

The Case for Inclusive Green Growth

Sri Mulyani Indrawati
Indonesia Green Infrastructure Summit
Jakarta, Indonesia
June 9, 2015

Vice President Kalla, Excellencies, Ladies and Gentlemen.

It is a great honor to be here today, with our esteemed government and private sector partners. I strongly believe that a good partnership between government and the private sector is vital for any country, including Indonesia, to achieve truly inclusive and sustainable development goals.

I therefore want to thank you for inviting the World Bank to join in this partnership.

At the World Bank we have two goals: ending extreme poverty by 2030 – this is only 15 years from now. And promoting shared prosperity – making sure that the bottom 40 percent of every society benefit from economic progress.

To achieve these ambitious goals, rapid growth is critical. In fact, over the last 20 years, economic growth has helped to lift almost a billion people out of extreme poverty. But another billion people still live on \$1.25 or less. 1.1 billion don't have access to electricity. 2.5 billion people have no access to sanitation.

For these people, growth has not been inclusive enough.

In addition, this growth-success has come at the expense of the environment with major negative implications for future generations.

Yes, Indonesia has enjoyed tremendous growth. GDP has doubled in the last decade and poverty has halved, down to 11.3 percent in 2014. But not all are benefiting from these achievements and they come with a high price of environmental degradation.

One country very familiar with this cost is China.

China has grown by double digits for decades, but lost a staggering 9 percent of its expected GDP to 'brown growth.' In response, China is adopting green policies, and shifting economic activity to innovation and higher-value-added production. It now wants to be an early mover in the race toward green production processes.

Maintaining the status quo can reverse the gains of economic growth, because it quickly depletes natural resources which leads to more vulnerability to climate change or associated health risks.

While environmental degradation affects everyone, it hits the poor hardest. They are more vulnerable to violent weather and floods, and their livelihoods are more fragile. Poverty rates in Indonesia are highest amongst families living in environmentally degraded areas.

So if there is one major lesson development experts, policy makers, and institutions - like the World Bank - have learned over the last decades it is this: If we want to succeed in ending poverty, we cannot rely on growth alone unless it is inclusive and environmentally sustainable.

To put it simply: success will depend on how a country will grow, not just by how much.

The topic of today is 'green infrastructure.' As you all know well, infrastructure will be key to helping countries achieve their full potential. But the gap between aspiration and reality is vast. East Asia alone needs \$ 8 trillion in infrastructure investment, to keep up with demand up to the year 2020. In Indonesia, as Vice President Kalla just pointed out, the needs are as great and urgent.

At the World Bank we are working hard on helping fill the gap that is keeping so many countries from achieving their full potential. We are encouraged by the renewed focus on infrastructure investment across the globe. We welcome the new players in this field – like the AIIB and the New Development Bank. We welcome all efforts to create bankable projects that are attractive investment opportunities and whose services are affordable to all citizens.

We also welcome the opportunity now before us: the opportunity to shift to infrastructure projects that are cleaner, more sustainable and inclusive - here in Indonesia and around the world. Locking in green infrastructure today can bring benefits for many decades to come. In this developing countries can take the lead in leapfrogging from brown to green growth

The Role of Energy, Natural Resources, and Governance:

I would like to highlight three areas that are critical to ensuring that future growth is both green and inclusive.

First, the energy we produce needs to be clean and we need to use it efficiently.

Second, we need to manage natural resources responsibly.

And third, we need good policies, good governance, and leadership that isn't afraid to tackle the status quo.

The energy sector has a very high potential for reducing poverty while making 'green' gains.

In fact, access to sustainable energy is a development goal in itself. Without electricity women and girls have to spend hours to fetch water, clinics can't store vaccines, children cannot do homework at night, people cannot run competitive businesses, and countries cannot power their economies.

In Africa, the electricity challenge can be daunting. Take a country like Ethiopia with a population of 91 million people of which about 68 million people are living in the dark.

According to latest data, more poor people are gaining access to electricity at faster rate than ever before. While this is good news, almost 3 billion still cook with polluting fuels like kerosene, wood, charcoal and dung. Renewable energy generation and energy efficiency improvements will need to accelerate dramatically.

In Indonesia, coal accounts for more than half of the country's energy mix. But the country also has 40 percent of the world's potential geothermal resources. If tapped, this should help the government's targets to double the share of renewable energy for power generation, to 23 percent in 10 years.

Improving the energy mix can also lead to reduced fiscal risks. Turkey and Thailand have seen the benefits for doing just that. Turkey drastically reduced the share of oil in favor of gas. Thailand has decreased its dependency on petroleum products, from two-thirds to a third. Natural gas now accounts for almost half of the energy mix.

The second critical area, is responsible resource management, where we see very high costs.

Indonesia's tropical rainforests are the world's third largest. It produces more palm oil and exports more coal than anyone else in the world. But this natural-resource-powerhouse relies on destructive and expensive 'brown growth'. In 2009, the World Bank estimated that the country foregoes up to 10 percent of GDP annually due to environmental degradation.

