

Policy and Finance for the Inclusive Growth Story of the 21st Century

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December 2018

Urgency: next decades are critical in establishing low-carbon development, growth and poverty reduction

Change in the next decades

15 years

Infrastructure



2x

Investment of approximately US\$ 90 trillion.

20 years

GDP



2x

Growth of approximately 3% per annum. Led by emerging and developing countries.

40 years

Urban Population



2x

Urban population will double in 40 years. Towns and cities shaped in the next 20.

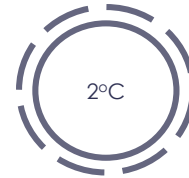
At the same time (to meet Paris targets)



~45%

Decrease GHG emissions from ~50 to ~25 Gt CO₂e by 2030

or



~20%

Decrease GHG emissions from ~50 to ~40 Gt CO₂e by 2030

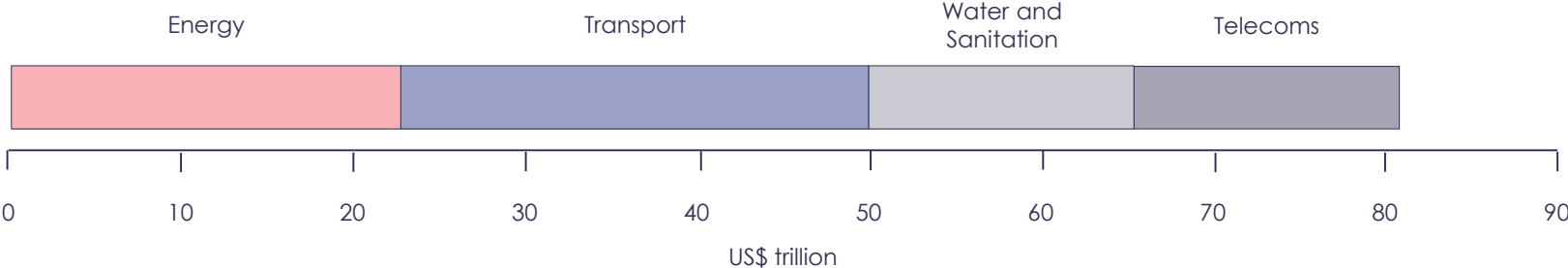
The next decade is critical. Choices made on infrastructure and capital now will either lock us in to high emissions, or set us on a low-carbon growth path which can be sustainable and inclusive.

Strong investment in sustainable infrastructure is at the core of meeting the global agenda and supporting social inclusion



Well-designed infrastructure can be pro-growth, pro-poor, and pro-climate

The scale and nature of infrastructure demand over the next decades



Projected cumulative infrastructure demand (2015-2030) Source: Bhattacharya et al (2016)
Note: Projections based on mid-point of range estimates. Excludes fossil fuel extraction and use, expenditure to enhance energy use efficiency, and operation and maintenance costs.

Altogether infrastructure investments that are required over the next 15 years or so are more than the current existing stock. The bulk of new infrastructure will be in emerging/developing countries. It does not need to cost much more.

Challenges in translating the tremendous needs and opportunities for sustainable infrastructure investment into realized demand

Actions in five key sectors can unlock investment, growth and sustainable development

Energy

- Raising revenue by pricing carbon and eliminating fossil fuel subsidies
- Saving energy through greater energy productivity
- Supporting energy access through distributed renewable energy

Cities

- Well managed densification to revitalise cities
- Sustainable and affordable housing for urban poor
- Shared, electric, low carbon transport

Food and land use


- Avoiding deforestation and degradation of forests
- Scaling up landscape restoration
- Implementing climate-smart agricultural approaches
- Supporting better food consumption patterns and reducing waste


Water


- Sustainable and equitable water allocation
- Target investment in resilient water and sanitation infrastructure


Industry, Innovation and Transport

- Focus on energy efficiency, resource efficiency, and decarbonisation in heavy industry
- Reduce emissions from the plastics value chain
- Develop low-carbon solutions for heavy-duty transport
- Increased support for innovation and deployment




Generate over **65 million** additional low-carbon jobs


Make available **US\$ 2.8 trillion** from carbon pricing revenues and removing fossil fuel subsidies


