report needed to influence the behavior of firms in order to "unleash the power of the private sector". The role of the private sector is seen mostly positive in providing solutions to green growth through their capacity to innovate and adjust production processes. Where government regulation is proposed, it is seen rather in form of "nudges" or incentives, not necessarily in terms of mandatory, enforceable mandates with severe sanctions for non-compliance (or at least not addressed in the report). The report does not sufficiently differentiate between the contributions – both positive and negative – that different private sector actors can play for a greener economy. It is disingenuous to lump small and medium-sized enterprises in developing countries into one category (in terms of political influence, business strategy and ability and willingness to adjust) with multinational corporations.
- Some of the incentives or "nudges" (see above) can be meaningful, as when the default option in electricity purchase contracts favor renewable energy; (Box 2.5, p. 55; or feed-in tariff passages on p. 79 and 83) or when certain policies (automobile fuel economy) are imposed. Ignoring the post-Cold War taboo against using the phrase "industrial policy," an entire chapter is devoted to "green innovation and industrial policies" which can address "scale and coordination failures" (p. 65 ff). The report grudgingly acknowledges the role of rules and regulations

(e.g., the pulp and paper industry example on p. 60), although it emphasizes their costly nature (e.g., emission measurement and reporting systems). (p. 58)

- In the chapter on "An Analytical Framework for Inclusive Green Growth," there is recognition that modern growth theory completely misses the fact that "economic production depends directly on the stock of natural resources and the quality of the environment…" (p. 34) However, in light of this oversight and the failures of the market system to secure sustainability and a decent life for all – the report does not conclude that a fundamental reform of the global economy and financial system is necessary or even desirable. Instead, the failures of the current market system stem not from the "fallacy" of the market, but from the fact that it is incomplete. Although the report acknowledges a few cases in which market failures cannot be fixed (e.g., emission intensity standards, p. 60), the overall message is to "fix" market failures by making markets "complete", namely by integrating "natural capital" on a par with "human capital" and "physical capital" into the market economy system.

Measures of Growth

- Contrary to other World Bank reports, the IGG acknowledges that GDP is a poor accounting measure of a country's assets and wealth and not useful as an indicator for sustainable growth. It thus encourages more focus on "green accounting" – the World Bank is supposedly working on a new wealth measurement – that includes a country's stock of natural asset in addition to the physical and human assets (which the GDP measures in form of products and services). (See Box 2.4, "What is `green accounting'?", p. 53) In such accounting, for example, many countries, such as China, would have a significantly lower GDP growth rate as a result of reflecting the environmental depletion and degradation of economic growth activities.

The Commons

- The report "recycles" previous arguments, including in the *UNEP Green Growth Report* and elsewhere, that the inefficiency in dealing with "natural capital" comes from the fact that the commons are governed by "open access regimes" (citing the example of overfishing, exacerbated by harmful public subsidies) which leads to overuse and waste. Thus, the IGG volume presents the commons as a problem not a solution. It ignores the fact that devastation of the commons arises principally from industrialization and intensification of natural resource use, driven by corporate interests with vested political support, at the expense of local livelihoods. This perspective, addressed particularly in Chapter 5 on "Natural Capital," sees problems with 1) public ownership, e.g., 80% of the world's forests are publicly owned and, hence, "treated as de facto open access areas and 2) undervaluation of resource, such as forests (p. 108-109) and biodiversity (p. 118).
- If a resource (e.g., minerals) is "undervalued," it is ripe for exploitation. But the role of transnational mining corporations in the "resource curse" phenomenon and unsustainable mining practices is trivialized. (p. 123-126)
- Therefore, the report deals with the supposed "tragedy of the commons" by assigning individual

(personal or corporate) *tradable* property rights and thus offers "enclosure of the commons" as a solution at the expense of customary shared usage and access rights. For example, in this thinking overfishing could be solved by pricing and assigning (or selling or auctioning) quotas or "certified fishing rights", which of course could be traded and sold, thereby creating new financing instruments and new markets. (p. 107)