Conversion of peat land to agriculture and timber plantations has led to more fires, polluting the air and leading to severe economic losses. Over three months in 2014, forest fires caused an estimated US\$1 billion in damage.

This degradation as well as mining, have taken a toll. Three quarters of Indonesia's rivers, and 15 of its lake eco-systems, are polluted. Lead and mercury contamination are amongst the highest in the world, posing serious health risks.

But there are also opportunities for smart and sustainable resource management: For example the fisheries sector.

A well-managed 'blue' economy can ensure food security, promote sustainable tourism, and build resilience. But degradation through overfishing and dumped waste exacerbates poverty and undermines food security globally. Ineffective fish stock management and illegal fishing waste \$75bn—\$125bn of global output annually.

Indonesia can do better. The archipelago's marine and coastal natural resources can generate significant growth. Indonesia has more than 2.6 million fishermen, and 140 million Indonesians depend on marine and coastal ecosystems for their livelihoods. It is the world's second largest producer of wild-capture fish.

But close to 65 percent of Indonesia's coral reefs are considered threatened from overfishing. And unreported and illegal fishing leads to some US\$ 20 billion worth of lost revenue

The human cost is high. Average poverty rates in coastal areas are amongst the highest here.

Reversing these developments is essential. If Indonesia improves governance of the fisheries sector and invests in large scale maritime transport and trade infrastructure, it can double fish production by the year 2019.

Recent developments are encouraging. A moratorium on new fishing permits for large fishing operations can help revive fish populations. Ministry officials violating the ban are now being disciplined.

This is related to the third area which needs urgent attention if we want to end poverty in a sustainable way: that is, good governance. For many countries, this is their biggest challenge.

To give you one example: Every year, Indonesia loses some US\$4 billion through illegal logging. Meanwhile, revenues from forestry licensing amount to only US\$300 million per year.

This is a problem of governance, manifested in poor performance that impacts the implementation of existing regulations or design of better laws. And it is a global issue.

Conflicting legislation and regulations, overlapping mandates, unwillingness to enforce appropriate land use, elite capture, entrenched attitudes and lack of incentives to influence behavior are rife in many resource rich countries.

Like many countries, Indonesia can transform its decision-making system to be more transparent and inclusive, particularly on resource allocation and use. It can ensure that land is used efficiently. And Indonesia can raise public awareness on the negative impact of 'brown' growth, so that communities increase demand for change.

Another opportunity is improving transparency and monitoring of developments. Government agencies often don't know the extent to which natural resources are being depleted. Quite simply, there is an information gap, which makes it harder to assess the basic sustainability of the various sectors.

The energy sector, for example, needs more and better data on simple energy use and emissions. This comprehensive 'green accounting' is currently lacking. The answer may be investments and technology – and global best practices exist that Indonesia can learn from.

But it is also a matter of leadership, building consensus, taking on vested interests and juggling trade-offs to make the shift from brown and exclusive to green and inclusive.

Closing:

No single green growth model works for all countries. Policy and investment options should suit each country's specific needs, under a comprehensive strategy.

There are many who fear that greening growth is too expensive, could slow output or should concern only high-income countries. But this fear is short-sighted. Sustainable growth is neither unaffordable nor is it technically out of reach.

But it comes with challenges, including large up-front costs and long-term financing of 15 to 25 years. Few developing countries have suitable capital markets or banking. Innovative financing is essential. While public-private partnerships can help and should be encouraged, these partnerships remain concentrated in a few middle-income countries and a few sectors.

Another challenge is cost recovery and the right policy environment that ensures we are not only building schools, but also improve education. No power station is of use, if the utility company is operating at a loss. Few infrastructure projects can charge at full cost. So we should find ways to ease cost recovery, while keeping services affordable for low-income families and communities.

Opportunities exist.

From 2011 to 2012, investments in clean technology in developing countries increased by 19 percent, to \$112 billion per year, creating jobs that are good for the environment and good for workers. Jobs in this sector tend to be more skilled, safer, and better paid. 90 percent of clean technology businesses increased their revenue even during the global economic downturn.

East Asia could lead on green development. We talked about China. Cambodia and Vietnam have integrated green growth plans into economic policies and market-based incentive mechanisms. Thailand's most recent multi-year development plan includes green growth strategies, including the goal to reduce energy intensity by 25 percent by the year 2030. Malaysia has developed and implemented a law on climate change and a law to encourage renewable energy. Indonesia can learn from these experiences.

This summit reaffirms a joint commitment to accelerate investments in Indonesia's vast infrastructure needs. You can turn this into an opportunity for 'green' and inclusive growth. By addressing energy needs in sustainable ways, by handling resources responsibly, and by putting governance mechanisms in place that will benefit all Indonesians, including future generations.

Thank you.