Avoid **700,000** premature deaths from air pollution

Source: New Climate Economy, 2018

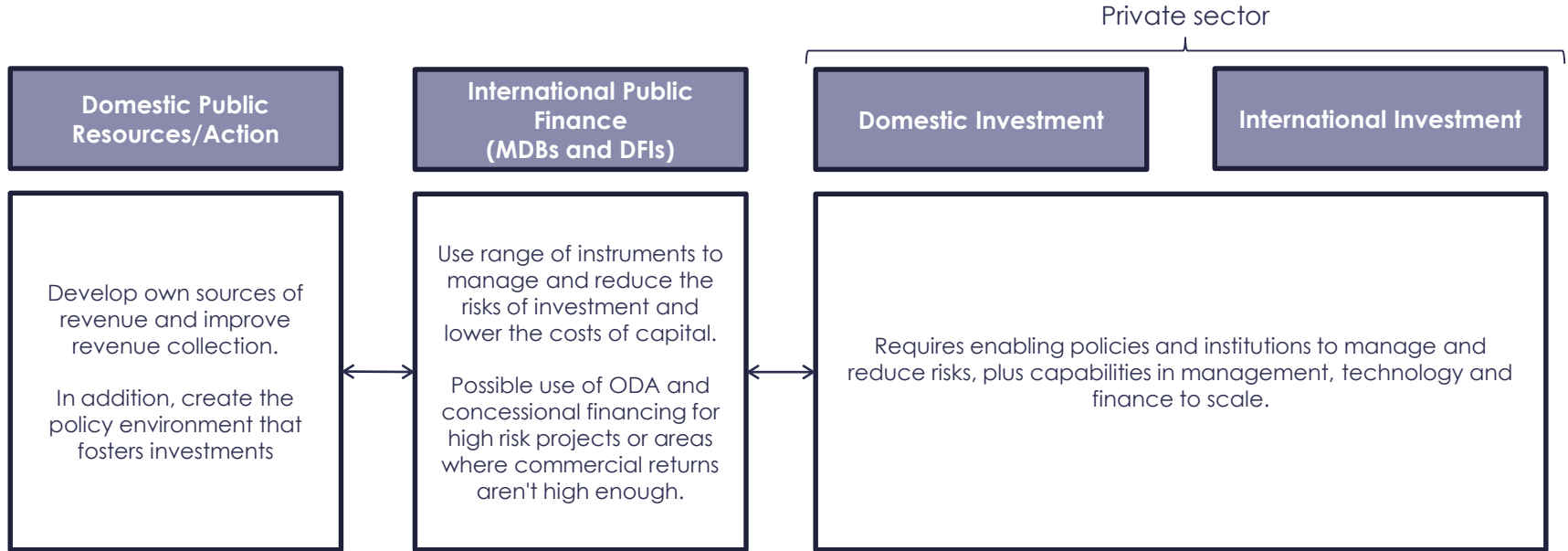
Quality and quantity of investment required will be determined by sound policy and government direction

Market Failure	Description	Policy Options
Greenhouse gasses (GHGs)	Negative externality because of the damage that emissions inflict on others.	Carbon tax/ cap-and-trade/ regulation of GHG emissions (standards)
Research, development and deployment (R,D&D)	Supporting innovation and dissemination.	Tax breaks, support for demonstration/deployment, publicly funded research.
Imperfection in risk/capital markets	Imperfect information assessment of risks; understanding of new projects/technologies.	Risk sharing/reduction through guarantees, long-term contracts; convening power for co-financing.
Networks	Coordination of multiple supporting networks and systems.	Investment in infrastructure to support integration of new technologies in electricity grids, public transport, broadband, recycling. Planning of cities.
Information	Lack of awareness of technologies, actions or support.	Labelling and information requirements on cars, domestic appliances, products more generally; awareness of options
Co-benefits	Consideration of benefits beyond market rewards.	Valuing ecosystems and biodiversity, recognising impacts on health

Different market failures point to the use of different instruments, but the collection should be mutually reinforcing.

Government-induced policy risk is the biggest deterrent to investment worldwide. Policies must be credible over time; 'predictably flexible'

Mobilizing the required capital for sustainable investment requires a number of sources to work together



Given the scale of investment requirements for sustainable infrastructure, and development more generally, a significant scaling up of financing is needed from all sources—domestic public, international, private—and the links between them made stronger.

Delivering on the US\$ 100 billion climate finance commitment and the role of climate funds



Strong record in leveraging MDB and other finance and supporting pioneering projects.



Now fully operational but scale and leverage has not yet reached what was envisaged.