- The report takes the same approach to water scarcity, recommending that policy makers: a) set up water allocation mechanisms; b) expand the use of water pricing mechanisms to manage demand; c) create new markets; and d) strength the analysis of the relationship between growth and water. (p. 112)
- The report views payments for environmental services (PES) – whereby farmers and landowners are compensated for maintaining their land's ability to provide ecosystem services (such as the regulation of water flows, water purification, control of soil erosion, habitats for wildlife) as underutilized and welcomes the manner in which REDD+ is helping to develop PES schemes. (p. 23) It does not address the criticism of these schemes, e.g., the fact that they often do not benefit the poor communities which are dependent on natural resources and often already delivering (unpaid) stewardship to the land on which they live.

Trade and Investment

- The IGG volume does not address the role of existing trade and investment rules in upholding rules encouraging the exploitation of nature, accentuating inequalities, and violating human rights. Such rules generally "tie the hands" of governments, so that they are unable to implement social and environmental rules without being accused (in international arbitration panels) of indirect expropriation of corporate profits or changing the terms of competition. The Bank lost an opportunity to meaningfully address these concerns rather than skirting around them, for instance, by mentioning of problems with technology transfer (p. 76), problems with subsidies and tariffs for biofuels (p. 85), and the potential need for trade policies on environmental regulations or border tax adjustments. (p. 83).

No One-Size-Fits-All But General Rules to Follow

- The report acknowledges that there is no one single green growth strategy, but that instead country-specific approaches are needed. It suggests that developing countries should prioritize tailored strategies that focus on local and immediate benefits (for example, increased efficiency and productivity, job creation, resilience and poverty alleviation) and avoid lock-in (focus on sectors and interventions most urgent and preventing irreversibility). Land-use planning and urban public transport are singled out as such priorities to be addressed even before lower carbon energy options. The argument here is that a thermal (=fossil fuel) plant could be retired later, but urban sprawl because of poor land-use is less likely to be reversed. This argumentation almost appears as a tacit justification ("we can always retire that new coal-fired power plant later…") for the continued funding of fossil-fuel exploration and energy projects that the World Bank itself engages in.

Financing

- The report makes the argument that obstacles to greening growth relate to politics, behavioral inertia and a lack of financing instruments, but not affordability. It points to about $1 to 1.2 trillion annually currently being spent on environmentally harmful subsidies globally (fossil fuel, agriculture, water and fisheries). Roughly the same amount, incidentally, is what the UNEP "Green Economy" report had suggested is needed in green investment per year. It also points out that these subsidies, although they can benefit the poor, are often regressive and thus should be replaced by better-targeted transfers to the poor (for example connection subsidies instead of consumption subsidies for water and electricity).
- In discussing the financing needs for greener growth, the report repeats the well-worn mantra of using small available resources where needed – public sector finance (including redirected fossil fuel subsidies), multilateral development bank flows and carbon offsets – to leverage more private sector involvement, especially in form of public-private partnerships, for example in infrastructure investments. It does not address how to increase the availability of public funding via innovative financing sources (for example in addition to the mentioned carbon taxes a financial transaction tax or levies on shipping and air transport). Instead, it focuses on innovative public financing tools in support of private sector investments in "bankable" projects that allow for "cost recovery". Some of the options discussed are dedicated credit lines and guarantee instruments to engage private banks, increased access to credit for SMEs or the reduction of interest rates for consumer financing. Among the more critical suggestions is the proposal to support a "funds of funds" under which a government or MDB invests a relatively small amount of long-term capital in a range of private, professionally managed funds (usually private equity funds) that then invest in clean energy or energy efficiency. The report does not address the lack of transparency and accountability inherent in such "fund of funds" investments, nor the fact that social and environmental safeguards are often not observed or enforced with little recourse for taxpayers and affected people.

Source

World Bank. Inclusinve Green Growth (IGG) Report. http://siteresources.worldbank.org/EXTSDNET/Resources/Inclusive_Green_Growth_May_2012.pdf.

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