# GREEN GROWTH: G-20 LEADERS CAN SET THE STAGE FOR RIO+20

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## Framing the Issue

The 2010 Seoul Summit first introduced the concept of green growth to the G-20 agenda. With job creation at the center of the global recovery, green growth strives to simultaneously accelerate growth and job creation while also meeting the world's environmental and social challenges. The green growth agenda aims to do this by using technology and innovation as key levers to drive job creation and create new competencies. Specifically, the agenda looks to find new sources of growth through innovation-oriented policies that capitalize on new technological advances—particularly in clean energy and innovations that take advantage of information and communication technologies. These aspirations were echoed last year in Cannes, where G-20 leaders committed to implement policies to spur the innovation and deployment of clean and efficient energy technologies. Green growth will once again be on the agenda for the G-20 leaders when they meet in Los Cabos, Mexico.

The upcoming G-20 meeting in Los Cabos comes just days before leaders gather in Rio de Janeiro to celebrate the 20th anniversary of the United Nations Conference on Sustainable Development. Green growth is also on the agenda for that meeting (the Rio+20 Conference), and G-20 leaders can send a strong signal of support to those gathering at Rio that, despite difficulties, investment in green growth can be good for both economic growth and the environment.

## Policy Considerations

The green growth agenda is still in an early stage of development. Its concepts are being tested in a few national contexts, with Korea and Mexico being notable examples. Numerous cities in G-20 countries are also looking to the agenda to create jobs while enhancing economic and environmental performance. International organizations, like the Organization for Economic Cooperation and Development (OECD), the United Nations Environment Program (UNEP) and most recently the World Bank with its latest report "Inclusive Green Growth", are articulating the case for green growth. The Global Green Growth Institute, an international think tank based in Korea, was created to promote these concepts by supporting the development of national strategies and related capacity building.

Though despite summit declarations, implementation has not yet taken off in a concerted way. This is in part because the agenda has been crowded out by continued financial and economic crisis in the eurozone; lack of political consensus in the United States; resistance to some elements—like reducing fossil fuel subsidies; lack of international financing for developing countries to support implementation; and concerns from some developing countries outside of the G-20 that the agenda signals a new form of conditionality.

Green growth advocates call for strategies that emphasize efficiency and productivity as important foundational goals. Demand management policies that price energy and water at levels reflective of externalities are needed, starting with the removal of fossil fuel subsidies and policies that price carbon. Green growth's efficiency goal will be critical as the next generation of infrastructure to support an additional 3 billion people who will be living in cities by 2050—mostly in Asia and Africa—is put into place. Valuation of natural capital in economic accounts will help policymakers make better trade-offs between hard infrastructure investments and solutions that use ecosystems to provide services, such as fresh water sources and natural buffers against water-related disasters. Market mechanisms, such a basin-wide water markets, can provide the signals needed to manage resources—especially in water stressed regions.

While these policies have been in the sustainable development toolkit for decades, they have not been widely implemented. G-20 leaders have also pledged to rationalize and phase-out over the medium term fossil fuel subsidies but with little follow-through. And missing is a global commitment to actions that will lead to a price on carbon sufficient to incentivize the necessary investment and innovation to meet the global climate change challenge. At the same time, subsidy regimes that have been put in place in the absence of these incentives are under pressure from the continued impact of the recession and its attendant fiscal deficits, as well as by pressure from the current euro crisis. In addition, policies that price water and environmental services to reflect the true costs of natural resources are not yet in place.

Despite these barriers, green growth advocates are trying to make these policies more attractive by leveraging new technologies to lower costs and transform business models. Renewable energy technologies are the most often discussed, but breakthroughs and advances in information and communications technologies (ICT) may be just as important. Municipal leaders are experimenting with "smart city" systems that use ICT to manage water and transportation systems more efficiently while reducing resource use. Smart grids can help manage the flow of renewable energy into the grid and can also make distributed energy systems possible. Innovations in irrigation system technology can help meet the growing demand for food while also removing a major source of inefficiency in agricultural energy and water use. Developers are experimenting with the use of energy efficiency and local renewable energy generation technologies to create zero-emission commercial buildings and housing.

Green growth innovation-oriented policies should include: public and private investment in research and development; strategies that nurture coalitions between research institutions and entrepreneurs, like business incubation centers and an enabling environment for venture capital; targeted and transitional subsidies to help innovations move out of the "valley of death" between invention and commercialization where new technologies often falter; and especially for developing countries, financial mechanisms to help commercialize investments in new technologies by backstopping the initial risks as a way of promoting early adopters.

Innovation to support sustainable development is also being supported by a fresh generation of local leaders and multi-stakeholder coalitions. These include the C-40 Cities Climate Leadership Group, a coalition of cities from developed and emerging economies who are committed to taking action. New public-private financing models are being developed like the Joint Initiative on Urban Sustainability, which is being launched by the United States and Brazil to bring together investors and cities to secure innovative financing for sustainable infrastructure investments. The Sustainable Energy for All Initiative—a global coalition between of government, business and civil society under the auspices of the U.N. Secretary General—is looking for breakthrough action on energy access for the poor, renewable energy and energy efficiency. A common thread among these groups is the way they are capitalizing on new green technologies; creating new business models that give incentives to the private sector to find innovative sustainable development solutions; and using limited public funds to leverage private investment and finance.

## Action Items for the G-20

At the summit in Mexico, G-20 leaders should continue to reaffirm the importance of the green growth agenda, while signaling support for a few key areas and providing encouragement to the leaders coming together for Rio+20:

- **Pricing natural resources.** G-20 leaders can stress the importance of climate negotiators making progress toward creating policies that set a price on carbon, either through a tax or market mechanism. Leaders should also recommit to implementing the G-20 agreement to eliminate fossil fuel subsidies, setting out more concrete implementation pathways. In addition, the G-20 should commit to introducing natural capital accounting into their own country's economic accounts and pledge to build consensus on this more broadly at Rio.

- **Leveraging international finance.** G-20 leaders should urge key multilateral funders, like the multilateral development banks and specialized funds like the Green Climate Fund, to direct their resources to country-driven green growth investments. Multilateral and bilateral funders should more aggressively support the innovation agenda by leveraging private sector action through mechanisms that reduce risk. And, with the generational opportunity to change the emissions trajectory of cities given rapid urbanization, and the importance of cities as drivers of innovation, financial mechanisms to meet the large sub-national needs for green infrastructure investment should be given priority.

- **Investing in innovation.** G-20 leaders should pledge to step up investment in research and development in their own countries as well as invest in building the R&D capacity in the least developed countries. This could be done through a combination of direct international support through competitive grants as well as support for business incubation centers and financial mechanisms to encourage venture capital in the least developed countries. The G-20 leaders should signal their intent to pursue further liberalization of trade for environmental goods and services so as to also support the diffusion and impact of new technologies.