Currently undergoing first replenishment round



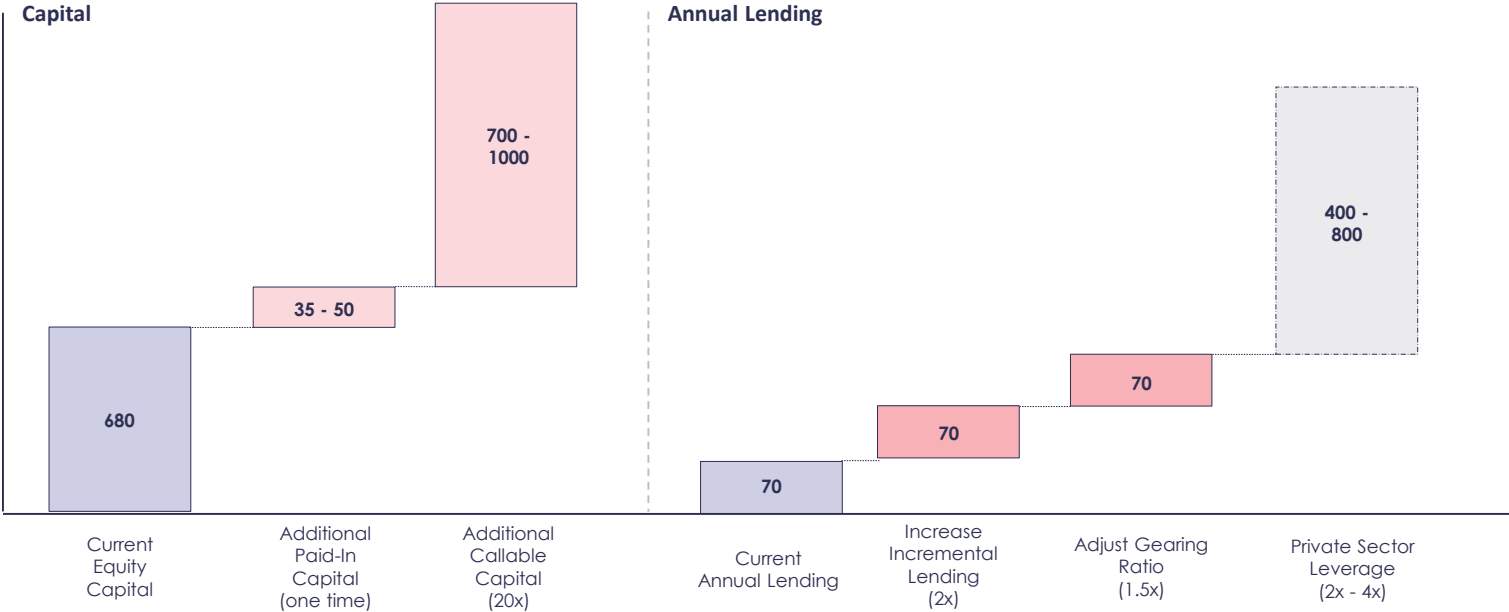
The GEF has a strong record of collaboration, and delivering results.

Successful replenishment of US\$4.1 billion in 2018

However progress towards reaching the US\$ 100 billion target has been slow. MDBs are now moving more strongly.

It is now time to shift the focus to the larger task of mobilizing the trillions that will be needed for sustainable infrastructure, and development more generally. We need an enhanced partnership based on a new understanding of climate action. Sustainability requires investment in physical, human, natural and social capital. Climate funds are a core element.

Development banks can play a key role in moving from “billions” to “trillions” to finance the new global agenda



The MDBs have a crucial role to play in helping reduce government-induced risk through the use of their instruments (global equity, long-term loans, and guarantees.) They also bring trust and convening power.

How the zero-carbon transition is managed will be central to building the consensus for strong, sustainable action

Enabling a 'Just Transition'

"Leave no-one behind"

Life-long learning

Offer education and training to support life-long learning

Support local skills and investment

Support new skills and entrepreneurship through finance. Collaboration between local government, universities, business

Re-locate public sector services

Locate public services/activities in affected areas to boost local economies (shift government employment hubs)

Social protection measures

Boost social protection measures for the most vulnerable members of society (lump sum transfers, welfare support, housing subsidies...)

Carbon pricing revenues should play a key role to support the transition. Potential to utilise a mix of options to promote a mixture of policy goals and objectives (R&D, budgets of poor households, international climate funds...), including the just transitions.

A 'just transition' is about more than just managing a zero-carbon transition. There are other large changes in economic structures: shift to services, labour-saving technologies, globalisation... all have to be managed together. The global financial crisis has made these problems more severe.

The growth story of the 21st century is strong, sustainable, and inclusive

5 - 10 years



Investment in sustainable infrastructure of US\$ 90 trillion can boost shorter-run demand and growth, sharpen supply, reduce poverty and support sustainable development.

>10 years



Spur innovation, creativity and growth in the medium term, unleash new waves of innovation and discovery.

>20 years



Low-carbon is the only feasible longer-run growth on offer; high carbon growth self destructs.

The next 10-15 years are a unique “use it or lose it” moment. Seizing the benefits will only be possible if we act boldly over the next 2-3 years.

We have in our hands a new and very attractive way forward, the inclusive growth story of the 21st century.